

Time	Topic and Purpose	Presenter(s)	Format	Time allocated
1.00pm	Waikato Water Done Well Regional update	Don McLeod, Vaughan Payne & Kelvin French	Open Briefing	60 Minutes
2.00pm	Waikato Water Done Well Legislative update	DIA Representative	Open Briefing	60 Minutes
SESSION ENDS				

DISCUSSION TOPIC SUMMARY

Topic: Waikato Waters Done Well

Related Committee: Council

Business Unit/Group: Infrastructure and Assets

Key Staff Contact/s: Andrew Parsons, Peter Winder

Direction Discussion/Drop in Session recommended? Status: Open

PURPOSE OF TOPIC/INFORMATION

The Waikato Mayors and Chairs Forum has referred a recommended approach to Waikato Water Done Well (WWDW) to all Waikato Councils for consideration. The proposal seeks endorsement for a staged approach to the reform of water services delivery across the Waikato region.

HCC will consider the proposal at the 12 September Council meeting, along with other options that are open to the Council.

This briefing provides the opportunity to hear from and ask questions of the CoLab team working on WWDW ahead of the Council meeting. Other briefings will explore the reforms and government policy decisions as well as the options and choices Council has.

Water reform and the response to Local Water Done Well is one of the most significant issues facing Council. It is important that Council consider opportunities for regional collaboration as it determines its options.

- Members need to be informed ahead of Council decisions on 12 September 2024
- Staff seek feedback on whether additional information will be required to inform those decisions.

WHAT KEY THINGS SHOULD MEMBERS THINK ABOUT/ CONSIDER IN UNDERSTANDING THIS INFORMATION?

On 12 September 2024 Council will be asked to set direction for the HCC's response to the Local Waters Done Well reforms. Opportunities, costs, risks and potential benefits from regional collaboration will be important considerations for Council.

The Waikato Waters Done Well proposal sets out the approach that has emerged through the work that CoLab has done with the Waikato Councils over this year. The CoLab presentation will provide the opportunity to understand the proposal.

Since the Waikato Water Done Well proposal was considered, the Government has released a further comprehensive suite of policy decisions relating to the nature, scope, powers, and framework of water CCOs, the economic regulatory framework that will apply and the obligations of councils. Some of these (like the proposed new maximum standards for wastewater discharge) directly impact the benefits targeted by the initial stages of the WWDW proposal.

Members are asked to consider:

- The extent to which the proposal addresses the waters challenges that HCC faces
- The balance of costs, benefits, risks, opportunities and effort involved in the proposal and in HCC participation
- The importance of HCC's participation in securing regional or sub-regional benefits
- The likelihood of the proposal being successful and of participating councils being able to reach agreement

- Whether there is additional information that Council would seek before making a decision

Members are reminded that the only budget available to support a response to Local Water Done Well is the \$1.6m of Government Better Off Funding that has been reallocated. That budget is already under significant pressure.

KEY SUMMARY POINTS

A report on Waikato Water Done Well was considered by both the Waikato Mayoral Forum and the Waikato Mayors and Iwi Chairs Forum on 22 July (see link below).

The Waikato Mayors and Iwi Chairs forum resolved:

That the Joint Forum approved the following recommendations which will be presented to elected members at each council:

- ***Recommendation #1:*** That the vision, outcomes and success measures be adopted in principle.
- ***Recommendation #2:*** That participating councils co-design an aggregated model that is staged by function and governed by a professional board from the outset. Stage 1 will be the establishment of an entity providing functional services to participating councils. The end point (to deliver on the vision, outcomes and success measures) is an aggregated, fully regulated water services entity.
- ***Recommendation #3:*** That each member organisation formally advise the Forum chairs of their decision in relation to the recommendations by the mid-September 2024. Non-participating councils will exit this workstream but will be kept informed of the work underway.
- ***Recommendation #4:*** That participating councils instruct their Chief Executive to negotiate a Heads of Agreement (HoA) to bring back for their approval by the end of October 2024 (with the intention of the HoA being signed in November 2024). The HoA will be a non-binding agreement between participating councils entered into on a good faith basis to show a commitment to progress in the manner proposed. The framework will inform the development of more formal documentation.

Moved: Mayor Adrienne Wilcock

Seconded: Mayor Gary Petley

Critical issues for HCC:

- The first stage of the WWDW proposal does not address the key debt headroom problem that HCC faces. A functional services CCO will not deliver for HCC the additional debt headroom HCC needs.
- The end state of the WWDW proposal – a multiply-owned, asset owning Waters CCO with regional scale – is the sort of option that has the potential to deliver the greatest benefits.
- HCC has previously spent a lot of time and effort engaged with potential partners only to end up with nothing.
- The benefits of a multiply-owned CCO will only be secured by working with others.

WHERE CAN MEMBERS FIND MORE INFORMATION?

Include:

- WWDW Presentation
- WWDW Technical Paper

WHAT DIRECTION/FEEDBACK/INPUT DO YOU NEED FROM ELECTED

MEMBERS

- Staff need direction on any further information that Council needs to support direction-setting decisions 12 September

Waikato Water Done Well

*Ki te kotahi te kākaho, ka whati; ki te
kāpuia, e kore e whati*

*A single reed is vulnerable, but a
bunch of reeds together is
unbreakable*

Kīngi Tawhiao



August 2024

Authored by:
Vaughan Payne, Sinead Hart, Rohan Matuku

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1. Introduction

The Waikato is known nationally for its leadership in managing water, being courageous and innovative to ensure better long-term outcomes for Lake Taupō, the Waikato and Waipā rivers, Hauraki Coromandel rivers and Tīkapa Moana/Hauraki Gulf. Working with their Iwi partners, Waikato councils are now seeking to find a pragmatic solution to water infrastructure that, over time, meets the needs of each council, their communities and the requirements of central government.

Under the banner ‘Waikato Water Done Well’, the Waikato Joint Mayors and Chairs Forum (**Forum**) seeks to support individual councils to make informed decisions on the merits of aggregating water services, regionally or sub-regionally.

This report builds on the work presented to the Forum on 11 March 2024 and sets out what is being presented to councils in the context of step 5 of the Waikato collaborative roadmap (refer Figure 1.1 below) and the recommended way forward. This report should be read in conjunction with the cover report prepared for each council.



Figure 1.1 Waikato Collaborative Roadmap

We acknowledge the leadership and direction of the Chief Executive Working Party and the wider Chief Executive Forum in the development of this report and the recommended way forward. Against the national timeline and developments, extensive work has been carried out across Waikato Councils to work through the above roadmap. Details of the methodology applied in developing this report are included in Appendix 1.

2. National context

Local Water Done Well empowers local decision-making about future water services delivery but in the context of increased government oversight requirements. Local Water Done Well is being implemented in three stages:

- Stage 1** involved the repeal of all prior water services legislation with effect from 17 February 2024.
- Stage 2** is currently underway being the Local Government (Water Services Preliminary Arrangements) Bill (**Bill#2**). This was introduced into Parliament in May 2024. The Select Committee returned its report on the Bill on 18 July 2024. A summary of Bill#2 (with the proposed amendments from the Select Committee) is included in Appendix 2. The Bill is due to be passed into law in late August 2024. Key points to note are that it:

- Requires councils to submit water services delivery plans within 12 months of the Bill being passed into law (i.e. by late August 2025)
- Provides for foundation "economic regulation" through information disclosure requirements for specified entities
- Introduces a streamlined process for consulting on the establishment of a jointly owned water services council-controlled organisation (CCO)

Preparing water services delivery plans will require significant effort from councils. Chief Executives are currently considering how to ensure a consistent and cost-effective approach across Waikato councils who wish to adopt such an approach.

c) **Stage 3** will commence in December 2024. Bill#3 will provide the enduring settings for Local Water Done Well including:

- a comprehensive economic regulatory regime; and
- a comprehensive range of options, tools and models (service delivery models) that councils can choose from in relation to delivering water services.

Bill#3 is expected to be introduced into law by mid-2025 but the policy intent informing it was made known on 8 August 2024. Key points are that:

- All water service providers (i.e. councils or water organisations) must meet minimum requirements including;
 - i. meeting regulatory standards (economic, environmental and water quality)
 - ii. being financially sustainable
 - iii. operating within a new planning and accountability framework – this will require a water services strategy every 3 years and an annual water services report within three months of the financial year end. Information on water services will no longer form part of the long term plan even where services are kept in-house
 - iv. acting consistently with statutory objectives
- The water services delivery model choices available to councils include:
 - i. delivering water services in-house through a separate business division or unit
 - ii. establishing a wholly owned water organisation
 - iii. establishing a joint arrangement with other councils, including a water organisation that is owned by three or more councils or owned wholly or partly by a consumer trust
 - iv. councils design alternative arrangements that meet the minimum requirements
- Additional requirements for any water organisation are that:
 - i. it must be a company (subject to exemption)
 - ii. its activities must be limited to providing water services (subject to exemption)
 - iii. it can only be owned by councils or consumer trusts
 - iv. it must have restrictions against privatisation
 - v. Board appointments must be competency based but with no council staff or elected members on the board
 - vi. shareholders must prepare a statement of expectations at least every three years (must include information on strategic priorities and specific requirements / obligations that relate to Treaty settlements or other arrangements in place with local Iwi).

A large amount of the narrative around the service delivery options has focused on debt capacity as this is a key driver for growth councils. The need to set up an individual council CCO for debt funding purposes is often confused with the need to establish an aggregated waters services organisation (or CCO) that can provide relief for the issues raised in this report, not just an individual council's need for increased borrowing.

2.1. Increasing regulation

Bill#3 will provide for comprehensive economic regulation and consumer protection, with the regulator being the Commerce Commission. The Commerce Commission will have a range of regulatory tools, including mandatory information disclosure, designed to promote efficient practices and protections for consumers. The first focus of the Commerce Commission is stated to be monitoring whether sufficient revenue is being collected by water service providers for their investment needs. These initial requirements for information disclosure are expected to be set six months after the commencement of legislation (by early 2026).

The effect of the above is that water services is moving to whole of system regulation rather than the current 'end of pipe' regulation. Simply put:

- a) The taking of water and discharge of wastewater and stormwater (end of pipe) will continue to be regulated (Regional Council) and, in the Waikato context, must align with existing Treaty settlements requiring improved freshwater outcomes
- b) Drinking water and wastewater treatment will become more heavily regulated (Taumata Arowai) (but Taumata Arowai taking a proportionate, cost effective and efficient approach in its functions and duties)
- c) Infrastructure and service quality standards can be introduced covering investment in network and treatment plants - whether over investment or under investment (including requiring action to be taken to improve performance) (Commerce Commission)
- d) The cost of providing water services will be regulated through mandatory information disclosure requirements imposed on water services providers and scrutiny of the price charged to end users (Commerce Commission).

The Commerce Commissioner will also have regulatory tools to set revenue thresholds (minimum and maximum) and monitor and enforce financial ring-fencing. Depending on performance, it may also be given power (for specific providers) to place limits on revenue, similar to price quality regulation that applies in the electricity market. Under the new regulatory regime, planning and building infrastructure based on perceptions of what is acceptable to ratepayers will not be sustainable.

Councils will need to adapt their water services business to meet the above requirements. This will require significant investment to demonstrate compliance through robust data and asset management systems.

The importance of data to demonstrate performance and compliance, and ensure risks are being appropriately managed, is highlighted by the most recent Taumata Arowai report released on 27 June 2024. The findings in this are that the quality of data (particularly for network performance) and completeness of reporting needs to improve so that Taumata Arowai can understand whether risks are being appropriately managed, and sector performance is improving over time. The report also notes a lack of information about networks is likely to impact the ability of operators to properly manage the relevant networks. It notes this is likely to result in an increase in safety risks and costs because operators are more likely to be undertaking reactive maintenance than planning for, and investing in, resilient networks.

2.2. Timeline challenges

Water services delivery plans require councils to state their proposed model and implementation plan for delivering water services by August 2025. The policy intent explaining the available options, tools and models has been announced but the legislation will only be passed into law a few months before the submission date for the water services delivery plans (mid-2025).

Similarly, Bill#2 requires financial sustainability by 30 June 2028. This includes meeting regulatory requirements, which will include the comprehensive economic regulation regime that will only be passed into law in mid-2025.

Councils may not be able to make a final decision about the end model now. But there is sufficient information for councils to start addressing immediate risks and opportunities.

3. Strategic direction

To ensure clarity on the desired end point, **council members are asked to approve in principle the strategic direction for Waikato water services in the long term** (being through at least a 10-to-15-year lens). To this end, the following strategic framework is recommended.

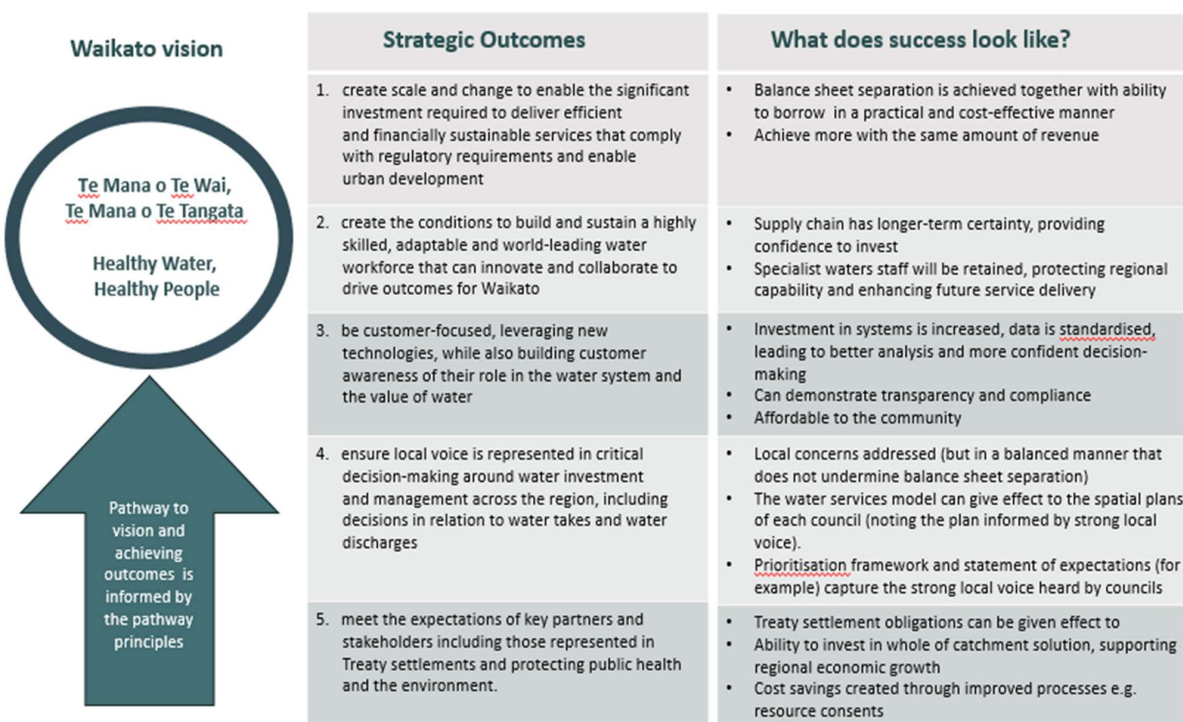


Figure 3.1 Waikato strategic direction for water services

4. Findings

4.1. Local findings

The Waikato comprises diverse councils, communities and needs. Table 4.1 summarises the water services drivers of each council as assessed by each council's Chief Executive.

Council / key problem	Debt capacity	Community affordability	Workforce availability	Capital works delivery	Business continuity	Compliance	Consenting
Hamilton	✓	✓	✓				✓
Waikato	✓	✓	✓	✓	✓	✓	✓
Waipā	✓	✓					
Taupō		✓	✓	✓		✓	✓
Thames-Coromandel				✓		✓	
Matamata-Piako			✓	✓		✓	✓
Hauraki		✓	✓	✓	✓	✓	✓
South Waikato		✓	✓	✓		✓	✓
Waitomo		✓	✓	✓		✓	
Ōtorohanga			✓	✓		✓	✓

Table 4.1 Water services drivers for each Council

The following paragraphs summarise each need as it relates to councils, individually or collectively.

4.1.1. Debt capacity

Growth councils have an immediate need to access increased borrowing to support growth. Of the councils in the Waikato, three have identified this as a key driver for change. For other councils, while debt capacity is not a driver currently, a significant amount of their debt headroom is taken up by waters. This limits their ability to borrow for other community initiatives.

4.1.2. Community affordability

Seven of the 10 councils in the Waikato have identified community affordability as an issue (whether now or in the future). LTPs point to significant increases in revenue being required to meet future infrastructure investment and regulatory requirements. In just three years, there have been significant increases in projected expenditure between the LTP21 and LTP24 (refer Figure 4.1 below). In respect of rates revenue and development contributions, such increases are being balanced against what is deemed to be affordable to customers.

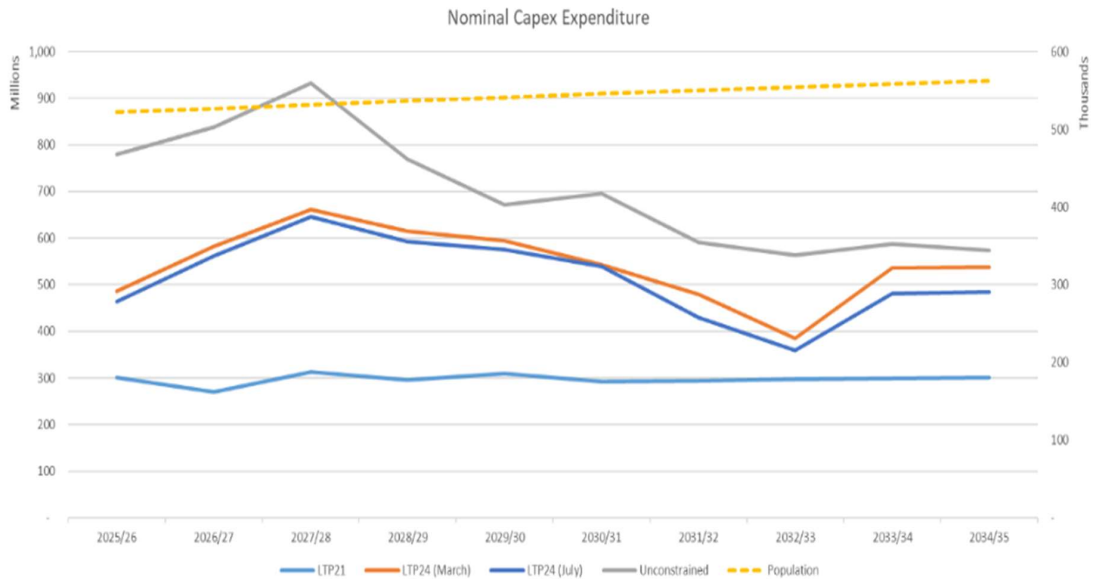


Figure 4.1 Population and capital works projections

Chief Executives were asked to rate how confident they are that their LTP24 reflects the future investment needs of their council, particularly in relation to supporting growth through capital expenditure. In response, all Chief Executives rated their confidence as being between medium to high, with the majority being close to very high.

There is no official definition of unaffordable water in New Zealand, but indicators suggest that there is an affordability challenge if water services are more than 2% of household income. Taking this measure, some Waikato communities increasingly face unaffordable water services. It should be noted that Watercare adopt a lower measure of 1.5% and other councils such as Thames Coromandel have adopted a higher measure of 2.5%.

Table 4.2 below has been completed based on:

- a) revised FY24 and FY35 water charges from Councils
- b) 2024 household average incomes from Infometrics (excluding Matamata-Piako and Waitomo which are unavailable); and
- c) 2035 household average income based on an annual 4.81% increase (which is the output of earlier DIA work)

The figures in Table 4.2 are likely to be conservative as in some LTPs, Councils say they will limit average 10-year rate increases for affordability (e.g. to 6% on average). This results in high increases in years 1 -3 and lower increases in the outer years to make the average work, thus understating the likely increases needed for the outer years. This pattern is reinforced by Figure 4.1 above.

Council	2024 Average Water Charges	2024 Mean Household Income	2024 Affordability	2035 Average Water Charges	2035 Mean Household Income	2035 Affordability
Hamilton	1,589	\$122,485	1.3%	5,281	\$195,968	2.7%
Hauraki	1,714	\$93,971	1.8%	4,860	\$150,348	3.2%
Matamata-Piako	1,539	\$106,012	1.5%	2,193	\$169,613	1.3%
Ōtorohanga	974	\$105,383	0.9%	1,652	\$168,606	1.0%
South Waikato	1,613	\$108,224	1.5%	2,337	\$173,152	1.3%
Taupō	1,655	\$110,702	1.5%	3,350	\$177,116	1.9%
Thames Coromandel	1,890	\$79,530	2.4%	3,049	\$127,243	2.4%
Waikato	2,310	\$129,602	1.8%	7,921	\$207,355	3.8%
Waipā	2,021	\$120,903	1.7%	3,470	\$193,437	1.8%
Waitomo	2,651	\$89,164	3.0%	4,634	\$142,657	3.2%

Table 4.2 Affordability across Councils 2024 and 2035

4.1.3. Workforce (staff and suppliers)

Critical waters staff and contractors report being under pressure given the ageing workforce, competition (from other potential employers including offshore) and an environment of ongoing uncertainty. Smaller councils, where operations can be highly dependent on a few individuals, are at risk of staff recruitment/retention. Civil construction contractors must also deal with the peaks and troughs in workflow that arise from each council's LTP capital works programmes. Their ability to deliver is increasingly challenged given their current state resources. They advise it will take 2-3 years to gear up for programmes bigger than what is currently in the market.

4.1.4. Capital works delivery

The investment needs of councils vary, but the regional priorities by expenditure are summed up by the following diagram in order of priority of spend:



Figure 4.2 Regional priority spend

In terms of asset condition, overall:

- Less than half (44%) of wastewater networks are rated as average or better
- On average 20% (11 Olympic sized swimming pools) of treated water is lost per day before it reaches customers

- c) Over the last decade, Waikato councils have been able to progressively increase their capacity to deliver capital work programmes. In the three years ending 20/21, an average of 78% of actual capex budgets was spent. More recent reports on capex budgets versus actual spend indicate this gap continues to close. However, we need to be mindful of the role recent significant inflationary pressures play in closing this financial gap i.e. an increase in spend does not necessarily equate to a proportional increase in programme delivery. According to Infometrics, water services infrastructure is estimated to cost 30% more to build than three years ago.
- d) Figure 4.1 above demonstrates that the amount of capital works being projected is decreasing despite population growth increasing. A large gap continues between the investment in capital works provided for in LTPs and the investment that staff say is necessary (refer to 'unconstrained' line in Figure 4.1).
- e) The key challenge for many councils is getting the work done. The reasons for under delivering on the LTP programmes are generally due to:
 - Resourcing - availability of appropriately skilled internal and external resources
 - Procurement - supply chain management, lead-in time for materials, tendering and approvals, stakeholder agreement
 - Project life cycle management – resource consent delays, business case approvals, scheduling, land purchases associated with developer led timelines, incorrect investment appraisals, unforeseen technical issues.

4.1.5. Business continuity

Waikato District Council's contract with Watercare will terminate at the end of June 2026. Waikato District Council is now assessing alternative options for delivering water services to its ratepayers from 1 July 2026. It must have certainty on how it will provide services (or the tender process it will engage in to procure services) by November 2024. The benefits of the Watercare arrangement have included improved service levels, delivery of capital projects, innovation and new ideas, and sharper procurement. This is a pointer to what may be achieved through aggregation in the Waikato.

4.1.6. Compliance

Complying with regulations and resource consents is a basic expectation.

- a) **Drinking water:** except for Hamilton and Waipā, all councils had supplies without protozoa or bacteria barriers or residual disinfection in the 2023/24 year.
- b) **Water supplies:** except for Taupō, Waipā, Hamilton and Waikato, there were moderate to significant non-compliance issues with water takes.
- c) **Wastewater:** except for Waipā and Hamilton, there were moderate to significant non-compliance issues with wastewater discharges.
- d) **Stormwater:** except for Taupō, Waipā, Waitomo and Hamilton, there were moderate to significant non-compliance issues with stormwater discharges.

Council	Waikato Regional Council ¹			Taumata Arowai ²	Summary
	Water	Wastewater	Stormwater		
Thames Coromandel	2	2	9	✓	✓
Hauraki	1	5	4		✓
Matamata-Piako	2	4	4	✓	✓
Taupō		3		✓	✓
South Waikato	1	2	1		✓
Waitomo	2	3			✓
Ōtorohanga	2	1	2	✓	✓
Waipā					
Hamilton					
Waikato		6	6		✓

Table 4.3 Compliance issues across Waikato Councils

Chief Executives were asked to rate how confident they are that their LTP24 reflects the future investment needs of their council to meet future regulatory requirements (including fees payable to regulators). In response, all Chief Executives rated their confidence as being between medium to high, the majority being highly confident.

4.1.7. Consenting

Almost one third of all consents are due to expire within the next six years (2030). From this group, 44 are related to wastewater discharge and 72 are associated with water abstraction. Within the next 10 years there are at least 30 moderate to high-risk consents that need renewing.

4.2. Financial findings

Financially, not all councils need a CCO at this time, but all can benefit. Over the next decade, a majority of Waikato households will face significant rate increases under the status quo. The proposed water rate increases and affordability impacts are included in Table 4.2 above.

4.2.1. Modelling

The financial modelling shows that aggregation requires less revenue than a standalone scenario to achieve the same outcomes. The decision-making body of any aggregated model can then determine whether the savings can be applied to reducing rates for customers or reinvestment in assets.

Across Waikato councils LTP24s indicate circa \$7.5 billion is budgeted to be invested in three waters over the next decade alone. Of this, nearly \$5 billion relates to capital works. Some further capital commitments were recommended to councils but were not included in the final 10-year budgets, largely because of affordability

¹ Number of 'regimes' with moderate to significant non-compliance in 23/24 year. WRC only recorded Hauraki, Matamata Piako, South Waikato and Waikato councils as having significant non-compliance over the last year

² Have supplies without protozoa or bacteria barriers or no residual disinfection in the 23/24 year

concerns. While the scope of capital works programmes may be reviewed once there is clarity on the national standard being developed for wastewater discharge, even with a 20% reduction, the scope of the programme remains significant. As noted earlier, the Waikato has unique Treaty settlements requiring improved freshwater outcomes which will also be relevant in informing capital works programmes.

There are multiple independent reports over the last decade (or more) that have been commissioned at a national and local level which show three waters can be delivered more cost-effectively if councils leveraged scale. In the context of comparing rates across councils in a standalone position versus in an aggregated mode, this has proved difficult based on LTP data as councils collect revenue differently. Therefore, the comparison is not like with like, or kina with kina. Because of this, efficiency savings have been used as the metric to measure the benefits of aggregation across the requested spatial options. With the inclusion of approximately \$100m additional spending in the model spread over 10 years to help drive efficiencies (spend to save), the efficiency savings set out in Figure 4.3 are projected in each of the spatial options identified over 10 years, with this being around \$338 million in a regional fully aggregated water organisation. This is based on a very conservative assumption of about 1% per annum efficiency target across all expenditure. The modelling shows that by FY34, efficiency savings is approximately 10% of projected spending, growing to 15% over the subsequent 8 years.

The assumption of 1% is conservative when compared with the 5% per year assumption that is included in other independent reports and with the 4% per annum efficiency target set for Watercare by its Board.



Figure 4.3 Efficiency savings across spatial options (fully aggregated)

The main driver of the efficiency savings relates to capital works planning and delivery, being \$185 million. Applying the same efficiency target of 1% to the projected capital expenditure for the different spatial options results in the projected efficiency savings in Figure 4.4 below.



Figure 4.4 Efficiency savings across spatial options (capital works)

4.2.2. Borrowing

The current model of borrowing through the Local Government Funding Agency (**LGFA**) is cost-effective and practical for councils and CCOs (that can borrow). Council backing is required for LGFA to provide funding to any water organisation established. Any model adopted in the Waikato should be designed to retain the ability to borrow through LGFA.

The service delivery options choices announced in August 2024 are:

- a) In-house (business unit or division)
- b) Single council owned water organisation
- c) Multi-council owned water organisation
- d) Mixed council / consumer trust owned
- e) Consumer trust owned

Councils are free to choose alternative arrangements subject to meeting the minimum requirements relating to regulatory requirements and being financially sustainable. From a borrowing perspective, the position is:

- a) High-growth councils may be able to borrow up to 350% revenue (subject to LGFA AGM in October 2024 and applications on a bespoke basis).
- b) A single council owned water organisation will be able to borrow up to 500% revenue (subject to prudent credit criteria and parent council financial support). This borrowing will be separate from the parent(s) council borrowing.
- c) A multi-council owned water organisation will be able to borrow up to 500% revenue (subject to prudent credit criteria and parent councils financial support). This borrowing will be separate from the parent(s) council borrowing.
- d) A multi-council owned water organisation without council guarantee or any water organisation that is not wholly owned by councils, will not be able to borrow through LGFA (in the short term in any event). Accordingly, these are not practical options for now.

Based on the guidance issued by DIA, any water services organisation needs to be a company. This, together with the need to obtain borrowing from LGFA, points to a limited liability company that is owned by all those councils who wish to aggregate as the recommended vehicle.

4.3. Local concerns ('showstoppers')

A significant effort has been made to identify local concerns for each council that need to be addressed in any future model. Local concerns are generally over and above financial considerations. Examples of local concerns include:

- a) Local voice and influence
- b) Prioritisation of local needs
- c) Meeting Treaty settlement obligations
- d) Asset ownership

All the showstoppers can be addressed as part of the proposed pathway forward (an aggregated model, staged by function over time). However, the way local concerns are addressed in the 'end point' model must align with the minimum requirements that will be set by legislation, including the additional requirements for a water services organisation. Again, as noted above, these requirements include that the water organisation:

- a) have no staff or elected members on board
- b) be a company
- c) be limited to water services activity
- d) be owned by a council and / or a consumer trust (for the reasons set out under borrowing above, a consumer trust is not a practical or cost-effective option in the Waikato)
- e) have a Board appointed on competency
- f) have restrictions against privatisation

In short, leadership will be required to balance local concerns into the design of a water organisation that meets the minimum requirements. The end model design parameters to achieve this balance are included in **Appendix 3**.

Summary of findings

The interconnection between all the above challenges and findings is summarised in Figure 4.5 below.



Figure 4.5 Challenges to delivering levels of service

Affordability is a key consideration of every council. This determines the level of revenue gathered from ratepayers, developers and so on. In turn, this determines how much can be borrowed under a council's debt to revenue policy. The overall funding envelope will determine the extent of a council's financial ability to meet compliance requirements, and to also address investment needs, whether they relate to growth, levels of service, resource consents and/or renewals. Whether a council has financial constraints or not, it must have access to a skilled and capable workforce (internal and external) to have confidence it can and will deliver services to the requisite level.

A way forward

4.4. A safe start

Not all councils need a fully aggregated water organisation now, but it is highly likely all councils and communities will need and benefit from one at some point.

Councils with debt as a driver are motivated to move faster. However, increasing debt capacity is not the only challenge these councils face. While debt capacity may be increased by these councils having their debt to revenue ratio increased to 350% (as is to be proposed at the LGFA October AGM) and / or establishing a single council owned water organisation (refer to as a standalone local CCO in Figure 5.1 below), this in isolation will not unlock the collective benefits projected in the financial modelling and the non-financial opportunities set out in section 5.1.2 below. Furthermore, the cost of the intended borrowing will need to be considered as part of assessing affordability to ratepayers / consumers. As noted above, multiple reports over multiple years show there are benefits to be unlocked by aggregating water infrastructure. All communities will benefit at different stages and so, over time, everyone wins.

If councils accept aggregation and scale provide the ability to collectively address the challenges they face, then the question is not whether to aggregate but rather what is the process that gives councils a safe pathway towards an aggregated model.

Previous government reform and other attempts at establishing fully aggregated water services entities in a non-incremental manner have been unsuccessful. This is largely due to what we have identified as 'showstoppers' or the local concerns, as set out in section 4.3 above. While 'showstoppers' can be addressed as part of the pathway forward, strong leadership (by both governance and management) will be necessary to balance such concerns while achieving the benefits of aggregation.

In addition, we understand that councils will not be prepared to make a firm commitment on the final form of any fully aggregated entity until there is further clarity on the applicable legislation, tools and options. However, doing nothing is not a cost-effective option. There is an opportunity now for councils to take a first, sensible and 'no-regret' step towards unlocking the opportunities of a joined-up approach to water infrastructure.

Based on the above, it is recommended Waikato councils consider and adopt an incremental model now that:

- a) positions them to leverage immediate opportunities for their communities and unlock some benefits in the short-term
- b) gets councils as far along the road to the vision and achieving the strategic outcomes as practicable at this time and
- a) has a built-in process that enables the model to evolve to meet councils' future long-term needs and respond to legislation as it develops.

To this end, it is recommended councils co-design an aggregated model that is staged by function and governed by a professional board from the outset. Stage 1 is a short-term solution involving the establishment of an entity that provides functional services to participating councils (a jointly owned contracting model). However, the pre-agreed end point (Stage 2) is an aggregated fully regulated water services entity.

Details of each stage are included below.

4.4.1. Stage 1 Description

Stage 1 of the staged aggregated model is the establishment of an entity that provides functional services to participating councils.

Key components of Stage 1 are:

- a) Councils agree on the long-term end point to achieve the strategic direction, being a fully regulated regional entity (referred to as a multi-owned council water organisation in more recent guidance), co-designed by councils in accordance with agreed design parameters set out in Appendix 3 (as updated to reflect the legislative requirements for any water organisation)
- b) The entity formed at Stage 1 will be jointly and equally owned by all participating councils
- c) The functional services (asset management, capital works delivery, consenting, project planning and design, procurement) will be provided to councils under the terms of a services agreement
- d) Councils will retain the role of water service provider (and so will remain the regulated provider)
- e) Councils retain decision-making in relation to price setting, ownership of assets and investment priorities

A regional entity established under Stage 1 will not achieve balance sheet separation on its own. Growth councils who need additional debt capacity now could achieve balance sheet separation under Stage 1 through a standalone local CCO, while remaining a participant in the regional model and working collaboratively to achieve the long-term end point. The expectation would be for the operations of each local CCO to merge into the fully regulated regional entity at the time Stage 2 is implemented.

The roles and responsibilities at Stage 1 are identified in Table 5.1 below.

Responsibility	Council (or local CCO)	Regional CCO
Assets ownership	✓	X
Prices / tariffs– entitlement to revenue, set prices, billing	✓	X
Funding sources / mechanisms - ability to borrow	✓	X
Decision re investments in service area	✓	X
Regulated entity – accountable and liable compliance and consenting (including economic regulatory compliance)	✓	X
Operations	✓	X
Capital works delivery	Monitor Services agreement	✓
Programme management		✓
Procurement		✓
Consenting		✓
Project planning and design		✓
Asset management		✓
Education and training		✓

Table 5.1 Stage 1 roles and responsibilities

Figure 5.1 provides an indicative structure for the regional CCO, including how a local CCO could fit within a regional model at Stage 1.

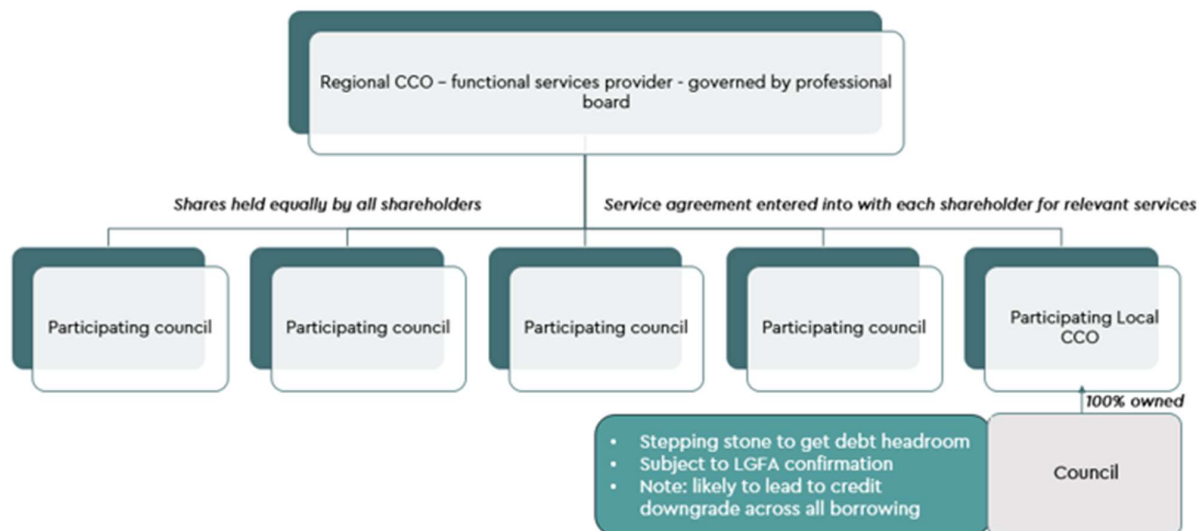


Figure 5.1 Stage 1 Indicative Regional CCO Structure

4.4.2. Stage 1 Opportunities

Stage 1 will not unlock all the benefits of aggregating water infrastructure but there are significant benefits that can be obtained without councils having to address any of the local concerns (showstoppers) at this point.

Table 5.2 lists the immediate needs of the Waikato in relation to water services and how Stage 1 can capture these opportunities. The potential efficiency savings from a combined approach to capital works is addressed at section 4.2.1; based on a 1% per annum efficiency target, this projects a potential \$185 million in savings over 10 years across the Waikato region. Again, this efficiency target is considered to be conservative.

Need	Immediate opportunity
A stronger workforce	<ul style="list-style-type: none"> • To rebuild, develop, retain a highly skilled and adaptable workforce with clear career paths in the water industry
Deliver capital works more efficiently and cost effectively	<ul style="list-style-type: none"> • To strengthen capital works delivery by having a single team focused delivering projects on time and in budget • To provide supply chain with certainty of pipeline and enable supply chain management • To smooth costs as councils not competing for same resources
Improve resilience and compliance	<ul style="list-style-type: none"> • For infrastructure to be planned and developed in a more resilient manner through a single AMP informed by a single strategic AMP
Smarter consenting	<ul style="list-style-type: none"> • To evolve from council boundary, ad hoc consent applications to strategic integrated investment planning that take a whole of catchment approach, and looks to whole of river health

Need	Immediate opportunity
Better data to make better decisions	<ul style="list-style-type: none"> To have a consolidated system capturing standardised data and supporting improved decision-making, effective prioritisation, proactive maintenance and capital works planning. This would address the risk identified by Taumata Arowai about network providers and the need for quality of data (particularly for network performance) and completeness of reporting needing to improve
Focused Governance	<ul style="list-style-type: none"> Consistency of governance where a professional board of directors is appointed and is focused on (and accountable for) creating efficiency and delivery

Table 5.2 Needs and immediate opportunities captured at Stage 1

4.5. The end point

Any staged model must provide clarity on the long-term (5/10/15 year) end point councils collectively want to reach. The end point which aligns with the strategic direction adopted by participating councils (refer section 3 above) is a regulated regional water organisation, co-designed by councils in accordance with agreed design parameters (refer Appendix 3 as amended to reflect proposed legislative requirements).

4.5.1. Stage 2 Description

To achieve the strategic outcomes, the (end point) regional entity must be able to borrow in its own name and so must:

- a) have an independent professional board
- b) have control of waters services assets³
- c) be able to make decisions about investments⁴
- d) be able to set the price and tariff structures for water services across the service area in accordance with pricing principles set by participating councils. Balance sheet separation will only be unlocked if the entity is entitled to the revenue from water services.

Appendix 3 further sets out the design parameters for the end point fully regulated entity.

Councils may need to move into a fully regulated end point at different times and so the design of the end point can provide flexibility for this (subject to there being sufficient scale to go live).

4.5.2. Stage 2 Opportunities

Stage 2 seeks to extend the benefits captured during Stage 1 by developing an aggregated model that is positioned to achieve the outcomes (as demonstrated by the success measures) set out in the strategic framework at Section 3 to this report. For residual councils, the following needs will also be met:

³ The ownership of assets is a matter that will be addressed once there is clarity on the options that will be made available to councils via legislation.

⁴ Having regard to a prioritization framework pre-approved by participating councils and a statement of expectations

Need	Long term opportunity
Removing water debt from council balance sheet	<ul style="list-style-type: none"> Where balance sheet separation is achieved, the increased borrowing will reduce the need for increased revenue from customers. From a council perspective, it will also open up balance sheet capacity within the council for its residual activities
Preparing for economic regulation	<ul style="list-style-type: none"> Providing councils with a ring-fencing solution in terms of water services activity. Enables councils to prepare for economic regulation by removing water services from their main business and transferring into an organisation designed to respond to regulatory requirements.

Table 5.3 Needs and opportunities captured at Stage 2

5. The transition pathway

5.1. Pathway principles

The proposed principles that will inform the pathway to implement the strategic direction are:

- Sustainability:** focusing on long term financial and non-financial benefits
- Pragmatic:** balanced and pragmatic approach to reach end goal
- Simplicity:** people understand what is proposed and why
- Flexibility:** design and timing are flexible to cater for different needs
- Commercial robustness:** independent professional board accountable to shareholders and clarity as to respective roles
- Equitable:** everyone wins at some stage
- Cost effective:** choices made that are the most cost effective
- Risk:** risks associated with aggregation (including residual risk to councils) are managed and mitigated

Figure 6.1 summarises the application of these principles to stages 1 and 2.

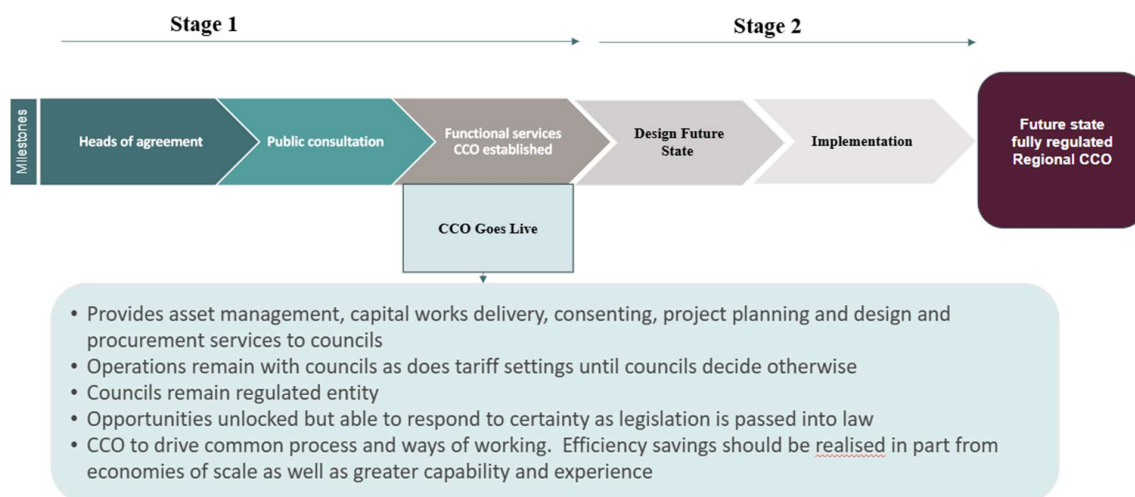


Figure 6.1 Overview of Transition Pathway

5.2. Stage 1 pathway

The first step to implementing Stage 1 is through a Heads of Agreement entered into by participating councils setting out the key terms of the relevant governance documentation. To ensure the detail required for the transition from current state to a functional services aggregated entity is captured and agreed (including managing risk to the residual business of council), it is recommended Chief Executives be given a mandate to commence negotiating a Heads of Agreement now.

The Heads of Agreement will be a non-binding agreement between participating councils, entered into in good faith to show a commitment to progress in the manner proposed. The content of the Heads of Agreement will include:

- a) identifying the key governance documents (constitution, shareholders' agreement, letter/statement of expectations) and the key terms to be covered in those documents e.g. share allocation, voting rights and board appointment process
- b) steps necessary to establish the Stage 1 functional services aggregated entity
- c) roles and responsibilities between councils and aggregated entity and decision-making framework
- d) consultation process to be adopted (i.e. whether new streamlined consultation process to be used)
- e) transition pathway for evolving into the Stage 2 fully regulated aggregated entity (including any applicable conditions) e.g. process for Board to develop an establishment plan for a fully regulated aggregated entity,
- f) key matters on which shareholder approval to be obtained for Stage 2 e.g. process principles for developing establishment plan, pricing principles, prioritisation framework, any share reallocation if assets are to transfer at the 'end point'
- g) any exit ramps if a council no longer wishes to be a participating council after the formal governance documentation has been adopted

The agreed framework will inform the development of more formal documentation. Councils that do not enter wish to be participating councils at the Heads of Agreement stage will exit this workstream but will be kept updated on the development of the Heads of Agreement.

5.3. Stage 2 pathway

The pathway to Stage 2 will be embedded in the design of the staged model. This will be achieved through the governance documentation developed during Stage 1. These documents will empower a professional board to develop an establishment plan for a fit-for-purpose organisation that gets councils to the 'end point'. At this time (which will be after mid-2025) legislation will be in place to inform the Board's establishment plan. This plan will need approval from the shareholding councils based on the process set out in the relevant documentation.

5.4. Timing

For the sake of waters staff, it is important to maintain momentum. Uncertainty created by various reforms has gone on for too long. This report has outlined pragmatic steps that can be taken now on a no regrets basis. What is proposed enables current needs to be addressed while having the flexibility to adapt as we get legislative certainty.

To retain Waikato District Council as a participant in the functional services aggregated entity, Waikato District Council has advised it needs a good faith commitment from councils as to the establishment of a stage 1 aggregated entity by November 2024. This will allow Waikato District Council sufficient time to put alternative arrangements in place before expiry of its contract with Watercare (end of June 2026).

Considering this, and balancing with the requirement of water services delivery plans to be submitted by August 2025 (subject to extensions of time in limited circumstances), the indicative timing for Stage 1 and Stage 2 development is as follows:

- a) **November 2024:** non-binding good faith Heads of Agreement in place
- b) **Q1 2025:** governance documentation is approved and adopted by participating councils
- c) **Q2 2025:** Stage 1 functional services entity established, establishment board and establishment Chief Executive in place
- d) **Post Q2 2025:** The timeframe for agreement of the establishment plan for Stage 2 will be a matter for shareholding councils to agree between themselves (in conjunction with the Board) as will the timeframe for the implementation of that plan.

The above timeline enables participating councils to manage and respond to the timeline challenges set out in section 2.2 above.

6. Next steps

6.1. Recommendations adopted

If the recommendations are adopted:

- a) A Heads of Agreement will be negotiated and brought back to the council for approval before the end of October 2024. The Heads of Agreement is intended to be a non-binding document.
- b) Formal commitment to Stage 1 will only occur when the governance documentation is approved and adopted by a participating council (likely to be by the end of Q1 2025). The process to design and develop Stage 2 will be embedded in the governance documentation, together with any exit ramps agreed by the shareholding councils.

6.2. Recommendations not adopted

If the recommendations are not adopted, and a council does not approve of being a participating council in the proposed aggregated model, it will exit the Waikato Water Done Well workstream but be kept informed of the work underway.

Appendix 1 - Methodology

1. The focus of the work undertaken for Waikato Water Done Well has been on:
 - a) potential spatial options for aggregation
 - b) “showstoppers” (a summary of the concerns raised by Forum members in relation to an aggregated entity)
2. Following a meeting of the Joint Forum on 11 March 2024, it was agreed that:
 - a) further work would be carried out on the spatial options, including a workshop with key Council staff to test the outputs from the financial modelling
 - b) developing design parameters to address the “showstoppers”
 - c) a proposal be submitted to the Forum on 22 July 2024
3. Since March 2024 numerous meetings have been held to move through steps 3 and 4 of the Waikato collaborative roadmap. This has been at a time when resources are already stretched, reflecting a strong desire across the region to arrive at the right pathway forward.
4. Council representatives of the Forum attended a briefing with the Local Government Minister Simeon Brown on 12 June 2024. At this, the Minister personally confirmed to the Forum that the government is looking for a more joined-up approach to three waters delivery, including in the Waikato.

Step 3 of roadmap - Financial assessment

5. The process informing the Waikato financial modelling undertaken at step 3 of the roadmap is set out below.

Spatial options

6. Based on feedback, the scope of the spatial options was increased to include the whole Waikato (excluding HCC) option. Accordingly, the four spatial options are:
 - a) Whole of Waikato
 - b) Waikato river catchment
 - c) Hauraki Coromandel catchment
 - d) Whole of Waikato (excluding HCC)

Vehicle options

7. Key requirements to achieve the strategic outcomes are that the end entity is one that can achieve balance sheet separation from councils and, in the short term, can borrow through the Local Government Funding Agency (**LGFA**). As LGFA can only lend to councils and CCOs, the entity will need to be a form of CCO that can access borrowing through LGFA and retain the current cost of borrowing.
8. The service delivery options that announced by the Department of Internal Affairs in August 2024 are:
 - a) In-house (business unit or division)
 - b) Single council owned water organisation
 - c) Multi-council owned water organisation
 - d) Mixed council / consumer trust owned

- e) Consumer trust owned
- 9. Guidance is that councils are free to choose alternative arrangements subject to them meeting the regulatory requirements and being financially sustainable.
- 10. Based on the requirement for any vehicle to achieve balance sheet separation and retain the ability to borrow from LGFA, the legal form that aligns with the options announced is the multi-council owned water organisation. As per guidance, any such organisation needs to be company and, again to ensure the ability to borrow from LGFA, must be owned by councils.
- 11. A limited liability company is consequently the recommended vehicle.

Financial modelling

- 12. The process applied to develop the Waikato financial model and confirm the assumptions which underpin it are as follows:

Steps in relation to development of financial model	
a)	as directed by the Forum, the Project Team has leveraged off past work done by councils and DIA in relation to water services delivery and has optimised existing resources available
b)	the financial model built by DIA's NTU financial modelling team in the context of the former Entity A (Wai Tamaki ki Te Hiku) Funding and Pricing Plan was used as the starting point
c)	the assumptions underpinning that model (version 1 assumptions) were reviewed by a project working group appointed by the Forum and Waikato CEs and updated (version 2 assumptions)
d)	the updated assumptions were then further tested with a small number of CFOs from across the Waikato (version 3 assumptions)
e)	the version 3 assumptions were tested with the wider CFO Forum in April 2024
Steps in relation to collation of data	
f)	Data is input based on the 10-year financial information for waters related activity (capex and opex) as included in the Long-Term Plan 2024 / enhanced Annual Plan

- 13. In addition to the above, the following steps have been undertaken to inform the recommendations:
 - a) A workshop with the CFOs to discuss, in addition to the assumptions, the data being input into the financial model and the metrics for measuring a comparative analysis of councils going alone versus an aggregated model. In overview, it was agreed that financial modelling should be completed using the LTP 2024 data rather than any unconstrained programme of work. This is because unconstrained is not realistic in either scenario due to issues around deliverability and capacity.
 - b) Further meetings to discuss the appropriate metrics that should be applied to compare options
 - c) Quality assurance carried out by council finance staff and Co-Lab in relation to the financial model
 - d) Input and direction from the CE Working Party on 8 April and 31 May in relation to financial modelling and showstoppers
 - e) Input and direction from the Waikato CE Forum on 19 April, 17 May in relation to financial modelling and showstoppers

- f) Further input and direction from the Waikato CE Forum on 21 June in relation to the strategic direction, findings and recommendations to be put to the Forum, with a follow up meeting on 5 July 2024
- g) Direction from the Forum Reference Group on 26 April and 15 June LTP Confidence survey across the CEs

Step 4 of roadmap – Design parameters (showstoppers)

14. Showstoppers are those local concerns over and above financial concerns raised by Forum members in relation to an aggregated entity. These were captured from discussions across CEs and tested with the Forum Reference Group.
15. Following workshops with the CE Forum, the concerns have been distilled into the below groups:
 - a) Local voice and influence
 - b) Distributional impacts
 - c) Service delivery, scope and standards
 - d) Transition considerations
16. For completeness, the table of concerns is included below.

Overarching groups identified	Concerns captured in grouping
Local Voice and influence	<ul style="list-style-type: none"> • Timeframe to price harmonization (formerly known as cross-subsidisation) • Enabling local voice • Governance • Prioritisation of communities • Community perception re assets being 'given away' • Ability to influence pricing • Iwi buy in and influence in decision making
Distributional impacts	<ul style="list-style-type: none"> • Timeframe to price harmonization • Prioritisation of communities • Water metering
Service delivery, scope and standards	<ul style="list-style-type: none"> • Ability to create scale and move quickly • Stormwater – in or out
Transitional considerations	<ul style="list-style-type: none"> • Ability to create scale and move quickly • Stranded costs • Costs involved in standing up a CCO

Appendix 2 - Summary of Bill#2 (as at the date of this report)

1. The Local Government (Water Services Preliminary Arrangements) Bill was introduced into Parliament in May 2024. The Select Committee returned its report on 18 July 2024. The Bill is due to be passed into law in August 2024. It is the second stage in the Government's Local Water Done Well following repeal of the previous Government's water services entity model in February 2024.
2. The content of the Bill largely aligns with previous Ministerial announcements.
3. There are effectively three matters provided for in the Bill (not including provisions specific to Watercare). These are:
 - a) Water services delivery plans (**Plans**) (once off occurrence)
 - b) Foundational information disclosure
 - c) Streamlined provisions for consultation
4. Bill#2 will require councils to prepare and submit water services delivery plans (Plans) within 12 months of the Bill being passed into law. Plans must be submitted to the Secretary for Local Government (CE of Department of Internal Affairs (DIA)) for approval, but the Minister of Local Government can give a time extension in limited circumstances. Any extension of time granted by Minister to submission date must specify for how long
5. In broad terms, the Plans must identify the current state of a council's water services, and show how the council will deliver those services in a way that:
 - a) meets relevant regulatory quality standards for stormwater, wastewater and water supply networks
 - b) is financially sustainable
 - c) ensures compliance with drinking water quality standards; and
 - d) supports housing growth and urban development objectives.
6. More specifically, the Plans ask for councils to describe:
 - a) Current state of network
 - b) Current levels of service
 - c) Areas that receive water services in the district and those that don't, together with infrastructure associated with provision for population growth and development capacity
 - d) Whether water services comply with current regulatory requirements (and to what extent) and will comply with anticipated future regulatory requirements. Must describe any non-compliance (actual or anticipated) and how the proposed model for future delivery will address
 - e) Details of capex and opex required to deliver water services and for regulatory requirements
 - f) Financial projections for period of plan – opex, revenue, capex, debt.
 - g) Assessment of current condition, lifespan and value of network
 - h) Asset management approach
 - i) Issues, constraints and risks, together with impact on delivery
 - j) Anticipated or proposed model for delivering water services (including any joint arrangement or to continue to deliver alone)
 - k) How will revenue be separated from other functions

-
- l) What consultation was undertaken to develop the information re the anticipated or proposed model for delivering water services
 - m) Plan to make financially sustainable by 30 June 2028
 - n) Implementation plan for proposed model
 - o) Any other information set in rules by Secretary for Local Government under the Act within 3 months of Act being in force
 - 7. **Period covered:** Plans must cover at least 10 financial years, with more detailed information for the first three financial years. Plans cover 10 years from 2024/2025 financial year, but MAY include information for additional 20 years if helps to identify future investment requirement
 - 8. **Approval:** Plans must be adopted by resolution of council and certified as true and accurate by the Chief Executive.
 - 9. **Joint arrangements:** Councils can prepare a joint Plan with other councils. Joint arrangements must cover all water supply and wastewater services of the participating councils, but a council can choose to retain for itself delivery of some or all of its stormwater services, if it wishes. A key decision for councils when preparing their plan will be whether to continue delivering services alone, or enter into a joint arrangement with other councils, whether through a CCO or some other arrangement. If a CCO with other councils is preferred, there is a streamlined consultation process.
 - 10. **Implementation plan:** Plans must include an implementation plan for delivering proposed model or arrangements and if the proposal is to deliver water services alone, the actions that ensure financial sustainability by 30 June 2028. Implementation plans must include:
 - a) process for delivering the proposed model or arrangements
 - b) commitment to give effect to the proposed model or arrangements once plan is accepted
 - c) name of each council that commits to delivering the proposed model or arrangements
 - d) time frames and milestones for delivering the proposed model or arrangements
 - 11. **Post submission:** Minister is required to decide on whether Plan is compliant as soon as reasonably practicable after submission. Further:
 - a) Councils are required to give effect to proposals for future delivery once plan accepted - objective is to get councils to start actioning plans
 - b) Secretary given power to monitor compliance with plans
 - c) Plans can be changed post approval where amendments significant or is a change is to the proposed model set out in the original plan – amended plan must be submitted within 18 **months of Bill becoming law**
 - 12. **Statutory backstop:** A Plan will only be approved by the Secretary if it complies with the legislative requirements. If the Secretary is not satisfied the Plan is compliant, he can ask the council (or councils where the Plan is joint) to amend it and resubmit by a specified date. The Minister can appoint a Crown facilitator or Crown water services specialist in specific circumstances. The Crown facilitator can assist with preparation of the Plan and facilitate any negotiations between joint parties to an arrangement. The Crown water services specialist can prepare Plans on behalf of a council or direct a council to adopt a Plan that the specialist has prepared (which could effectively remove the council's lead role in the process).
 - a) Notice to be given before a Crown facilitator of water services specialist is appointed
 - b) Minister also has the power to appoint a Crown facilitator if plans not given effect to by Councils

Additional information: disclosure requirements

13. The Bill's explanatory note states that "foundational information disclosure" will be provided through Plans "to lay the groundwork for comprehensive economic regulation". It also enables the Commerce Commission to require a council or a CCO to publicly disclose a wide range of information such as financial statements, asset values and valuation reports, pricing information, contracts, related party transactions, financial and non-financial performance measures, asset management plans, and quality performance measures and statistics.

Streamlined consultation

14. The Bill provides for an alternative consultation and decision-making process (modifying the existing processes in the Local Government Act 2002).
15. The important features of these alternative arrangements are:
 - a) Councils do not have to consider "all reasonably practicable options". They may identify two options only - being the status quo and the proposed new arrangement
 - b) Councils are only required to consult once, and do not have to consult on any amendments to the LTP that are required as a result of a decision relating to a CCO
 - c) Councils may conditionally approve an LTP plan amendment subject to the agreement by other parties to a joint arrangement
 - d) Councils may (but are not required to) consider the impact of a joint CCO on communities in the areas covered by the joint arrangement (not just their own districts)
 - e) principles for public consultation in LGA apply to alternative consultation process for joint arrangement
 - f) information made publicly available must include how proposal is likely to affect rates, debt, levels of service and charges for water
 - g) Councils will be temporarily exempt from having to consider the cost-effectiveness of current arrangements for meeting the community's needs, under section 17A of the Local Government Act 2002
 - h) For councils that opted to defer their LTPs, they can combine consultation on a CCO and their LTPs for 2025-2034.

Appendix 3 – Design parameters

Category	Design of future state fully regulated Regional CCO must:
Local voice and influence	<ul style="list-style-type: none"> • identify factors to be prioritised for further development – capture for statement of expectations • identify mechanisms for local voice/ influence/representation – noting the requirement to have a consumer complaints process under economic and consumer protection regulation • confirm integration of Treaty settlement arrangements as a key design principle
Distributional impacts	<ul style="list-style-type: none"> • have a phased pricing pathway/transition as a key design principle • provide for further work required on possible conditions of entry (to mitigate concerns over past investment) • agree consistent public messaging (officer and Elected Members) around the value of the model, scale of savings
Service delivery, scope and standards	<ul style="list-style-type: none"> • be flexible to account for regulatory uncertainty • have options for stormwater that align with government policy
Transition considerations	<ul style="list-style-type: none"> • approach LGFA to determine if borrowing will be available for aggregation establishment costs • recommend each council manage their own stranded costs – with time for this to be managed and transition pathway principles • provide for a staged model including ability for councils to ‘opt-in’ post establishment
Credit rating separation and increased borrowing	<ul style="list-style-type: none"> • align with design parameters set out in Bill#3 to achieve increased debt capacity but still enable LGFA borrowing. Model options and parameters currently being developed. May require councils to ring fence water services revenue and debt in a separate model and dilution of council control • enable residual councils’ balance sheets to be opened up to meet other community expectations which are currently limited

Waikato Water Done Well

**Workshop with:
Hamilton City Council**
27 August 2024



Format

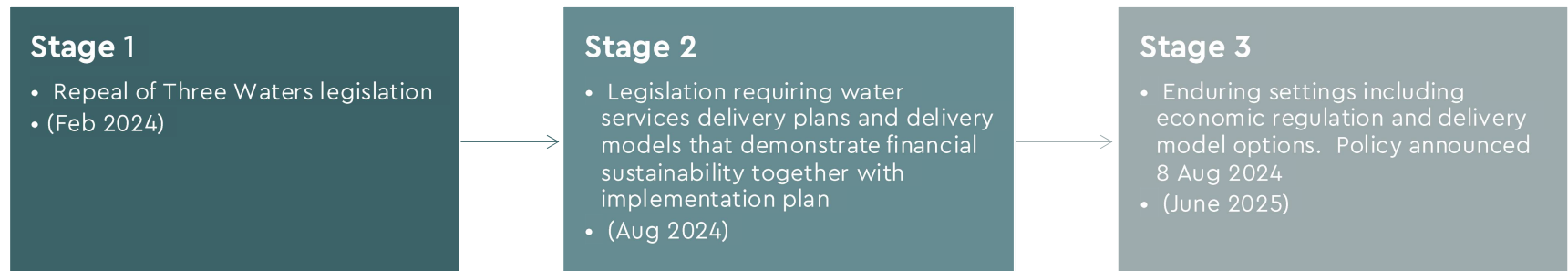
1. National context
2. Waikato context
3. Key findings
 - National
 - Local
 - Showstoppers (local concerns)
4. Recommendations
5. Next steps

National context

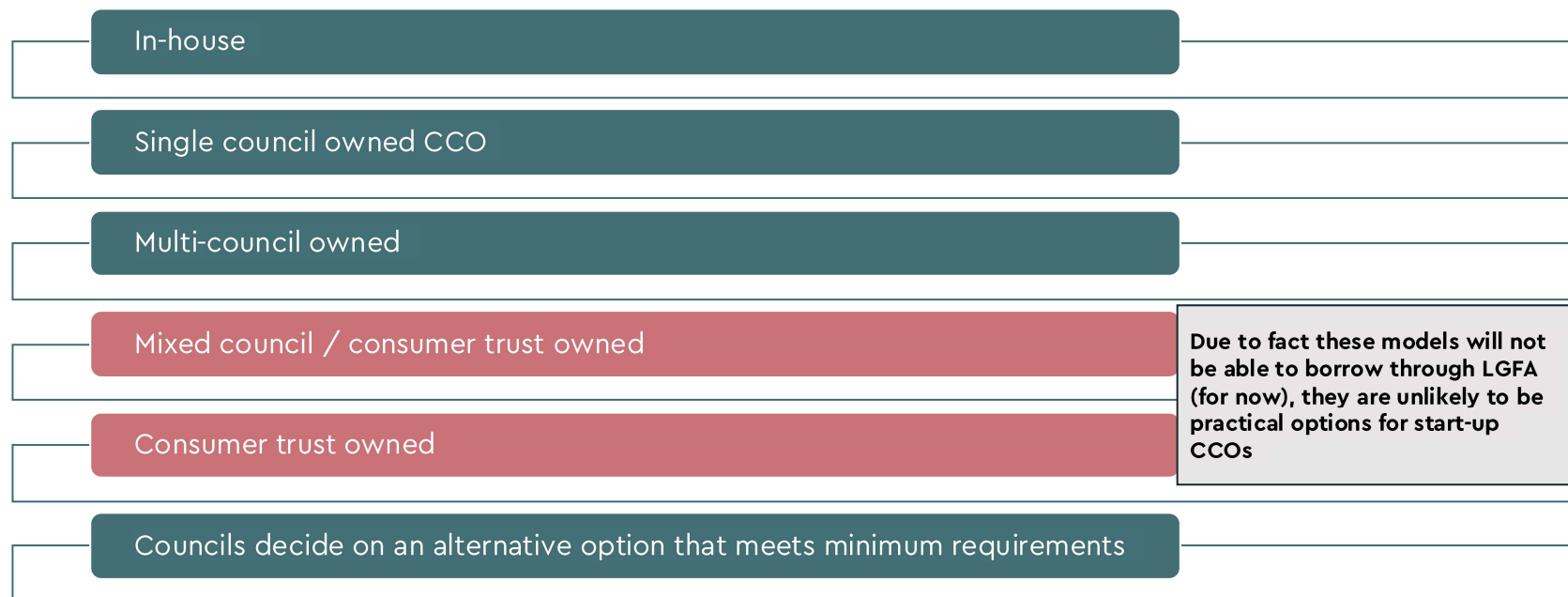
Local Water Done Well

Policy: Locally led solutions to financially sustainable water services that comply with water quality and investment in infrastructure

Implementation:



Service delivery models



Requirements for models

All models must:

- Meet regulatory requirements (economic, environmental and drinking water standards)
- Have a water strategy (new form document)
- Be financially sustainable
- Not allow for privatisation

A water organisation must also:

- Have no staff or elected members on board
- Be a company
- Be limited to water services activity
- Be owned by a council and / or a consumer trust
- Have a Board appointed on competency

If a consumer trust is a shareholder, there must be:

- Restrictions on transfer of shares and interest in trust
- Provision for consumer trust to appoint and remove its board appointments
- Provide for trustees to be elected by consumers
- Compliant with trust law (have a trust deed)
- Restrictions on changing objects in trust deed

Waikato context

Kaupapa of Joint Forum

To support individual councils to make informed decisions on the merits of aggregating water services, regionally or sub-regionally.

Key findings



Local findings

- The Waikato region has diverse communities, councils and needs
- There is a willingness to work together, including from Iwi partners, for collective benefit
- The following table is largely a self-assessment by each Council

Council	Debt capacity	Community affordability	Workforce availability	Capital works delivery	Business continuity	Compliance	Consenting
Hamilton	✓	✓	✓				✓
Waikato	✓	✓	✓	✓	✓	✓	✓
<u>Waipā</u>	✓	✓					
Taupō		✓	✓	✓		✓	✓
Thames-Coromandel				✓		✓	
Matamata-Piako			✓	✓		✓	✓
Hauraki		✓	✓	✓	✓	✓	✓
South Waikato		✓	✓	✓		✓	✓
Waitomo		✓	✓	✓		✓	
<u>Ōtorohanga</u>			✓	✓		✓	✓

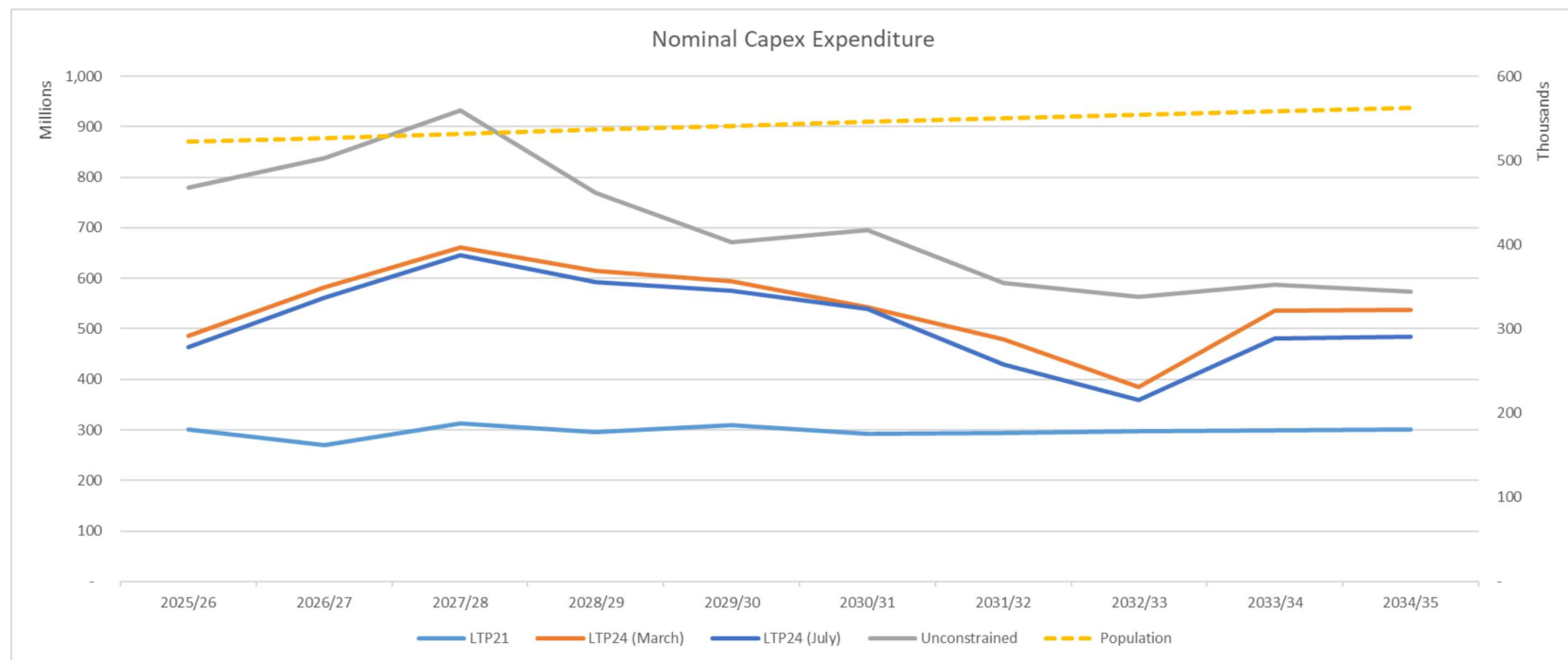
Hamilton City water debt capacity

- Debt capacity a significant challenge
- Extent of water debt to water revenue being worked through internally
- **Recent announcement:**
 - high growth councils can potentially borrow 3.5 times revenue – subject to LGFA AGM and Board approval
 - water services CCO can borrow 5 times revenue - subject to prudent credit criteria

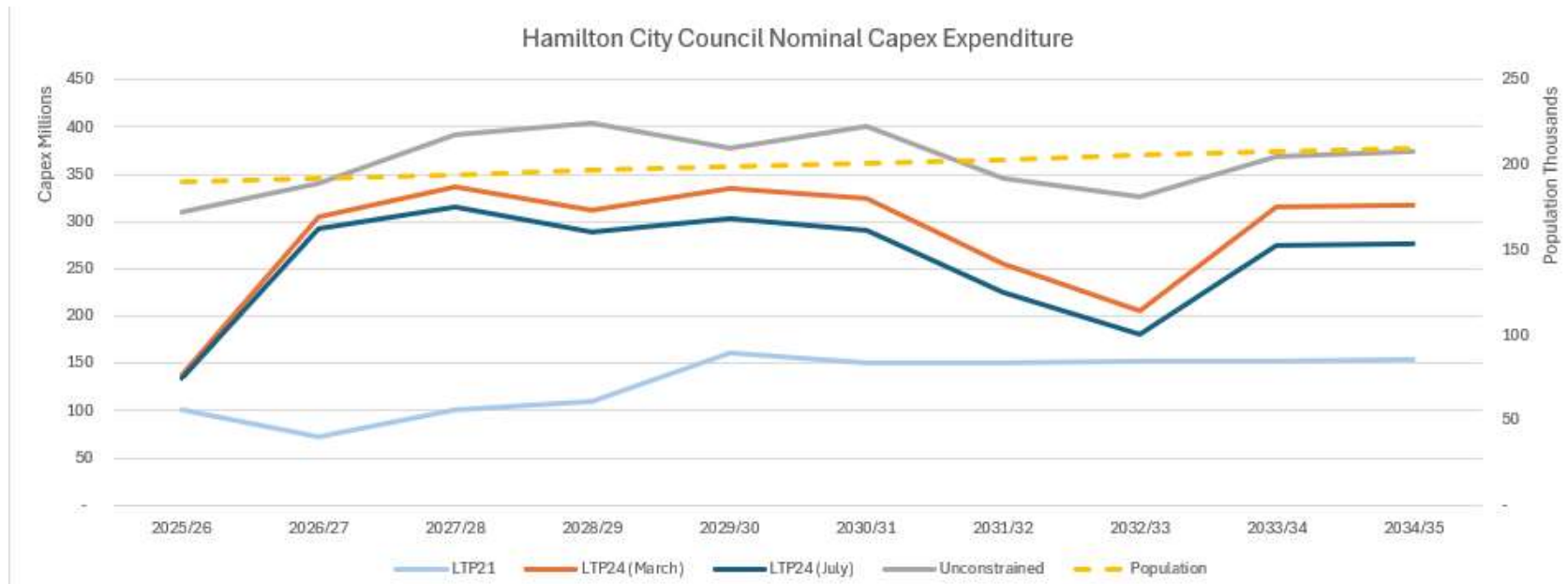
Waikato capital works

- The main collective opportunity - \$5 billion next 10 years
- Overall asset condition:
 - 44% wastewater network rated average or better
 - 20% (11 Olympic pools per day) of treated water lost
- Delivery mainly impacted by:
 - Resources
 - Procurement
 - Project management

Waikato capital works (LTPs): shouldn't future investment be increasing?



Hamilton City capital works



Water affordability (LTPs): an optimistic view

Council	2024 Average Water Rates (\$)	2024 Affordability	2034 Average Water Rates (\$)	2034 Affordability
Hamilton	1,589	1.3%	5,281	2.7%
Hauraki	1,714	1.8%	4,860	3.2%
Matamata-Piako	1,539	1.5%	2,193	1.3%
Ōtorohanga	974	0.9%	1,652	1.0%
South Waikato	1,613	1.5%	2,337	1.3%
Taupō	1,655	1.5%	3,350	1.9%
Thames Coromandel	1,890	2.4%	3,049	2.4%
Waikato	2,310	1.8%	7,921	3.8%
Waipa	2,021	1.7%	3,470	1.8%
Waitomo	2,651	3.0%	4,634	3.2%

Note: At this stage, figures for Hamilton City are indicative only

Local findings (cont.)

- **Workforce:** Costs and delivery being impacted by the lack of certainty around future pipeline of work
- **Business continuity:** Key issue for Waikato District Council
- **Compliance and consenting:**
 - Compliance is a challenge for most
 - 1/3 of all consents expiring by 2030. Consents are a major driver of new capital works
 - No moderate nor significant compliance issues for HCC in 2023/2024

Financial findings (cont.)

Financially, not all councils need a CCO at this time, but all can benefit

Modelling shows aggregation requires less revenue than stand-alone to achieve the same outcomes

Councils fund growth differently; difficult to compare kina with kina

A large gap exists between LTP capital works programmes and the investment staff say is necessary

Over the next decade, a majority of Waikato households will face significant rate increases under the status quo

The current model of borrowing through LGFA is cost-effective and practical for councils and CCOs

Efficiency savings for LTP (FY25-FY34)

- Allowance of approx. \$100m additional spend, spread over 10 years to help drive efficiencies
- Assumes efficiency of 15% achieved over 15 years, starting after 3 years
- Conservative assumption: about 1% per annum efficiency target – figures are those modelled by year 10

Whole of
Waikato \$338m

Hauraki
Coromandel
\$61m

Waikato River
Catchment
\$278m

Waikato
excluding
Hamilton \$203m

Efficiency savings for capital works (FY25-FY34)

Whole of
Waikato \$185m

Hauraki
Coromandel
\$25m

Waikato River
Catchment
\$160m

Waikato
excluding
Hamilton \$87m

Other saving opportunities: smart consenting

- Multiple councils and consents within a river catchment
- Currently consents obtained or renewed plant by plant; council by council
- Taking a whole of catchment or 'river view' is likely to improve environmental outcomes and save money
- Matamata-Piako example of 'nutrient balancing' between five WWTPs:

	Individually	Collectively	Saving
Processing	\$6m	\$2m	\$4m
Estimated Capital	\$100m	\$80m	\$20m

Showstoppers (local concerns) findings

- Above financial concerns, local concerns exist with aggregation e.g:

Local voice and influence	Prioritisation of local needs
Meeting Treaty settlement obligations	Asset ownership

- With strong leadership, 'showstoppers' can be addressed as part of agreeing a pathway forward (noting the need to meet financial sustainability criteria)

It's all about balance

Which means ...

Local concerns

Finance

It's all about leadership



End model design parameters

		Category	Design of future state fully regulated Regional CCO must:
Local concerns		Local voice and influence	<ul style="list-style-type: none"> • identify factors to be prioritised for further development • identify mechanisms for local voice/ influence/representation • confirm integration of Treaty settlement arrangements as a key design principle
		Distributional impacts	<ul style="list-style-type: none"> • have a phased pricing pathway/transition as a key design principle • provide for further work required on possible conditions of entry (to mitigate concerns over past investment) • agree consistent public messaging (officer and Elected Members) around the value of the model, scale of savings
		Service delivery, scope and standards	<ul style="list-style-type: none"> • be flexible to account for regulatory uncertainty • have options for stormwater to be transferred in future
		Transition considerations	<ul style="list-style-type: none"> • approach LGFA to determine if borrowing will be available for aggregation establishment costs • recommend each council manage their own stranded costs – with time for this to be managed • provide for a staged model including ability for councils to 'opt-in' post establishment
Financial		Credit rating separation and increased borrowing	<ul style="list-style-type: none"> • align with design parameters set out in Bill#3 to achieve increased debt capacity but still enable LGFA borrowing. Model options and parameters currently being developed. May require councils to ring fence water services revenue and debt in a separate model and dilution of council control • enable residual councils' balance sheets to be opened up to meet other community expectations which are currently limited



Opportunity

Together, we can develop a financially sustainable model which better provides the water services infrastructure our communities and region need, and which meets regulatory requirements and government and community expectations.

Recommendations



Recommendation 1

That the vision, outcomes and success measures be adopted in principle

Waikato vision



Waikato Outcomes

1

create scale and change to enable the significant investment required to deliver efficient and financially sustainable services that comply with regulatory requirements and enable urban development

2

create the conditions to build and sustain a highly skilled, adaptable and world-leading water workforce that can innovate and collaborate to drive outcomes for Waikato

3

be customer-focused, leveraging new technologies, while also building customer awareness of their role in the water system and the value of water

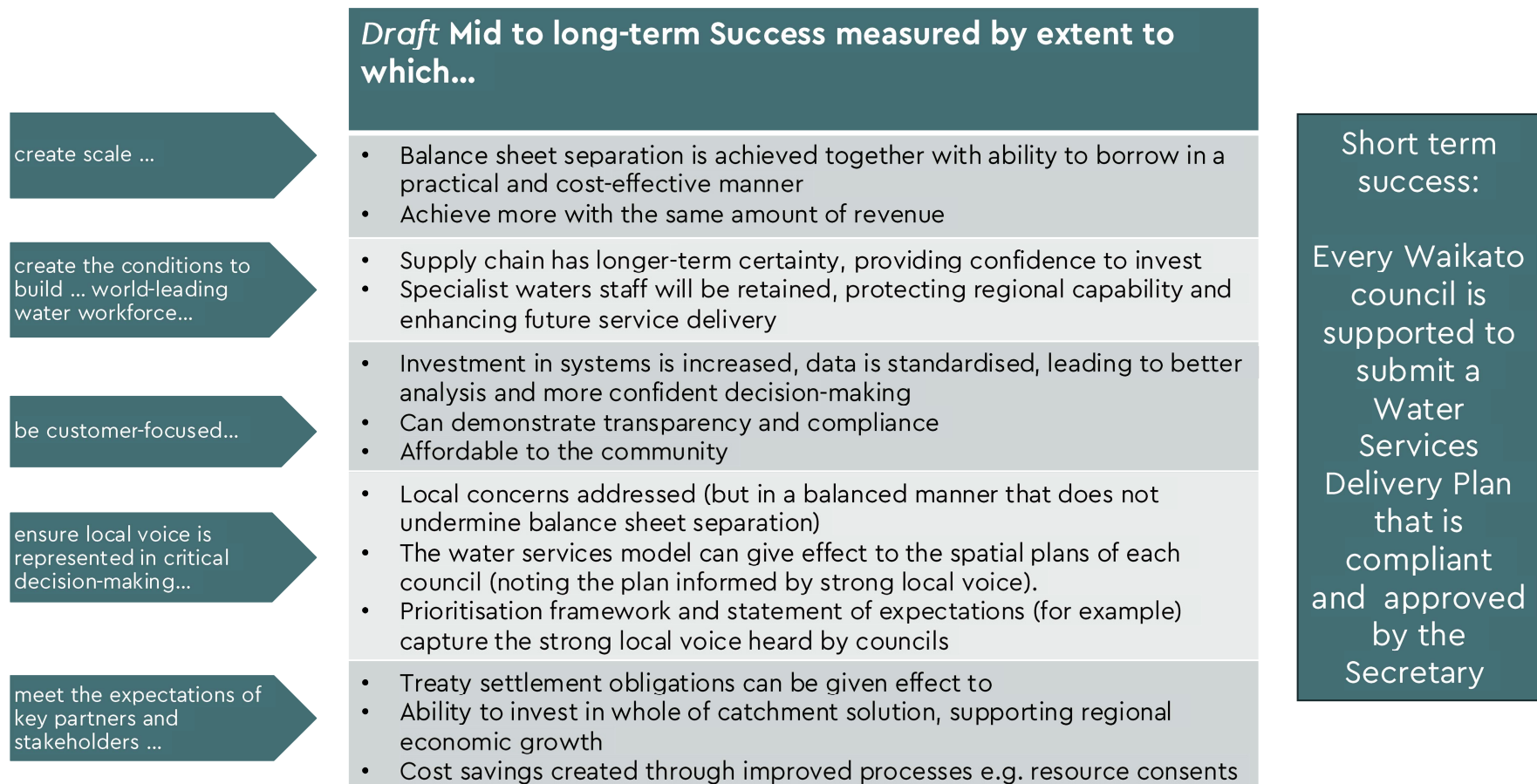
4

ensure local voice is represented in critical decision-making around water investment and management across the region, including decisions in relation to water takes and water discharges

5

meet the expectations of key partners and stakeholders including those represented in Treaty settlements, and protecting public health and the environment.

What does success look like?



Recommendation 2

That participating Councils co-design an aggregated model that is staged by function and governed by a professional board from the outset. Stage 1 will be the establishment of an entity providing functional services to participating councils. The end point (to deliver on the vision, outcomes and success measures) is an aggregated, fully regulated water services entity.

Stage 1 – Functional services CCO

- CCO stood up to respond to critical needs now but with flexibility to evolve over time
- Proposed functional services include capital works delivery, consenting, project planning and design, procurement, asset management and education
- Stage 1 CCO drives common process and ways of working across councils, achieves efficiency savings and builds collective capability
- Not Wellington Water: councils cannot join unless agree to end point
- Key limitation - will not achieve balance sheet separation. Councils with debt capacity as a burning platform can consider local CCO (as stepping-stone) but receive functional services from Regional CCO

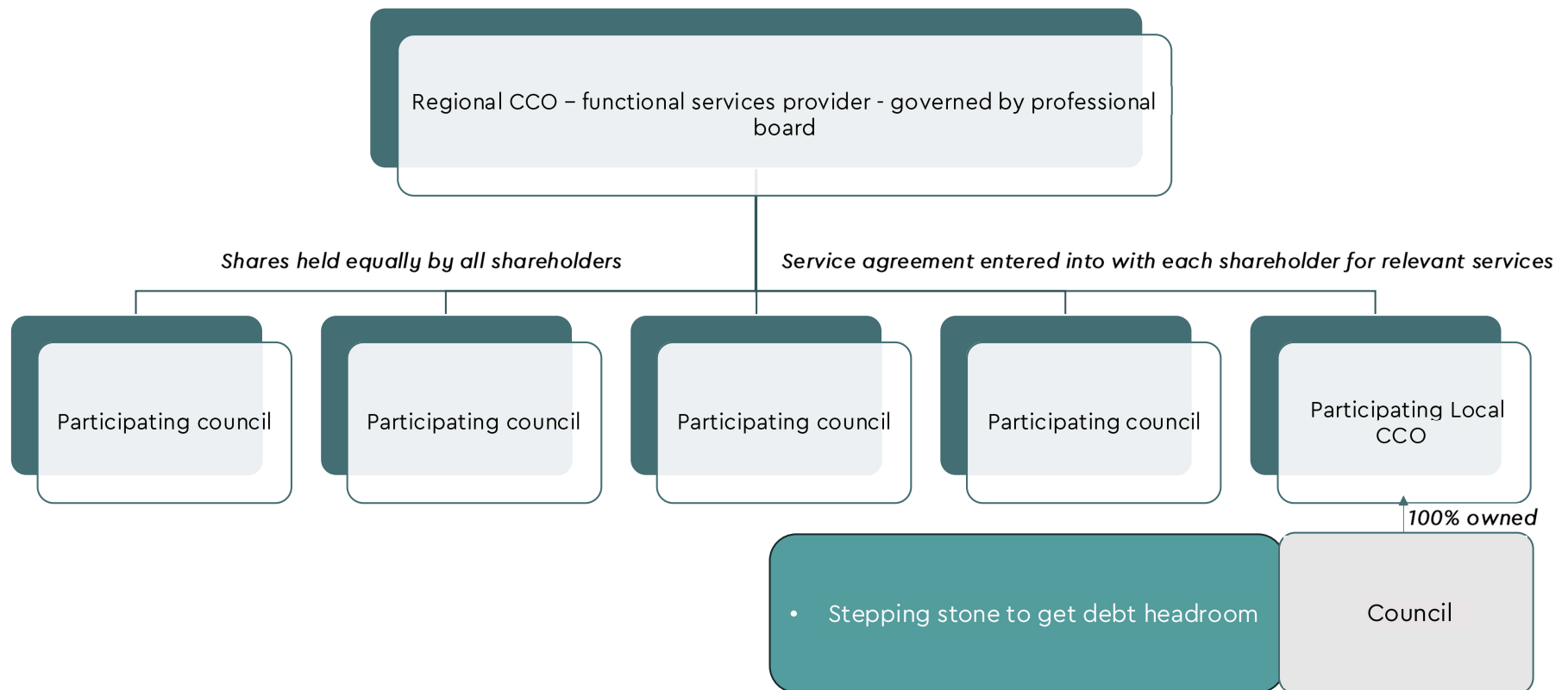
Rationale to recommendation

- **Pragmatic:** prior reform attempts show “big bang” too complex
- **Simplicity:** focus on functions already largely outsourced
- **Flexibility:** Staging allows a CCO time to prove itself
 - Stage 1: Unlock some scale advantages without operations or assets being transferred
 - Off-ramps will exist through the process
 - Stage 2: empowers professional board to develop a fit-for-purpose establishment plan in line with participating council expectations
 - Participating councils can transfer all their water business (should they choose) at a later date in accordance with a pre-agreed process
 - Non-participating councils may be able to join at a later date subject to criteria for entry being satisfied

Stage 1 – Scope of responsibilities

Responsibility	Council (or local CCO)	Regional CCO
Assets ownership	✓	X
Prices / tariffs– entitlement to revenue, set prices, billing	✓	X
Funding sources / mechanisms - ability to borrow	✓	X
Decision re investments in service area	✓	X
Regulated entity – accountable and liable compliance and consenting (including economic regulatory compliance)	✓	X
Operations	✓	X
Capital works delivery	Monitor Services agreement	✓
Programme management		✓
Procurement		✓
Consenting		✓
Project planning and design		✓
Asset management		✓
Education and training		✓

Stage 1 - Indicative structure



Recommendation 3

That each member organisation formally advise the Forum chairs of their decision in relation to the recommendations by mid-September 2024. Non-participating councils will exit this workstream but will be kept informed of the work underway.

Recommendation 4

That participating councils instruct their Chief Executive to negotiate a Heads of Agreement (HoA) to bring back for their approval by the end of October 2024 (with the intention of the HoA being signed in November 2024) . The HoA will be a non-binding agreement between participating councils, entered into on a good faith basis to show a commitment to progress in the manner proposed. The framework will inform the development of more formal documentation.

Next steps



September 2024: Council resolution on recommendations



October 2024: Council resolution on non-binding Heads of Agreement



Q1 2025: governance documentation approved and adopted by participating councils



Q2 2025: Stage 1 functional services entity established, establishment board and establishment Chief Executive in place

Heads of Agreement scope

Key terms to be included in governance documents (constitution, shareholders' agreement, letter of expectations)

Steps to establish the Stage 1 entity

Roles and responsibilities and decision-making framework at Stage 1

Agreed Stage 2 end point

Transition pathway to evolve to Stage 2 e.g. process for Board to develop an establishment plan for a fully regulated entity

Any agreed exit ramps after the formal governance documentation has been adopted

Process for admitting new councils (on ramps)

DISCUSSION TOPIC SUMMARY

Topic: Local Waters Done Well – Department of Internal Affairs

Related Committee: Council

Business Unit/Group: External Presenter

Key Staff Contact/s: Andrew Parsons / Peter Winder

Direction Discussion Session recommended

Status: Open

PURPOSE OF TOPIC/INFORMATION

- On 8 August Government released major policy decisions relating to the Local Water Done Well Reforms.
- Announcements included:
 - The funding and financing framework for Councils and Water CCOs through LGFA
 - The role, scope, power and framework for water CCOs, the framework for economic regulation, borrowing by both councils and water CCOs through LGFA, stormwater, environmental regulation and other matters.
- DIA has also provided opportunities for all members to participate in briefing on the policy announcements.
- This briefing is to provide Members with the opportunity to hear from Mike Lovett, Deputy Secretary, DIA and ask him any questions relating to the Local Water Done Well framework. It will provide a firsthand opportunity to understand the context and expectations of the reforms.
- This briefing is one of three intended to provide Members with the range of information necessary to support direction setting decisions on 12 September.

WHAT KEY THINGS SHOULD MEMBERS THINK ABOUT/ CONSIDER IN UNDERSTANDING THIS INFORMATION?

- On 12 September 2024 Council will be asked to set direction for the HCC's response to the Local Water Done Well reforms. It is important that members understand the policy framework for the Local Water Done Well Reforms and what it means for the options HCC has and for choices that HCC will need to make.

KEY SUMMARY POINTS

Funding and Financing Announcements

The details include:

- that LGFA will extend their existing lending to CCOs to Water Services CCOs that are supported by their parent council or councils
- that LGFA will support leverage within water organisations of up to 500 percent of operating revenue subject to the entities meeting prudent credit criteria
- that LGFA will lend to multiply owned water organisations who are supported by parent councils
- that LGFA will make available to water organisations the full suite of financial products currently available to councils.

- that Councils will retain the ability to borrow for waters if they decide to keep their waters services 'in-house'
- that LGFA is considering whether it can prudently provide additional flexibility to councils to meet future challenges, including:
- increasing debt limits for high growth councils to a level of 350% of operating revenue for high growth councils (subject to LGFA Board approval and on a bespoke basis)
- In time, and subject to prudent criteria and LGFA stakeholder approval, lending to water organisations on an unsupported basis.

Waters Services Delivery Announcements:

- The details include:
 - the Commerce Commission will exercise economic regulation with the key tools being an information disclosure regime, and flexible powers to ensure that the right levels of investment are taking place
 - the powers, authorities and charging tools for water organisations
 - a range of options for water services delivery that Councils can choose from, including potential roles for community trusts, and a council internal business unit
 - a significant change in direction in relation to stormwater – where responsibility for stormwater remains with the Council – but some aspects of that can be transferred
 - tax-free status for water organisations
 - legislative protection from privatisation
 - the ability for water services organisations to make a return on capital and pay a dividend – at the discretion of its owners
 - national maximum discharge standards for wastewater
 - the timetable for further announcements and decisions.
- The detail of the announcements addressed many of the substantial points that HCC raised with the Minister and put in place what we were seeking.

WHERE CAN MEMBERS FIND MORE INFORMATION?

Department of Internal Affairs resources:

- Water Service Delivery Models: Guidance for Local Authorities
[https://www.dia.govt.nz/diawebsite.nsf/Files/Water-Services-Policy/\\$file/Water-services-delivery-models-Guidance-for-local-authorities-\(August-2024\).pdf](https://www.dia.govt.nz/diawebsite.nsf/Files/Water-Services-Policy/$file/Water-services-delivery-models-Guidance-for-local-authorities-(August-2024).pdf)
- Local Water Done Well Overview:
[https://www.dia.govt.nz/diawebsite.nsf/Files/Water-Services-Policy/\\$file/01.Factsheet-Local-Government-Water-Services-Bill-overview.pdf](https://www.dia.govt.nz/diawebsite.nsf/Files/Water-Services-Policy/$file/01.Factsheet-Local-Government-Water-Services-Bill-overview.pdf)
- Financing for Councils and water organisations
[https://www.dia.govt.nz/diawebsite.nsf/Files/Water-Services-Policy/\\$file/02.Factsheet-Financing-for-councils-and-water-organisations.pdf](https://www.dia.govt.nz/diawebsite.nsf/Files/Water-Services-Policy/$file/02.Factsheet-Financing-for-councils-and-water-organisations.pdf)
- Planning and Accountability for local government water services
[https://www.dia.govt.nz/diawebsite.nsf/Files/Water-Services-Policy/\\$file/03.Factsheet-Planning-and-accountability-for-local-government-water-services.pdf](https://www.dia.govt.nz/diawebsite.nsf/Files/Water-Services-Policy/$file/03.Factsheet-Planning-and-accountability-for-local-government-water-services.pdf)
- Future Arrangements for Stormwater
[https://www.dia.govt.nz/diawebsite.nsf/Files/Water-Services-Policy/\\$file/04.Factsheet-Future-arrangements-for-stormwater.pdf](https://www.dia.govt.nz/diawebsite.nsf/Files/Water-Services-Policy/$file/04.Factsheet-Future-arrangements-for-stormwater.pdf)

- Economic Regulation and Consumer Protection
[https://www.dia.govt.nz/diawebsite.nsf/Files/Water-Services-Policy/\\$file/05.Factsheet-regulation-and-consumer-protection.pdf](https://www.dia.govt.nz/diawebsite.nsf/Files/Water-Services-Policy/$file/05.Factsheet-regulation-and-consumer-protection.pdf)
- Drinking Water Quality Regulation
[https://www.dia.govt.nz/diawebsite.nsf/Files/Water-Services-Policy/\\$file/06.Factsheet-Drinking-water-quality-regulation.pdf](https://www.dia.govt.nz/diawebsite.nsf/Files/Water-Services-Policy/$file/06.Factsheet-Drinking-water-quality-regulation.pdf)
- Standards to help reduce water infrastructure costs
[https://www.dia.govt.nz/diawebsite.nsf/Files/Water-Services-Policy/\\$file/07.Factsheet-Standards-to-help-reduce-water-infrastructure-costs.pdf](https://www.dia.govt.nz/diawebsite.nsf/Files/Water-Services-Policy/$file/07.Factsheet-Standards-to-help-reduce-water-infrastructure-costs.pdf)

WHAT DIRECTION/FEEDBACK/INPUT DO YOU NEED FROM ELECTED MEMBERS

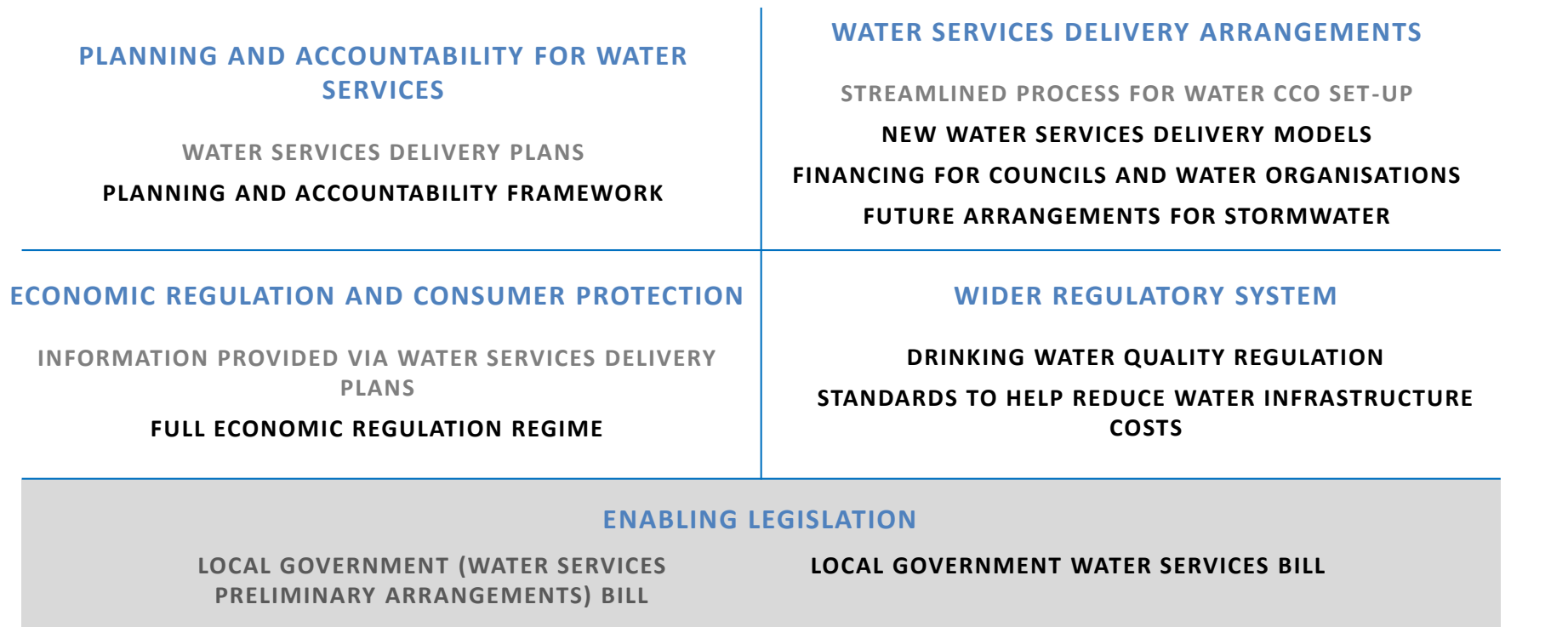
- Staff need direction on any further information that Council needs to support direction-setting decisions 12 September

Local Water Done Well update

Michael Lovett, Deputy Chief Executive, Local Government branch






Presentation to Hamilton City Council Elected Members
27 August 2024

A new approach to water services delivery



Water Services Delivery Plans provide foundation for Local Water Done Well

- The Local Government (Water Services Preliminary Arrangements) Bill sets out the content requirements, timeframe, and process for developing and accepting Plans.
- Plans will cover information across three key areas: financial and asset information, investment required and service delivery arrangements.
- Majority of the information required for Plans is expected to come from councils' existing public documents (e.g. long-term plans, financial accounts and asset management plans).
- Plans will be a way for councils to reflect on their current approach to water services delivery and whether it will be 'fit for purpose' into the future.
- Support for councils (once the Bill is enacted) will include 'how to' guidance for developing Plans, Plan template, and formal and informal information sessions.

	One-off, transitional documents
	Cover drinking water, wastewater and stormwater
	Have no regulatory function
	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

Streamlined consultation requirements

- Councils will be required to consult on the anticipated or proposed service delivery model in a plan, using the alternative streamlined provisions in Part 3 of the Bill.
- Councils can use their discretion to determine whether they should consult on other components of their plans, however, if they wish to consult the other components, they are required to use the streamlined consultation arrangements in Part 3.
- The streamlined requirements enable councils to consult on their preferred model only compared to the status quo. Councils will not have to consult on all practicable options for service delivery models.
- Consultation must be completed before plans are submitted.

Councils can choose from a range of water services delivery models

1	Internal business unit or division	<ul style="list-style-type: none"> • Status quo for many councils • Minimum requirements for water service providers will apply • New financial sustainability, 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 rules will apply, but retains a financial link to the council • Councils with existing water council-controlled organisations will be required to meet minimum requirements
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 • Option to access Local Government Funding Agency finance with the provision of parent support or to create a more financially independent organisation
4	Mixed council/consumer trust owned	<ul style="list-style-type: none"> • Consumer trust established to own majority of shares • Mixed ownership, with one or more councils owning minority of shares • Structure enables financially independent organisation to be established while retaining minority 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 of the available models

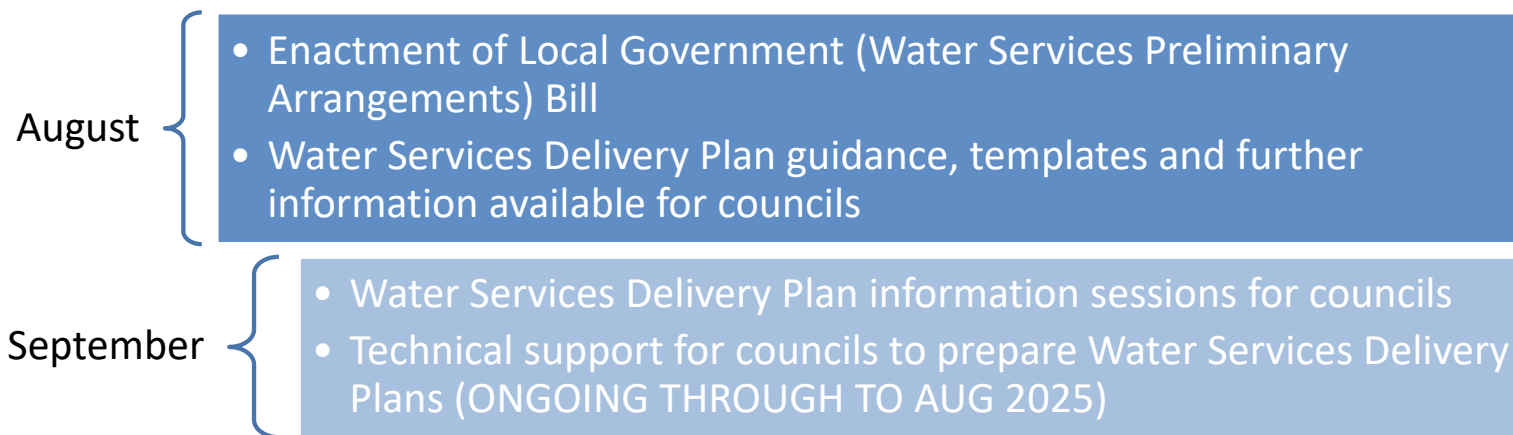
Financing options available

- The New Zealand Local Government Funding Agency (LGFA) Limited has 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.
- LGFA will support leverage for water CCOs up to a level equivalent to 500 percent of operating revenues (around twice that of existing councils), subject to water CCOs meeting prudent credit criteria.
- LGFA will treat borrowing by water CCOs as separate from borrowing by their supporting parent council or councils.
- 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.
- LGFA is also reviewing whether it can prudently provide additional flexibility to councils to meet the future challenges faced by the sector.



Te Tari Taiwhenua
Internal Affairs

Next steps



Further information

dia.govt.nz/Water-Services-Policy-Future-Delivery-System

Questions?

waterservices@dia.govt.nz



Questions



Te Tari Taiwhenua
Internal Affairs