



TE KAUNIHERA O TE AWA KAIRANGI

21 October 2024

Order Paper for Council meeting to be held in the
Council Chambers, 2nd Floor, 30 Laings Road, Lower Hutt,
on:

Tuesday 29 October 2024 commencing at 2.30pm

The meeting will be livestreamed on Council's You Tube page.

Membership

Mayor C Barry (Chair)

Deputy Mayor T Lewis

Cr G Barratt

Cr K Brown

Cr S Edwards

Cr K Morgan

Cr N Shaw

Cr G Tupou

Cr J Briggs

Cr B Dyer

Cr A Mitchell

Cr C Parkin

Cr T Stallinger

For the dates and times of Council Meetings please visit www.huttcity.govt.nz

Have your say

You can speak under public comment to items on the agenda to the Mayor and Councillors at this meeting. Please let us know by noon the working day before the meeting. You can do this by emailing DemocraticServicesTeam@huttcity.govt.nz or calling the Democratic Services Team on 04 570 6666 | 0800 HUTT CITY

TE KAUNIHERA O TE AWA KAIRANGI | COUNCIL

Chair	Mayor Campbell Barry
Deputy Chair	Deputy Mayor Tui Lewis
Membership:	All Councillors (11) Refer to Council's Standing Orders (SO 31.10 Provisions for Mana Whenua)
Meeting Cycle:	Council meets on an eight-weekly basis (extraordinary meetings can be called following a resolution of Council, or on the requisition of the Chair or one-third of the total membership of Council)
Quorum:	Half of the members

POWER TO (BEING A POWER THAT IS NOT CAPABLE OF BEING DELEGATED)¹:

- Make a rate.
- Make bylaws.
- Borrow money other than in accordance with the Long Term Plan (LTP).
- Purchase or dispose of assets other than those in accordance with the LTP.
- Purchase or dispose of Council land and property other than in accordance with the LTP.
- Adopt the LTP, Annual Plan and Annual Report.
- Adopt policies required to be adopted and consulted on under the Local Government Act 2002 in association with the LTP or developed for the purpose of the Local Governance Statement.
- Appoint the Chief Executive.
- Exercise any powers and duties conferred or imposed on the local authority by the Local Government Act 1974, the Public Works Act 1981, or the Resource Management Act 1991, that are unable to be delegated.
- Undertake all other actions which are by law not capable of being delegated.
- The power to adopt a Remuneration and Employment Policy for Council employees.

DECIDE ON:

Policy and Bylaw issues:

- Adoption of all policies required by legislation.
- Adoption of strategies, and policies with a city-wide or strategic focus.
- Approval of draft bylaws before the consultation.
- Adoption of new or amended bylaws.

District Plan:

- Approval to call for submissions on any Proposed District Plan, Plan Changes and Variations.

¹ Work required before the making of any of these decisions may be delegated.

- Before public notification, approval of recommendations of District Plan Hearings Subcommittees on any Proposed Plan, Plan Changes (including private Plan Changes) and Variations.
- The withdrawal of Plan Changes in accordance with clause 8D, Part 1, Schedule 1 of the Resource Management Act 1991.
- Approval, to make operative, District Plan and Plan Changes (in accordance with clause 17, Part 1, Schedule 1 of the Resource Management Act 1991).
- Acceptance, adoption, or rejection of private Plan Changes.

Representation, electoral and governance matters:

- The method of voting for the triennial elections.
- Representation reviews.
- Council's Code of Conduct for elected members.
- Hearing of and making decisions on breaches of Council's Code of Conduct for elected members.
- Elected members' remuneration.
- The outcome of any extraordinary vacancies on Council.
- Any other matters for which a local authority decision is required under the Local Electoral Act 2001.
- Appointment and discharge of members of committees when not appointed by the Mayor.
- Adoption of Terms of Reference for Council Committees, Subcommittees and Working Groups, and oversight of those delegations.
- Council's delegations to officers, community boards and community funding panels.

Delegations and employment of the Chief Executive:

Appointment of the Chief Executive of Hutt City Council.

Meetings and committees:

- Standing Orders for Council and its committees.
- Council's annual meeting schedule.

Long Term and Annual Plans:

- The adoption of the LTP and Annual Plans.
- Determination of rating levels and policies required as part of the LTP.
- Adoption of Consultation Documents proposed and final LTPs and proposed and final Annual Plans.

Council Controlled Organisations:

- The establishment and disposal of any Council Controlled Organisation or Council Controlled Trading Organisation.
- Approval of annual Statements of Intent and annual Statement of Expectation for Council Controlled Organisations and Council Controlled Trading Organisations.

Community Engagement and Advocacy:

- Receive reports from the Council's Advisory Groups.
- Regular reporting from strategic partners.

Operational Matters:

- Civil Defence Emergency Management matters requiring Council's input.
- Road closing and road stopping matters.
- Approval of overseas travel for elected members.
- All other matters for which final authority is not delegated.

Appoint:

- The non-elected members of the Standing Committees, including extraordinary vacancies of non- elected representatives.
- The Directors of Council Controlled Organisations and Council Controlled Trading Organisations.
- Council's nominee on any Trust.
- Council representatives on any outside organisations (where applicable and time permits, recommendations for the appointment may be sought from the appropriate Standing Committee and/or outside organisations).
- Council's Electoral Officer, Principal Rural Fire Officer and any other appointments required by statute.
- The recipients of the annual Civic Honours awards.

TE KAUNIHERA O TE AWA KAIRANGI | HUTT CITY COUNCIL

Ordinary meeting to be held in the Council Chambers, 2nd Floor, 30 Laings Road,
Lower Hutt on
Tuesday 29 October 2024 commencing at 2.30pm.

ORDER PAPER

PUBLIC BUSINESS

1. OPENING FORMALITIES - KARAKIA TIMATANGA

Whakataka te hau ki te uru	<i>Cease the winds from the west</i>
Whakataka te hau ki te	<i>Cease the winds from the south</i>
tonga	<i>Let the breeze blow over the land</i>
Kia mākinakina ki uta	<i>Let the breeze blow over the ocean</i>
Kia mātaratara ki tai	<i>Let the red-tipped dawn come with</i>
E hī ake ana te atakura	<i>a sharpened air.</i>
He tio, he huka, he hau hū	<i>A touch of frost, a promise of a</i>
Tihei mauri ora.	<i>glorious day.</i>

2. APOLOGIES

No apologies have been received.

3. PUBLIC COMMENT

Generally up to 30 minutes is set aside for public comment (three minutes per speaker on items appearing on the agenda). Speakers may be asked questions on the matters they raise.

4. CONFLICT OF INTEREST DECLARATIONS

Members are reminded of the need to be vigilant to stand aside from decision making when a conflict arises between their role as a member and any private or other external interest they might have.

5. WATER SERVICES DELIVERY PLAN AND DELIVERY MODEL

Report No. HCC2024/5/307 by the Strategic Advisor 8

MAYOR'S RECOMMENDATION:

"That the recommendations contained in the report be endorsed."

6. DRAFT MEETING SCHEDULE FOR 2025

Report No. HCC2024/4/276 by the Senior Democracy Advisor 179

MAYOR'S RECOMMENDATION:

"That the recommendations contained in the report be endorsed."

7. **RECOMMENDATION TO COUNCIL FROM THE POLICY, FINANCE AND STRATEGY COMMITTEE MEETING HELD ON 14 OCTOBER 2024**

"That Council adopts the following recommendations made in relation to the New Zealand Local Government Funding Agency Annual General Meeting agreed at the Policy, Finance and Strategy Committee meeting held on 14 October 2024."

RECOMMENDED: (Cr Mitchell/Cr Morgan) **Minute No. PFSC 24502**

"That the Committee recommends that Council:

- (1) notes that the next Local Government Funding Agency (LGFA) Annual General Meeting (AGM) is scheduled for 19 November 2024;*
- (2) agrees that the Group Chief Financial Officer attend the AGM and vote on behalf of Hutt City Council, in line with the decisions that follow;*
- (3) agrees to vote to support the appointment of the following as directors of the LGFA Board:

Craig Stobo, Elena Trout, Alan Adcock; as detailed in Section B of Report No. PFSC2024/5/286 ;*
- (4) agrees to vote to support Auckland and Wellington City Councils being reappointed as Nominating Local Authority members, as detailed in Section C of Report No. PFSC2024/5/286;*
- (5) agrees to vote to support the proposed remuneration increases for Directors, as detailed in Section D of Report No. PFSC2024/5/286; and*
- (6) agrees to vote to support the proposed changes to the LGFA Foundation Policies, as detailed in Section E of Report No. PFSC2024/5/286."*

8. **RECOMMENDATION TO COUNCIL FROM THE POLICY, FINANCE AND STRATEGY COMMITTEE MEETING HELD ON 29 OCTOBER 2024**

"That Council adopts the recommendations made in relation to the Hutt City Council Group Annual Report 2023-2024 agreed at the Policy, Finance and Strategy Committee meeting held on 29 October 2024."

9. **QUESTIONS**

With reference to section 32 of Standing Orders, before putting a question a member shall endeavour to obtain the information. Questions shall be concise and in writing and handed to the Chair prior to the commencement of the meeting.

10. EXCLUSION OF THE PUBLIC

MAYOR'S RECOMMENDATION:

"That the public be excluded from the following parts of the proceedings of this meeting, namely:

11. RICOH SPORTS CENTRE PROCUREMENT PROCESS

The general subject of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter, and the specific grounds under section 48(1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution are as follows:

(A) General subject of the matter to be considered.	(B) Reason for passing this resolution in relation to each matter.	(C) Ground under section 48(1) for the passing of this resolution.
Ricoh Sports Centre Procurement Process.	The withholding of the information is necessary to enable the local authority to carry out, without prejudice or disadvantage, commercial activities (s7(2)(h)). The withholding of the information is necessary to enable the local authority to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations) (s7(2)(i)).	That the public conduct of the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding exist.

This resolution is made in reliance on section 48(1) of the Local Government Official Information and Meetings Act 1987 and the particular interest or interests protected by section 6 or 7 of that Act which would be prejudiced by the holding of the whole or the relevant part of the proceedings of the meeting in public are as specified in Column (B) above."

Kate Glanville
SENIOR DEMOCRACY ADVISOR

08 October 2024

Report no: HCC2024/5/307

Water Services Delivery Plan and Delivery Model

Purpose of Report

1. This report considers advice on a regional approach to a joint Water Services Delivery Plan (WSDP) and delivery model following the recent legislative changes to future water delivery and compares it to the current Wellington Water Limited (WWL) delivery model.
2. Council needs to progress this matter now so that there is sufficient time for the development of the WSDP and an accompanying implementation plan which is required to be submitted to the Minister of Local Government by 3 September 2025.

Recommendations

That Council:

- (1) notes the legislative changes enacted under the Government's plan, Local Water Done Well through the Local Government (Water Services Preliminary Arrangements) Act 2024, to address long standing water infrastructure challenges which includes:
 - (a) the requirement for Councils to produce a Water Services Delivery Plan and accompanying implementation plan by 3 September 2025;
 - (b) consideration of a fit for purpose future delivery model;
 - (c) ensuring water services are financially sustainable; and
 - (d) greater central government oversight through economic and quality regulation;
- (2) notes that the Government intends to introduce further water services legislation in December 2024 to be enacted in mid 2025 that will establish the enduring settings for the new water services system;
- (3) notes that all Councils within the Wellington region plus Horowhenua District Council have worked collaboratively on exploring a joint approach to water management across the region;
- (4) receives the report, dated 4 October 2024, on a recommended regional approach to a joint Water Services Delivery Plan (WSDP) and delivery model attached as Appendix 1 to the report;

- (5) notes the report sets out a proposed regional asset owning Water Services Council Controlled Organisation model (WSCCO) for participating Councils to consider and compare with their current service delivery model;
- (6) notes that the proposed joint regional model will be considered by each of the participating Councils in late October and November 2024, with some expected to consider other options, such that the new model may not include all ten participating Councils;
- (7) notes that Council is required by the Local Government (Water Services Preliminary Arrangements) Act 2024 to consider and consult on at least two options for the future delivery model for water services, being the current model versus a new model;
- (8) agrees that Council consult on two options, being;
 - (a) a new regional asset owning WSCCO as proposed; and
 - (b) the status quo, with changes to meet new legislative requirements, of a non-asset owning CCO as currently exists with Wellington Water Limited;
- (9) adopts in principle as its preferred option for consultation the proposed WSCCO model requiring a joint WSDP;
- (10) agrees in principle that Hutt City Council work with other Councils in the region on a joint consultation plan for undertaking the requisite public engagement on the future proposed model for the ownership and delivery of water services; and
- (11) notes that Council has already agreed to fund in this financial year its share of the ongoing work required to progress the proposed regional model and joint WSDP at an estimated cost of \$500,000, offset by savings within the operating budget for three waters.

For the reason(s) that Council is required by new legislation to consider options for the future delivery of water services with the development of a Water Services Delivery Plan and consideration of a preferred delivery model.

Background

3. The Government is part way through the process of introducing legislation to address New Zealand's long-standing water infrastructure challenges, with its Local Water Done Well policy implementation. This includes a requirement that councils must prepare and submit to the Secretary of Local Government a Water Services Delivery Plan (WSDP), which includes an adopted service delivery model.
4. The Local Government (Water Services Preliminary Arrangements) Act 2004 came into effect in early September 2024 with further detailed legislation expected before the house later this year to be enacted by mid-2025. The legislation will set minimum requirements for service delivery models that include;
 - new economic, environmental and water quality regulations

- a new planning and accountability framework
 - financial sustainability objectives
 - new statutory objectives consistent for all water providers
 - restrictions against privatisation.
5. Councils within the Wellington Region and Horowhenua face some challenges in preparing a WSDP and meeting all the requirements and investment needed to improve water services, including drinking water, wastewater, stormwater, infrastructure, and storage. Water services in the Wellington Region are suffering long-standing and serious challenges.
 6. A regional approach has been explored, with the nine territorial authorities within the Wellington regional area, and Horowhenua District Council, signing a Memorandum of Understanding in May 2024 to work together on a joint WSDP process. This included the Greater Wellington Regional Council.
 7. An Advisory Oversight Group (AOG) was established with elected member representatives and Iwi/Māori partners. This was supported by a Chief Executives' steering group, project team, joint budget and an agreed development process. The councils and Iwi/Māori partners made a commitment to work together through a collaborative and non-binding process, which did not transfer any formal decision-making responsibilities or delegations from any council.
 8. The AOG has helped to test options and provide direction on a set of key requirements for a possible regional WSDP. It identified an agreed goal to: ensure the delivery of safe, reliable, environmentally and financially sustainable water services so the region can be resilient, restore te mana o te wai, and enable new homes and the well-being of communities.
 9. Attached to this report as Appendix 1 is the report on a recommended regional approach for a joint WSDP and Water Services Council Controlled Organisation (WSCCO) delivery model. It outlines key considerations to support Council decision-making on whether to develop a joint WSDP with other councils in the region or consider another model.
 10. The Government has identified five different service delivery models that Councils might consider. These are:
 - An internal business unit or division
 - Single council-owned water organisation
 - Multi council-owned water organisation
 - Mixed Council/consumer trust owned
 - Consumer trust owned.

11. The consumer trust and mixed council/consumer trust models have not been pursued by any of the Councils in the Wellington Region. Regionally they are not models that have some similar public utility local experience to draw a good understanding of their workings and confidence in their success. Such models would not be able to access LGFA funding, which is a significant advantage of the WSCCO model.

Options

12. In this report two main options are presented for consideration:
- the current Wellington Water Limited (WWL) model, being a non-asset owning CCO which manages water assets on behalf of shareholder Councils; or
 - the proposed new regional asset owning Water Services Council Controlled Organisation (WSCCO) model.
13. Both models will be subject to the financial, economic and regulatory requirements of the new water legislation.
14. The main advantages and disadvantages of each option are presented in the following table.

Model	Advantages	Disadvantages
WWL type model	<ul style="list-style-type: none"> • established model familiar to councils and communities • some economies of scale and integration across metro councils • existing relationships and processes in place • existing depth and range of in-house expertise who have good knowledge of the water networks 	<ul style="list-style-type: none"> • fragmented accountabilities between WWL and councils • constrained and uneven funding across shareholding Councils • limited investment in critical core IT systems • challenges in optimising investment across whole network • dependent on Council decision making processes to determine investment funding levels • borrowing limits for each Council have restricted headroom and are unable to fully fund investment needed for ageing networks, with significant range of risks. • Councils have restricted financing limits through LGFA of debt to revenue ratio of 280%, • Organisational capacity and capability limited due to funding constraints from Councils. • substantial price increases likely required over time

New Regional WSCCO	<ul style="list-style-type: none"> • clarity with a single point of accountability for service delivery • enabling a more efficient management of the networks • structure of water CCO will enable access to higher LGFA financing capacity to address investment in ageing networks, with equivalent of debt to revenue ratio limit of 500% which is significantly higher than Council limit of 280%. • empowered to operate independently and prioritise investment • scale to enable efficiency and in-house capability development • long term planning and investment would not be subject to short term political cycles. 	<ul style="list-style-type: none"> • significant change and transition required • loss of direct Council control over water assets and services • potential for less local influence and responsiveness • complex implementation across multiple councils • substantial price increases likely required over time
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15. The scale of the proposed regional WSCCO is dependent on individual participating Councils deciding to remain within the grouping as it enters the next phase of the planning process, including consultation and development of the joint WSDP.
16. Most participating Councils are expected to make their decisions on options in late October 2024. The Horowhenua and Kapiti Coast District Councils' decisions will be made in late November. At this point some Councils may decide to withdraw from the ten Council regional proposal.
17. Councils in the Wairarapa are considering other options including a joint WSCCO with Tararua District Council. Similarly, Kapiti Coast and Horowhenua District Councils are considering other options including a joint proposal with Palmerston North City Council.
18. A stand-alone option for Hutt City Council is not being considered on the basis that a larger scale water entity will better provide efficiency and enable an organisation with a critical mass to attract and retain experienced and highly qualified staff to manage a more regulated environment. As a minimum, given the joint nature of wastewater service in the Hutt Valley, a WSCCO covering the Hutt Valley (Hutt and Upper Hutt City Councils) would be preferred than a stand-alone arrangement.
19. High level economic modelling of the stand-alone option was undertaken using like for like assumptions to compare with the regional WSCCO, the likely ongoing cost to consumers. This work showed that the cost of providing water services in the longer term could be approximately 30% higher for consumers under a stand-alone model over the regional model.

Discussion

20. The new legal framework under the Governments Local Water Done Well policy will make it harder for Councils to deliver water services via the traditional in-house model. Hutt City Council has a 20 -year history of collaborating with neighbouring local authorities in delivering water services, commencing with the establishment of Capacity Infrastructure Services Limited in 2004, a CCO jointly owned by Hutt and Wellington City Councils. Capacity later evolved into Wellington Water Limited in 2014 and today has 6 shareholding Councils.
21. Based on the premise that a joined-up approach will be more efficient and provide the scale to attract and retain a breadth of quality in-house capability, the models considered in this report are confined to the two types of joint WSCCO, being asset owning or non-asset owning, with assets managed on behalf of its owners.
22. The current model is limited in that the full range of efficiencies cannot be realised with fragmented accountabilities between the owners and the CCO. WWL for instance has six owners and a Board to which it is required to report and manage a range of differing requirements (e.g. coordinating information for LTPs). Furthermore, WWL is reliant on shareholder Councils for all investment decisions, which have not always been well aligned (e.g. universal water metering for the region) nor long term focused. The short-term nature of the electoral cycle is likely to have contributed to this.
23. The current model would not enable an increase in loan funding of much needed capital investment to renew ageing assets, noting that borrowing limits are under pressure with little existing headroom capacity. The government and Local Government Funding Agency (LGFA) recently announced that the LGFA CCO lending framework will be extended to new water organisations that are financially supported by their parent councils. This framework will enable borrowings up to equivalent of 500% debt to revenue ratio, subject to prudent credit criteria. This is significantly higher than the Council limit which will remain at 280% limit (Refer Appendix 4 for further details). This is a key difference between the two models, which is likely to directly benefit consumers as it will enable long term financing of infrastructure and to spread these costs over the life of the assets.
24. Without an ability to loan fund both the three waters assets backlog and forthcoming renewals, the financial sustainability of this model would be difficult to achieve without increasing rates or user charges substantially.
25. For these reasons officers would recommend that a joint asset owning WSCCO be considered as its preferred option, for the purposes of undertaking community engagement, noting that the number of Councils willing to be part of a new regional CCO is yet to be determined.
26. Once this is known further work will be undertaken as part of the WSDP to better understand the economic and financial modelling for the proposed WSCCO.

27. The main disadvantage of a joint asset owning WSCCO is that Council would lose direct input into investment decision-making and would need to rely on other mechanisms to influence service levels and capital investment in renewals and growth. For instance priorities to enable growth will need to be managed through the Statement of Expectations and the Water Services Strategy.

Climate Change Impact and Considerations

28. Under either option Council will be able to influence climate change objectives through input into the Statement of Expectations.

Consultation

29. Council is required to consult on its proposed water services delivery model. Further work needs to be done to compare the financial and economic implications of the two options for consultation. This can only be finalised once the size and scale of the proposed regional WSCCO is known.
30. Further work will be undertaken to better ensure alignment of information for participating councils for consultation purposes and the level of coordination that might be able to be achieved, noting that each Council may have different options that it wishes to put forward for consideration.

Legal Considerations

31. Section 61 of the Local Government (Water Services Preliminary Arrangements) Act 2024 requires Councils to identify at least two options in considering its service delivery model for inclusion in its WSDP.
32. Council may identify additional options for consideration but is not required to do so. Officers propose that Council confine itself to considering the two options outlined in this report.
33. Council must assess the advantages and disadvantages of all options identified in its decision making.
34. Before confirming its decision, Council must consult on its preferred service delivery model (s62 of the Act). To meet this requirement consultation is proposed to occur in early 2025, once it is known which Councils have included the regional WSCCO as a preferred option and further work can be done on the economic and financial modelling of that grouping of councils.

Financial Considerations

35. The work that has been done to date on the economic and financial modelling, including a price path and debt transfer was not intended to be at a level of detail required for a draft WSDP. The information has been developed at a strategic level for the purpose of assisting Councils in their initial decision on the regional joint WSCCO option. As such it is directional in nature with some caveats to it. (These are set out in the disclaimer at the front of the joint regional WSDP report in Appendix 1.) Future detailed work will be done on the financing and price path as part of the next stage in developing the WSDP.

36. In general terms, the analysis that has been undertaken, using the same assumptions and parameters, indicates that the long-term cost to the consumer is likely to be lower as the size and scale of the joint WSCCO increases.
37. A go-alone option indicates that the long-term cost to consumers could be about 30% higher than the proposed regional model.
38. This analysis is in line with the work that was carried out by DIA under the former government water reform policy, which was informed by international experience. It is also supported by advice from Crown Infrastructure Partners.
39. The transfer of water debt and revenues to an asset owning WSCCO will improve Council's financial position. The details of this were reported to the LTP/AP Subcommittee in August 2024.
40. Further detailed analysis will be required to be undertaken once preliminary decisions have been made by Councils so that a more detailed comparison of the financial and economic considerations of the two options can be made.
41. Council has previously agreed to re-allocate \$500k from within its water budget as its share of costs for the work required to continue to develop a joint regional WSDP over the next eight months.

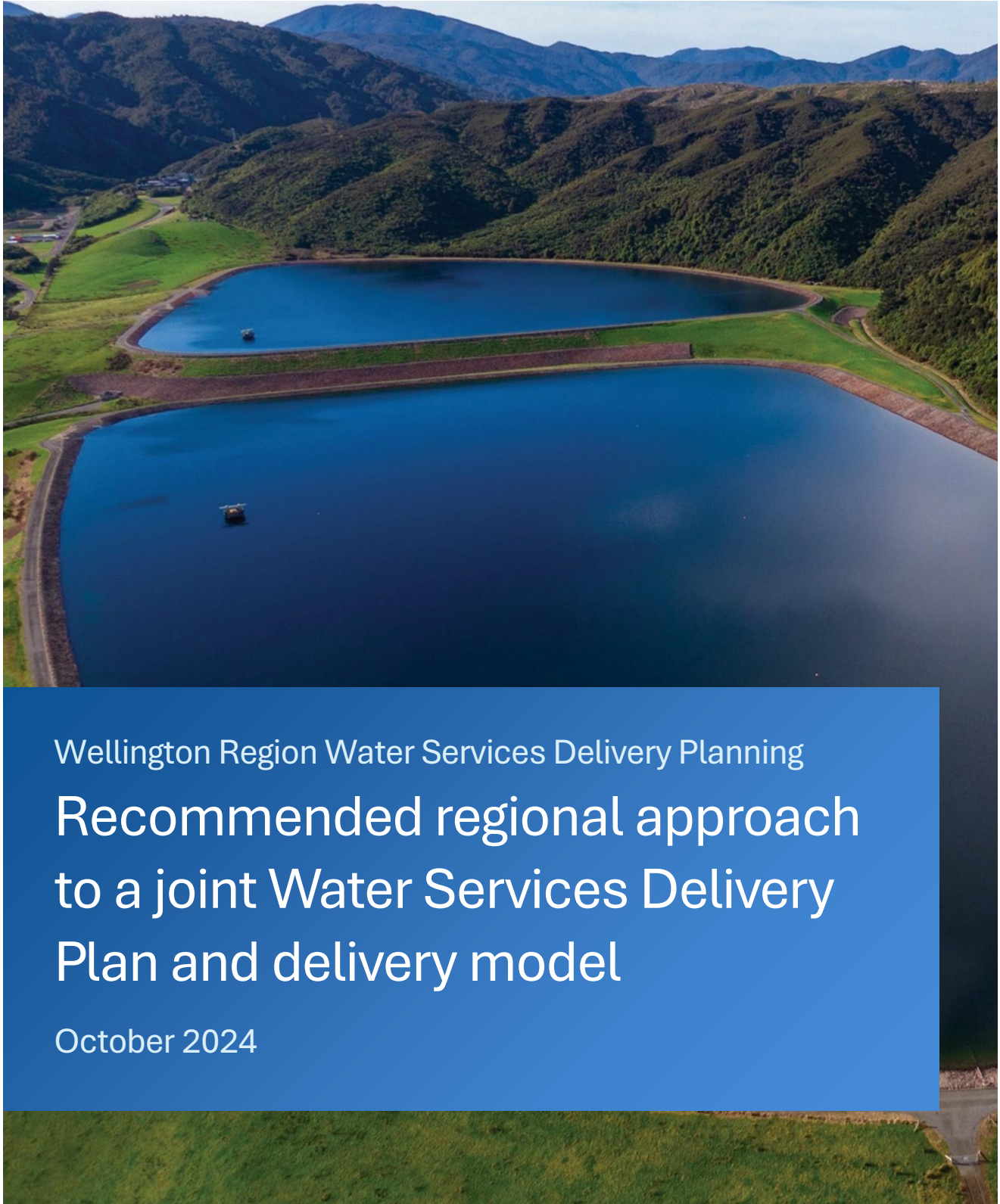
Appendices

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Group Chief Financial Officer

Approved By: Jo Miller
Chief Executive



Wellington Region Water Services Delivery Planning

Recommended regional approach to a joint Water Services Delivery Plan and delivery model

October 2024



LIMITATIONS AND DISCLAIMER:**Purpose of the report**

This report aims to provide information to support decision making by councils on whether to develop a joint Water Services Delivery Plan (WSDP), and joint delivery model with other councils in the region.

The report does not represent the position of any of the councils involved in this process. Rather, it outlines a recommended 'best for region', concept-level delivery model for a regional Water Services Council Controlled Organisation (WSCCO) to deliver water services in the region, should councils decide to adopt this approach. It follows the requirements of Government policy and legislation and provides a robust strategic-level analysis of the case for change and investment required. This report is not intended to fulfil the statutory requirements for a WSDP nor be a basis for investment decisions. A full WSDP along with further development and decisions on the proposed delivery model will need to be developed by councils later, based on the confirmed approach and in line with the requirements of legislation. Councils will need to separately consider and evaluate alternative options in relation to the recommended model to inform decision making.

Limitations of information and analysis

The analysis set out in this report in relation to the current state of the water services network has been based on best available information and is intended as a strategic and directional-level analysis to inform decision making on an approach to a WSDP, rather than the level required to complete a WSDP or to inform investment decisions. Where possible, the sources and limitations have been noted. As new or more robust information becomes available, this will be used to further inform and refine the analysis. Key assumptions, sources of information and levels of confidence are set out in Appendix C. This includes how information has been verified where possible, including through discussions with council officers and Wellington Water (WWL) staff to ensure accuracy and correct interpretation. There are a number of documents referenced in this report, (such as the draft Entity G Asset Management Plan) that were developed by the Department of Internal Affairs (DIA) but never finalised. These have been relied upon in the absence of other information in order to significantly reduce the time and costs of this process. As noted, reasonable efforts have been made to cross-check such information with other sources.

It should be noted that:

- Forecasts almost always turn out incorrect, especially over a 30-year horizon.
- There is great difficulty in estimating investment requirements over the next 30 years, given poor information on asset condition, lack of detailed engineering assessment of what is required to address water quality to match the proposed water quality standards, and uncertain growth investment.
- Choices need to be made over a myriad of modelling approaches, inputs, and assumptions that reasonable minds may disagree with over some decades.
- There is a range of decisions yet to be made and legislation to be enacted to give effect to reform of water services.
- All modelled network economics figures should assume to have a +/-20% accuracy, such as in relation to revenue, investment and debt over the 30-year period, which is considered a sufficient level of accuracy for strategic decision-making purposes at this stage. Some of these, such as the available asset condition metrics, are known to be weak.
- However, based on the analysis of information and cross-checking, there is a relatively high level of confidence that the analysis is directionally correct and sufficiently robust to support the strategic level of analysis in this report and the decision making that it is intended to support.
- As noted, the detail will be subject to ongoing refinement and change as more accurate, specific information is identified and councils complete the required detail in a WSDP.
- This analysis and report structure is aligned with the requirements of the Local Government (Water Services Preliminary Arrangements) Act 2024 in relation to the content of a WSDP as outlined in Appendix A.

Prepared by:	Scott Consulting Ltd
Prepared for:	Councils in the Wellington Region and Horowhenua District
Date:	4 October 2024
Status:	Final report for release

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Abbreviations

AOG	Advisory Oversight Group
AMP	Asset Management Plan
Bill 3	Local Government Water Services Bill (expected to be introduced in December 2024)
CCO	council-controlled organisation
COC	council-owned company
DIA	Department of Internal Affairs
EoS	end of service life
FDS	The Wairarapa-Wellington-Horowhenua Future Development Strategy 2024–2054
FFO	funds from operations
FTE	full time equivalent
FY	financial year
GDP	gross domestic product
GWRC	Greater Wellington Regional Council
HBA	2023 Wellington Regional Housing and Business Capacity Assessment
LGA	Local Government Act 2002
LGFA	New Zealand Local Government Funding Agency
LGOIMA	Local Government Official Information and Meetings Act 1987
LOS	level of service
LTP	Long-term Plan
MoU	Memorandum of Understanding
NPS-FM	National Policy Statement for Freshwater Management
pa	per annum
Preliminary Arrangements Act	The Local Government (Water Services Preliminary Arrangements) Act 2024
WICS	The Water Industry Commission for Scotland
WSCCO	water services council-controlled organisation
WSDP	water services delivery plan
WSS	water services strategy
WWC	Wellington Water Committee
WWL	Wellington Water Limited

Foreword

Everyone in the Wellington Region relies on our water services. These are critical to enable the health, well-being and economy of our towns and cities. However, it is also very easy to take water for granted, until something goes wrong.

All of us in the region have directly experienced some of the issues we face with our water services – whether that is an old water pipe bursting on a Wellington street, water shortages meaning you can't water your garden over summer or the impacts of stormwater or sewage on swimming spots.

Our drinking water, wastewater and stormwater services need fixing. We know it will be expensive and will take an ongoing effort. We want to ensure safe, reliable and sustainable water services so the Wellington Region can be more resilient, restore Te Mana o te Wai, enable new homes to be built, and safeguard the well-being of our communities.

The overall state of our water services network is simply not good enough. Water supply services are often unreliable, with old pipes resulting in about half of the water supply for the metropolitan area being lost through leaks.

We know our region has a significant backlog of investment in three waters infrastructure. To address this, enable new housing growth and maintain the network, we estimate for the greater Wellington area, about \$15-\$17 billion needs to be invested in water infrastructure over the next 20-25 years.

If delayed, we risk significant network failure, further deterioration and increased costs for more 'fixes'. We won't be able to build the 99,000 new homes that are needed across the region for a growing population. Our major wastewater treatment plants will continue to fall short of environmental standards and our drinking water supplies may be compromised. And we push this issue on to future generations.

There is no easy fix. The Government is putting in place legislation which will change how we manage water and is changing funding limits so councils can address the issues we face. Councils must make some bold and brave decisions with the backing of our communities. We need to be confident that we are making the best choices to address the critical challenges, that are deliverable and financially sustainable.

There is a need to increase revenue and effective use of borrowing to ensure cost increases are more affordable for households. This will be a significant challenge and will need to be carefully managed working with the water sector to find ways to do this work more efficiently.

While different parts of the region may have different priorities, all of us face issues with water services. This is everyone's problem, and it makes sense for us all to work together to turn the tide.

Taking a broader regional view will give councils confidence to make some hard decisions in the best interests of our region as a whole. This document aims to support this process. Many options have been worked through to find a better pathway forward. I urge both council officers and elected members to carefully consider the recommendations here.

I would like to extend my thanks to members of the Advisory Oversight Group and everyone involved in this report, which has been shaped by many people's expertise and hard work. It is an example of how well we can work together.

"Nāu te rourou, nāku te rourou, ka ora ai te iwi – With your food basket and my food basket, the people will thrive."



Dame Kerry Prendergast
Chair of the Advisory Oversight Group

Executive Summary

Troubled waters

Water services in much of New Zealand, including the Wellington Region, are suffering long-standing and serious challenges, mainly due to a lack of sufficient investment over a long period.

Transformational reform is needed with significant and sustained investment over coming decades to fix the network, which is at risk of critical failure in places. Urgent attention is also needed to enable new housing growth, provide safe drinking water, improve environmental water quality and enhance resilience.

The Government is introducing legislation to address New Zealand's water services, with a requirement that all local councils and Greater Wellington Regional Council (GWRC) must prepare a Water Services Delivery Plan (WSDP) by September 2025. This may include establishing a new organisation to deliver water services.

Councils within the Wellington Region face some stark decisions and challenges in preparing a WSDP and meeting all the requirements and investment needed to improve water services, including drinking water, wastewater, stormwater, infrastructure and storage.

The purpose and limitations of this report

Under the Local Government (Water Services Preliminary Arrangements) Act 2024 (the Preliminary Arrangements Act), councils need to confirm their approach to a WSDP – whether they want to develop a joint WSDP with other councils and the extent of any joint arrangements; for example, for all or only some water services.

This report aims to provide information to support decision making by councils on whether to develop a joint WSDP, and joint delivery model with other councils in the region.

The report does not represent the position of any of the councils involved in this process but rather outlines a recommended 'best for region', concept-level delivery model for a regional Water Services Council Controlled Organisation (WSCCO) to deliver water services in the region, should councils decide to adopt this approach.

In the course of the decision-making process on the WSDP, councils must assess both their existing service delivery model and the option of establishing, joining or amending a WSCCO or a joint local government arrangement. If they choose, they may also consider other options for delivery of water services. The assessment of (at least two) alternatives needs to be credible with sufficient information to ensure decision-makers can reach a properly informed view.

This report does not deal with the assessment of the status quo delivery model in each district, or potential options for delivering water services other than the recommended model, as these are matters for each council to consider.

The report follows the requirements of Government policy and legislation and provides a robust strategic-level analysis of the case for change and investment required. This report is not intended to fulfil the statutory requirements for a WSDP nor be a basis for investment decisions. A full WSDP will need to be developed by councils later along with further development and decisions on the proposed delivery model, based on the confirmed approach and the requirements of Bill 3 (Local Government Water Services Bill).

A regional approach

The nine councils within the Wellington regional area, and Horowhenua District Council, signed a Memorandum of Understanding (MoU) in May 2024 to work together on a joint WSDP process. This included GWRC on the basis of its role as bulk water provider to the Wellington metropolitan area.

An Advisory Oversight Group (AOG) was established with elected member representatives and Iwi/Māori partners. This is supported by a Chief Executives' steering group, project team, joint budget and an agreed development process. The councils and Iwi/Māori partners made a commitment to work together through a collaborative and non-binding process, which does not transfer any formal decision-making responsibilities or delegations from any council. Each council within the Wellington Region still needs to make their own decisions on a WSDP and a preferred model for delivering water services in future.

The AOG has helped to test options and provide direction on a set of key requirements for a possible regional WSDP. They identified an agreed goal to: *ensure the delivery of safe, reliable, environmentally and financially sustainable water services so the region can be resilient, restore Te Mana o te Wai, and enable new homes and the well-being of communities.*

Current state of the network and case for change

Every day, millions of litres of safe drinking water are delivered to homes across the region and millions of litres of wastewater are safely treated and discharged. This relies on the hard work and dedication of more than 1,000 local people, who work directly on three waters networks for councils, Wellington Water Limited (WWL) and a range of partners, contractors and suppliers. Their day-to-day mahi and commitment to water services on behalf of the people in the region should be recognised and celebrated.

However, the Wellington Region also faces significant failure and deterioration in water infrastructure, with a risk of network fault runaway¹ in parts of the network. There are significant constraints to growth and new housing in many areas, with the need to meet regulatory standards and compliance requirements for water, and to build better seismic, network, and climate resilience. Challenges with current delivery models include lack of scale, workforce skills and capacity, and funding.

While not all councils have the same issues, all councils in the region have major challenges to address. About 45% of all drinking water in the metropolitan area of Wellington is lost to leaks. While the quality of asset condition information is very poor, across the region an average of about 21% of the total three water pipe infrastructure has been assessed as worn out. Wastewater is generally in the worst condition with about 33% of the pipes worn out. Many wastewater treatment plants are failing to meet compliance requirements and need large-scale replacement or investment, with immediate risks of structural failure of some wastewater pipes. The costs for repairing and strengthening regional water services will be substantial. To address the backlog of investment needed in three waters infrastructure, to enable growth and maintain the network, it is estimated about \$15-\$17 billion of investment in the water network will be required over the next 20-25 years.

While councils are planning significant investment to manage these risks, combined Long-term Plan (LTP) investment over the next ten years is about \$4.82 billion (real), which is approximately \$470 million (or about 10%) less than the estimated investment required based on the recommended investment strategy in this report over the next 10 years and about 30-40% less than what will be required, on average over the next 20-25 years.

¹ Network fault runaway occurs when the operational capacity to fix faults is exceeded by the fault rate. The consequences of this include extended periods of water outages, sewage spills, and localised flooding.

The evidence in this report confirms the need for change. The status quo cannot continue and, under the requirements for developing a WSDP, councils will need to make some difficult choices about how to fund and deliver the urgent work needed on the three waters network and demonstrate financial sustainability by 30 June 2028.

Options and recommendations for a regional delivery model

The process has included working through a range of options and considerations to inform ‘best for region’ options for a joint WSDP and a concept-level design for a future delivery model. The councils have taken a collaborative approach, facilitated by a joint regional team, based on a series of workshops with the officers, council Chief Executives and the AOG to consider options and alternatives, provide feedback and direction.

This process has included:

- confirming what success looks like through identification of the key requirements for councils and a shared goal,
- consideration of the state of the network, level of investment required and case for change,
- consideration of how financially sustainable delivery of water services will be achieved by 30 June 2028,
- testing a range of possible structures and models for a joint WSCCO, including in-house delivery models; Council Controlled Organisation (CCO); a consumer trust; and a private sector option (which was not supported due to opposition to the privatisation of water), and
- development of governance and oversight arrangements, including design principles and assumptions for a new entity, including the relationship between the proposed WSCCO, councils and other key players.

While the model will need to be fully designed and confirmed in subsequent phases of work in line with Bill 3, **the recommended delivery model is for a joint council-owned company, (that is, a full-breadth water utility vested with ownership of all regional water assets, revenues and liabilities)**. This would have a similar structure to a CCO under the Local Government Act 2002 (LGA) but with reduced council oversight, enabling the company to have greater control and certainty over investment plans and clarity of accountability.

The entity would be within the new class of financially independent water CCOs, which according to Government policy announcements on 8 August 2024, will be provided for in Bill 3 to be introduced into Parliament in December 2024.

The new WSCCO model will operate in a much more regulated environment, providing a strong focus on assurance, quality, delivery and value for money. The primary relationship of a WSCCO will be with its customers, not its shareholders (or owners). Council direction and oversight would therefore be less than under traditional CCO models. The new entity needs the independence and accountability to deliver. A skills-based Board with a clear set of competencies is at the heart of the recommended governance model.

Councils are keen to ensure that any future regional WSCCO will provide a high level of local service delivery, including good compliance, response times and supply. The new WSCCO would provide all services directly to water customers and bill them for water usage and services provided.

Financial sustainability

A WSDP will need to demonstrate how financially sustainable delivery of water services will be achieved by 30 June 2028. This requires confirmation of:

- ‘investment sufficiency’ – projected investment is sufficient to meet levels of service, regulatory requirements and provide for growth,
- ‘revenue sufficiency’ – sufficient revenue to cover the costs (including servicing debt) of water services delivery, and
- ‘financial sufficiency’ – funding and financing arrangements are sufficient to meet investment requirements.

This document does not provide this level of detail but does provide a strategic level of analysis of these matters to ensure councils to have sufficient understanding of the level of investment required and a potential pathway to financial sustainability including opportunities to use new financing arrangements to help manage cost increases.

The new entity would be able to raise significant long-term debt. The Government recently confirmed that the New Zealand Local Government Funding Agency (LGFA) will:

- provide financing and increased levels of borrowing to support WSCCOs,
- treat borrowing by water organisations as separate from borrowing by parent council or councils, and
- lend to multiple-owned water organisations, that are financially supported by the parent councils. It is important to note that financially supported means either a guarantee or uncalled capital will be required from councils to match the liabilities of the water CCO.

After consideration of a range of investment scenarios, the recommended investment strategy to ensure financial sustainability is based on increased debt and pricing to enable an investment programme that will ‘**keep up**’ with network maintenance, ‘**catch up**’ on the backlog of worn-out infrastructure, ‘**build up**’ network capacity to enable growth and ‘**clean up**’ wastewater and stormwater to improve discharge standards by upgrading assets as they are replaced at end-of-life.

To ensure that this strategy is affordable, careful use of long-term financing will be required to smooth and balance cost increases over time. This is expected to result in a more affordable rate of increased costs to water consumers than would otherwise be possible under current local government funding arrangements.

It is estimated that it will take about 20-25 years to replace worn-out parts of the network and ensure substantial environmental compliance. It is also possible to extend the time for this catch-up period, which may result in lower costs but is likely to result in increased risk of network failure and consequential failure and repair costs.

The actual investment and therefore financial strategy and price path will be informed by development of the WSDP and then implemented by a WSCCO. This will be done in the context of a new economic regulator that will have a strong focus on quality and price based on the actual cost to provide sustainable networks and services.

A range of scenarios has been modelled to provide an indication of average potential price increases across the region and do not reflect the actual cost to serve a particular local area, existing prices or an agreed price transition. Under all scenarios modelled, prices will need to increase to address the backlog of investment needed. Price rises will need to be managed through the use of financing tools and effective and efficient targeting of the works required. Based on the scenarios modelled:

- Price rises could be up to 9% per annum on average across the region to address the backlog of investment in the network. This rate of price increase will need to be managed through financing arrangements and/or the level of investment undertaken.

- The average price per connection across the region in 2024 is \$1,711². The amount that this increases could be up to twice current prices or a peak of about \$3,000 to \$4,000. However, it may be possible to reduce this peak price through financing arrangements and a sustainable price is estimated at about \$2,596 when the catch-up phase is completed in about 20 years' time. This sustainable price is about 51% above the level of current charges, meaning that this level of increase could be gradually managed over time.

To manage affordable changes in prices, key assumptions include:

- Economic regulation will include a core principle that water prices must be based on the cost to provide services to the relevant group of customers.
- The WSCCO will need to work with the economic regulator to develop and agree a pricing and revenue strategy that will balance price and quality.
- The WSCCO will use LGFA financing arrangements and additional debt headroom to manage rate of cost increases.
- People across our region currently pay different amounts for water services depending on where they live and whether water use is metered. These existing price differentials will be locked in for a three-year transitional period to help ensure that consumers do not receive a major price shock.

Evaluation of the recommended model and benefits

All councils will need to assess both the WSCCO model and the status quo, and if they choose, other service delivery options during their decision-making process.

This report does not deal with those assessments, but rather evaluates a recommended regional option in relation to the key requirements and other key factors, including the Government's minimum requirements, cost to implement, risks, level of benefits and political acceptability. For each factor, the relevant benefits, risks, challenges and key assumptions have been identified.

This evaluation will help councils to undertake a comparative analysis in relation to the status quo and any other identified options.

Some of the identified benefits of the recommended model include:

- ongoing public ownership through shareholding councils,
- replacement of about 44% of the network over the next 20 years,
- new homes and growth,
- better resilience,
- scale to enable efficiency and continuous improvement,
- focus on affordability through more effective use of funding and financing arrangements than are currently available to local councils,
- better compliance and network performance through more investment,
- customer focus and local delivery,
- clarity of accountability, and
- long-term approach to planning and investment.

² Based on 2024 costs.

Implementation considerations

Legislation requires councils to have a WSDP by September 2025. Therefore, decisions on subsequent phases of work to consider a joint WSDP and WSCCO are expected to be made on an in-principle basis by late 2024 to enable this work to be progressed.

Work from late 2024 will need to focus on development and delivery of the WSDP. Councils will need to undertake communications, engagement and formal consultation (on at least the part of the WSDP that outlines the proposed service delivery model) during this time, as well as implementation planning. This will involve some significant decision making in relation to the development and adoption of a WSDP that meets councils' legislative obligations, as well as establishing any joint arrangements for the delivery of water services, with early establishment resources, accountabilities and funding.

The draft regional WSDP will need to be aligned with the legislative requirements and will include asset condition information and a related AMP; funding, financing and revenue requirements; the proposed model for delivering water services, including meeting compliance requirements; and an implementation plan, including timeframes and milestones.

Implementation planning will consider the potential establishment of a large full-service, multi-council-owned WSCCO, which would be entrusted with the stewardship of critical regional assets with a replacement value of about \$19 billion. This will also have a significant impact on councils including future role, operating model, financial arrangements and scale.

Details regarding the structure, accountabilities, decision-making rights and resourcing will need to be finalised. Decisions will need to be made on a high-level operating model and organisational design, a service delivery model, change process and strategy, as well as information systems, legal, procurement, costs, budget and funding. The strategy, processes and principles will also need to be established for debt and asset transfer, pricing, contract transfer, people transition, customer experience and billing. This report gives an indicative timeline and costs, with key transition principles that will need to be followed.

Next steps

The recommended regional model is well aligned with the key requirements set by councils, legislation and recent Government policy announcements.

To meet the legislated deadline, councils need to maintain momentum by:

- considering the recommended regional model and deciding whether to develop a joint WSDP with other councils,
- assessing status quo, an alternative model (may or may not be recommended regional model) and, if they choose, additional reasonably practicable alternatives,
- making in-principle decisions on the proposed model by late 2024 in order for this to be further developed,
- consulting on draft WSDP (at least on proposed delivery model) from late 2024 and into 2025,
- considering the implications for council, including the need to amend the LTP,
- adopting the WSDP (and any LTP amendment), and
- planning for implementation of WSDP in 2025 (especially if the new model is adopted).

Table 1: Summary of recommended regional model

Aspect	Key features
Councils and ownership	<ul style="list-style-type: none"> Public ownership through council-owned organisation. Ownership rights in constitution/shareholder agreement. Full-breadth water utility with ownership of all regional water assets, revenues and liabilities.
Governance	<ul style="list-style-type: none"> Empowered to operate independently with ability to prioritise investments. Shareholders' panel appoints an independent, skills-based Board (not representative-based Board). Key skills: commercial, asset management, network utilities, Treaty of Waitangi, customer, local government, and local knowledge.
Iwi/Māori	<ul style="list-style-type: none"> Treaty of Waitangi obligations are honoured. Governance role confirmed through constitution. Range of enduring relationships and Memorandum of Understanding.
Customer	<ul style="list-style-type: none"> Key relationship is with customers including service and billing. Customer interests supported by economic regulator. Local service delivery model backed by capability and scale to deliver efficiency.
Strategy	<ul style="list-style-type: none"> Shareholders agree Statement of Expectations. WSSCO prepares Statement of Intent, Annual Plan and Water Services Strategy (WSS).
Accountability and regulation	<ul style="list-style-type: none"> Statutory objectives per Bill 3. Annual reporting and public meetings. Oversight from regulators – Taumata Arowai, Commerce Commission, Regional Council(s). Single point of accountability for service delivery. Financially sustainable and compliant with regulation.
Borrowing	<ul style="list-style-type: none"> Borrowing initially from LGFA based on debt covenants. Focus on affordability through effective use of funding and financing arrangements. Certainty to plan, fund and invest optimally with confidence that it has committed access to long-term funding at a reasonable cost.

Purpose of this report

Section summary

The Government is in the process of introducing legislation to address New Zealand's long-standing water infrastructure challenges. This includes a requirement under the Preliminary Arrangements Act that councils must prepare and submit to the Secretary of Local Government a WSDP by September 2025.

This report aims to provide information to support decision making by councils on whether to develop a joint WSDP and joint delivery model with other councils in the region.

It follows the requirements of Government policy and legislation and provides a robust strategic-level analysis of the case for change and investment required. The report does not represent the position of any of the councils involved in this process but rather outlines a recommended 'best for region', concept-level delivery model for a regional WSCCO to deliver water services in the region, should councils decide to adopt this approach.

This report is not intended to fulfil the statutory requirements for a WSDP nor be a basis for investment decisions. A full WSDP will need to be developed by councils later, based on the confirmed approach.

This report outlines a recommended delivery model for a regional WSCCO to deliver water services in the region, should councils decide to adopt this approach.

It is not intended to support other subsequent decisions by councils which may be necessary, such as whether to adopt a WSDP. Such decisions will be supported by further analysis and advice.

1. Purpose of this report

This report was commissioned by the nine councils in the Wellington Region and Horowhenua District Council to respond to the direction of the Government's Local Water Done Well³ policy. This collective approach is discussed in more detail in the Regional Approach section of this report.

Local Water Done Well signalled an expectation that councils would prepare a WSDP within 12 months of legislation providing for the WSDP being enacted and that councils would consider collective approaches to the delivery of financially sustainable water services.

The purpose of this report is to provide information to support decision making by councils on whether to develop a joint WSDP, and joint delivery model with other councils in the region. Councils will need to separately consider and evaluate at least the status quo and may also consider other alternative options in relation to the recommended model to inform decision making.

³ <https://www.dia.govt.nz/Water-Services-Policy-and-Legislation>.

This report provides a regional analysis of:

- **Current state of the network and case for change.** This looks at why change is needed and the scale of the problem. This includes analysis of the level of investment required to fix the poor condition of much of the network, maintain the network, enable new housing, and ensure compliance with drinking water and environmental regulation.
- **Options and recommendations for a regional delivery model.** This includes a range of considerations for different types of models, governance and delivery. This section sets out a recommended concept model for a new WSCCO and looks at the importance of quality local service.
- **Financial sustainability of water services.** This outlines an investment strategy and potential financing arrangements to demonstrate how financially sustainable delivery of water services can be achieved by 30 June 2028 including investment, revenue and financing sufficiency.
- **Evaluation of the recommended regional delivery model.** This considers how well the recommended model meets key requirements as well as an assessment of key benefits, challenges and risks.
- **Implementation considerations.** This includes indicative time and costs, engagement and consultation with the community and looks at ‘where to now’.

Limitations and disclaimer

Please refer to the limitations noted on page 2 of this report. In particular, it is noted that this report provides a strategic-level analysis of the case for change, a concept-level design for a recommended delivery model for a regional WSCCO, which councils will be empowered to establish under the Local Government Water Services Bill (Bill 3), and an investment strategy to inform how financially sustainable delivery of water services can be achieved by 30 June 2028 including investment, revenue and financing sufficiency.

This report is **not** intended to fulfil the requirements of a WSDP nor provide the basis for investment decisions or future pricing. Development of a full WSDP will need to be completed by councils during late 2024 and 2025 based on the confirmed approach.

2. Legislative requirements

Local Water Done Well is the Government’s plan to address New Zealand’s long-standing water infrastructure challenges.

It recognises the importance of local decision making and flexibility for communities and councils to determine how their water services will be delivered in the future.

It will do this while ensuring a strong emphasis on meeting economic, environmental and water quality regulatory requirements. Key components of Local Water Done Well include:

- Fit-for-purpose service delivery models and financing tools.
- Ensuring water services are financially sustainable.
- Introducing greater central government oversight, economic and quality regulation⁴.

Local Water Done Well is being implemented in three stages, each with its own piece of legislation.

Bill 1: Water Services Acts Repeal Act 2024. This repealed the previous Government’s water reforms legislation.

⁴ <https://www.dia.govt.nz/Water-Services-Policy-and-Legislation>.

Bill 2: The Local Government (Water Services Preliminary Arrangements) Act 2024 establishes the Local Water Done Well framework and the preliminary arrangements for the new water services system. This was enacted on 2 September 2024.

The Preliminary Arrangements Act lays the foundation for a new approach to water services management and financially sustainable delivery models that meet regulatory standards.

Key areas included in the Preliminary Arrangements Act are:

1. Requirements for councils to develop WSDPs by 3 September 2025.
2. Requirements that WSDPs outline future water services delivery arrangements, and for councils to commit to an implementation plan.
3. Requirements for councils to include in their WSDPs baseline information about their water services operations, assets, revenue, expenditure, pricing, and projected capital expenditure, as well as necessary financing arrangements, as a first step towards future economic regulation.
4. Streamlined consultation and decision-making processes for setting up future water services delivery arrangements.
5. Provisions that enable a new, financially sustainable model for Watercare, including the appointment of a Crown monitor for the interim regulation of Watercare.
6. Interim changes to the Water Services Act, which mean the Te Mana o te Wai hierarchy of obligations in the National Policy Statement for Freshwater Management (NPS-FM) will not apply when Taumata Arowai sets wastewater standards.

Bill 3: In August 2024 the Government outlined key Local Water Done Well policy decisions, including those that will be reflected in the proposed Local Government Water Services Bill (Bill 3).

The Government will introduce Bill 3 in December 2024 that will establish the enduring settings for the new water services system. This will set out a range of changes to the water services delivery system and to the water services regulatory system. This includes:

- New water services delivery models for councils to choose from, including new water organisations that can be owned by councils and/or consumer trusts,
- Minimum requirements for local government water services providers,
- A new economic regulation regime for local government water services providers, to be implemented by the Commerce Commission,
- Changes to improve the efficiency and effectiveness of the drinking water regulatory regime, and the approach Taumata Arowai takes to regulating the regime,
- Changes in the approach to applying Te Mana o te Wai, affecting drinking water suppliers as well as wastewater and stormwater networks,
- A new approach to managing urban stormwater, including changes to improve the management of overland flow paths and watercourses in urban areas, and
- Changes relating to wastewater environmental performance standards and national engineering design standards.

The announcements in August 2024 included confirmation of financial arrangements that the LGFA will provide financing to support water council-controlled organisations⁵ (CCOs and trusts). LGFA will extend its existing lending to new water organisations that are CCOs and are

⁵ 'Water services provider' is defined as meaning all forms of local government provider and including councils that continue with direct (in-house) delivery as well as new water organisations. The term 'water organisation' refers only to separate organisations that councils may establish to provide water services and does not include councils with direct (in-house) delivery.

financially supported by their parent council or councils. It is important to note that financially supported means either a guarantee or uncalled capital will be required from councils to match the liabilities of the water CCO.

LGFA will support leverage for water CCOs based on an assessment of operating revenues, 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. These same lending arrangements would not apply to in-house delivery models.

3. Council decisions

Under the provisions of the Preliminary Arrangements Act, councils need to make a series of decisions. Some of these will be decisions required under the LGA, or the Preliminary Arrangements Act, while others will be non-statutory.

These non-statutory decisions may be tactical decisions to inform the project scope and approach, or strategic decisions (for example, to develop a joint WSDP) that are precursors to formal statutory decisions.

Key decisions councils may need to make include:

1. **Confirming the approach to a WSDP:** Whether to develop a joint WSDP with other councils and the extent of joint arrangements, for example, for all or some water services. (Sections 10 and 11 of the Preliminary Arrangements Act)
2. **Consultation:**
 - a. Whether to consult on the draft WSDP beyond the proposed model for service delivery (which must be consulted on), and when and how to consult.
 - b. The timing and approach to decision making, e.g., in relation to CCO establishment and governance, (should council plan to establish a new delivery model).
3. **Implementation:**
 - a. Whether to adopt a WSDP (Section 17 of the Preliminary Arrangements Act).
 - b. Whether to establish a new service delivery model.

This report aims to support decision number 1 above, *Confirming the approach to a WSDP*. Ongoing analysis and development of a WSDP will be required to support decisions 2 and 3 and to ensure councils have confidence that they are able to give effect to the WSDP. To enable this, a three-phase programme has been established, with indicative decision points (and potential exit gates) for councils at the end of Phases 1 and 2. See more detail in Section 37 of this report: *Next phases of work*.

Regional approach

Section summary

Local government is under considerable pressure to address current water service issues as well as the complex and evolving challenges ahead. The nine councils within the Wellington regional area and Horowhenua District signed a Memorandum of Understanding in May 2024 to work together on a joint WSDP process.

A joint elected-member governance group (the Advisory Oversight Group) was established alongside Iwi/Māori partners, a Chief Executives' steering group, project team, joint budget and an agreed development process. Our councils and Iwi/Māori partners have made a commitment to work together through a collaborative and non-binding process.

The process does not transfer any formal decision-making responsibilities or delegations from any council. Decisions on the WSDP, preferred models or commitments to future change remain with each council. There are points in the process where councils will need to reconfirm their commitment to remaining part of the collective. Any council may choose to leave the collective at any point.

The Advisory Oversight Group (AOG) has helped to progressively test and provide direction on a set of key requirements for a regional WSDP. It also identified an agreed goal to: ***ensure the delivery of safe, reliable, environmentally and financially sustainable water services so the region can be resilient, restore Te Mana o te Wai and enable new homes and the well-being of communities.***

As well as considering at least the status quo as an alternative to a WSCCO, councils will need to undertake a process of engagement and formal consultation on at least part of the WSDP from late 2024 and into 2025, in line with legislation.

4. Wellington Region and the Horowhenua District

The councils working together in the Wellington Region and Horowhenua District include GWRC and nine territorial authorities:

- Horowhenua District Council
- Kāpiti District Council
- Porirua City Council
- Wellington City Council
- Hutt City Council
- Upper Hutt City Council
- South Wairarapa District Council
- Carterton District Council
- Masterton District Council.

Represented by the four Iwi/Māori representatives on the AOG (see Table 3 below), the Iwi/Māori partners in this regional area include:

- Rangitane o Wairarapa
- Ngāti Kahungunu ki Wairarapa Tamaki Nui-a-Rua Treaty Settlement Trust
- Ngāti Kahungunu ki Wairarapa – Rūnanga
- Ngāti Kahungunu ki Wairarapa Tāmaki-Nui-a-Rua – PSGE
- Rangitāne Tu Mai Rā Trust – PSGE
- Rangitāne o Wairarapa Inc – Rūnanga
- Te Atiawa ki Whakarongotai
- Ngā Hapū o Ōtaki
- Ngāti Toa Rangatira/Te Rūnanga o Toa Rangatira
- Muaūpoko Tribal Authority
- Te Iwi o Ngāti Tukorehe Trust
- Te Tumatakahuki (rōpū of Raukawa hapū representatives within the Horowhenua)
- Te Runanga o Raukawa.

Figure 1: The nine territorial authorities and Greater Wellington Regional Council



Table 2: Wellington Region population inclusive of Horowhenua⁶

Regional population 2024:	~588,000
Regional population projection 2054:	Up to about 775,000 ⁷
Number of households 2024:	~224,000
Number of households 2054:	~323,000
Percentage of households served by connected water networks:	~89-90%
GDP per capita:	Wellington Region data was reported at \$NZ86,805 GDP in 2023 ⁸
Land area:	813,500 hectares ⁹

The region actively works together through a range of forums, planning processes, partnerships and projects to plan, coordinate and invest in the well-being of our communities. This includes:

- housing and growth,
- economic development,
- delivery of social and health services,
- transport,
- emergency management and resilience,
- climate change response,
- waste minimisation and management, and
- delivery of water services.

5. Challenges and change for local government

There are challenges to working collectively as a region, in part due to the disjointed nature of local government boundaries and different interests and pressures each council must manage. This has been the subject of several reviews and processes to consider council amalgamation at both a regional and provincial level.

Local government is under considerable pressure to address current issues as well as the complex and evolving challenges ahead, including those driven by a range of legislative changes. Proposed legislative change in relation to water services has the potential to fundamentally shift the scale, role and relationship between councils and communities in relation to water services. A significant contributing factor to these challenges is the funding model for local government.

“The financing of local government is a major barrier, local government needs a much-improved system of funding. In addition to an inefficient financing system, the pressures of inflation, increasing cost of living, skills shortages and climate change add to the challenge of funding for growth and delivering community aspirations.” – Upper Hutt City Council¹⁰

⁶ <https://wrlc.org.nz/reports/housing-data> estimated 2024 population including Horowhenua.

⁷ <https://wrlc.org.nz/reports/housing-data>.

⁸ New Zealand GDP per Capita: Wellington | Economic Indicators | CEIC (ceicdata.com). Does not include Horowhenua.

⁹ Greater Wellington — Your Region | Tō Rohe (gw.govt.nz). Does not include Horowhenua.

¹⁰ Review into the Future for Local Government, He piki tūranga, he piki kotuku, pg 54. June 2023.

6. A regional approach to water services delivery planning

In anticipation of legislative requirements for councils to develop a WSDP, the councils in the Wellington Region and Horowhenua District earlier this year agreed to work together to consider a joint approach towards development of a WSDP. This was formalised in May 2024 when the ten councils signed an MoU to work together on a joint regional WSDP process.

The process was deliberately started as early as possible in recognition of the tight timeframe and complexity involved in developing a joint WSDP within the 12-month period signalled under the Local Water Done Well policy and is now required under the Preliminary Arrangements Act.

The councils made a commitment to work together through a collaborative and non-binding process. To provide direction and oversight, the ten councils set up the AOG, made up of an elected member from each council and four Iwi/Māori representatives¹¹. This process is supported by a Chief Executives' steering group, a joint project team, a joint budget and an agreed project approach.

The approach has included running a series of workshops with the officers, Chief Executives and the AOG to consider options and alternatives, providing feedback and direction to guide the development of this process and this report. The key deliverable from this joint process is intended to eventually be a joint WSDP, including implementation plan for a future delivery model. The AOG is chaired by Dame Kerry Prendergast and members are listed in Table 3 below.

Table 3: Membership of the Advisory Oversight Group

Council/Organisation	Representative
Chair	Dame Kerry Prendergast
Greater Wellington Regional Council	Cr Ros Connolly
Upper Hutt City Council	Mayor Wayne Guppy
Hutt City Council	Mayor Campbell Barry
Porirua City Council	Mayor Anita Baker
Wellington City Council	Mayor Tory Whanau
South Wairarapa District Council	Cr Colin Olds
Carterton District Council	Mayor Ron Mark
Masterton District Council	Cr David Holmes
Kāpiti Coast District Council	Mayor Janet Holborow
Horowhenua District Council	Mayor Bernie Wanden
Iwi/Māori representative Porirua/Kāpiti	Helmut Modlik, Tumu Whakarae – CEO, Te Rūnanga o Ngāti Toa
Iwi/Māori representative Te Awa Kairangi/Poneke	Kara Puketapu-Dentice – Chief Executive of Taranaki Whānui ki te Upoko o Te Ika
Iwi/Māori representative Wairarapa	Jo Hayes – Trustee of Rangitāne Tū Mai Rā Trust
Iwi/Māori representative/Horowhenua	Di Rump – Chief Executive at Muaūpoko Tribal Authority

The process does not transfer any formal decision-making responsibilities or delegations from any council. Decisions on the WSDP, preferred models or commitments to future change remain with each council. There are points in the process where councils will need to reconfirm their

¹¹ Note, the Iwi/Māori representatives were progressively confirmed and joined the AOG during this process.

commitment to remaining part of the collective. Any council may choose to leave this collective at any point.

The AOG has met on five occasions to date to consider options and alternatives, and to provide feedback and direction for guiding the process. Workshops have included:

- Workshop 1: 10 May 2024 – MoU, membership, process, key requirements for success.
- Workshop 2: 21 June 2024 – network economics, funding and financing.
- Workshop 3: 5 July 2024 – governance and structure options.
- Workshop 4: 9 August 2024 – concept model, funding and pricing pathways.
- Workshop 5: 10 September 2024 – council positions, draft report and transitional issues.

Further meetings for the AOG are planned for the remainder of 2024. Next steps in the process are set out in Section 43 of this report.

Scale of the WSDP challenge

The issues considered in relation to a WSDP for the region are significant, requiring investment planning for billions of dollars of investment in water assets and operations. Implementation planning will consider the potential establishment of a large full-service, multi-council-owned WSCCO, which would be entrusted with the stewardship of critical regional assets with a replacement value of about \$19.7 billion. This will also have a significant impact on councils including future role, operating model, financial arrangements and scale.

Development of a joint WSDP will be a challenging, complex and highly political process in the context of evolving legislation. Additional challenge will come from the need to work across multiple councils, Iwi/Māori partners, and central government, including statutory consultation with the public and input from other stakeholders.

7. What is important for our region

Under the MoU, it was agreed that any future model options need to respond to agreed objectives and consider approaches that are workable, affordable, sustainable and meet the needs of communities and the environment.

Critical success factors included that the plan and any future delivery model would:

- be supported by all participating councils and Iwi/Māori partners,
- be supported by the Government policy and enabled through legislative change,
- be based on a sustainable funding model, and
- enable councils and Government to commit to subsequent phases of detailed design, delivery and implementation.

Building on these factors, the regional WSDP process has progressively tested and confirmed a goal, and a set of key requirements based on the needs of different interest groups and organisations¹². These are summarised in Table 4 below and the detailed requirements are provided in Appendix B.

¹² It is recognised that the categorisation used here of different organisations and groups is subjective and that some requirements relate to multiple groups (for example, water is a taonga for all, not just for Iwi/Māori).

The goal identified by the AOG is to ensure the delivery of safe, reliable, environmentally and financially sustainable water services so the region can be resilient, restore Te Mana o te Wai and enable new homes and the well-being of communities.

Table 4: Requirements for regional WSDP process and WSCCO

Stakeholder	What they need
Consumers	Water services must be: <ul style="list-style-type: none"> • in public ownership. • affordable with fair, equitable and transparent pricing. • high-quality, seamless, environmentally compliant services. • customer focused. • continuously improved.
Iwi/Māori	Water services must: <ul style="list-style-type: none"> • be treated as a taonga. • have an aspirational vision to restore and protect Te Mana o te Wai. Iwi/Māori should: <ul style="list-style-type: none"> • have meaningful influence with a skills-based Board where Treaty and cultural awareness are two key skills required. Iwi/Māori are looking for: <ul style="list-style-type: none"> • a genuine commitment to local and Māori procurement. • a major and fast revival of our waterways, well-being and people.
Councils	Councils require: <ul style="list-style-type: none"> • financially sustainable water services with the debt from water services assessed separately to parent councils' business by the LGFA, subject to a guarantee from owning councils, the WSCCO meeting prudent lending criteria and having the characteristics of an investment-grade utility provider over the medium term¹³. • local influence to ensure alignment of outcomes, particularly for supporting housing growth. • single point of accountability for service delivery. • assurance that the water delivery entity has strong processes, high-quality systems and core data. • a long-term planning horizon. • economies of scale and integration. • residual council financial sustainability (see more below).
Central Government	Water services must <ul style="list-style-type: none"> • be financially independent and sustainable. • be compliant with regulation. • allow for housing growth.

¹³ Note this has been updated in line with Government policy announcements on LGFA lending and was previously: "balance sheet separation – so water services' revenue, costs, asset ownership and debt are recognised on the new water service entity's balance sheet and separated from councils' balance sheets as far as reasonably possible"

Future water entity	<p>A future water entity needs:</p> <ul style="list-style-type: none"> • to be empowered to operate independently with freedom to prioritise investments. • to have an independent professional skills-based Board and an exceptional executive leadership team. • certainty to plan, fund and invest optimally with confidence that it has committed access to long-term funding at a reasonable cost. • to be a full-breadth, integrated utility, that owns assets, bills revenue and raises own debt. • high-quality systems and staff, as the new regulatory environment requires a quantum shift in the data collection, analysis and reporting capabilities of all water delivery services.
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These critical requirements provide the basis for consideration and testing of a joint WSDP and the design of a potential water delivery model. During the process, options were tested regarding entity structure, governance, infrastructure strategy, price and debt funding.

A suite of transition requirements will also need to be met to achieve a smooth and seamless transition, including an equitable allocation of revenue and debt, as well as sound asset and contract transfer rules. These are detailed in Section 42 of this report: *Key Transition Principles*.

8. The role of Greater Wellington Regional Council

GWRC has a unique role as a regional council in New Zealand as it is responsible for collecting, treating and distributing safe and healthy drinking water to Wellington, Hutt, Upper Hutt and Porirua City Councils.

This work is carried out for GWRC by WWL. City and district councils are responsible for the distribution of water to households and businesses through their own networks¹⁴.

This unique role is recognised under legislation through the Wellington Regional Water Board Act 1972. Under this Act, GWRC which has a role in bulk water supply in the Wellington Region, does not need to prepare its own WSDP, but may be involved in developing a joint WSDP. GWRC has committed to this process but also noted that their intent is to focus on their resource management regulatory role and in time may plan to exit from asset ownership and associated accountabilities related to bulk water supply on the understanding that¹⁵:

- they will retain ownership of water catchment land at Kaitoke and Wainuiomata to support broader outcomes including biodiversity, recreation and climate change mitigation and adaption.
- any new entity has the structural and operational factors needed for success.

“We believe that the region can agree on a new model that will provide better water services for Wellingtonians. However, we will require evidence that a new model will provide for better and more sustainable asset management before considering the transfer of our assets.”¹⁶ Daran Ponter, Chair GWRC

¹⁴ GRWC LTP 2024-2034.

¹⁵ Letter from Chair of GWRC Daran Ponter to the Chair of the AOG dated 7 May 2024.

¹⁶ Letter from Chair of GWRC Daran Ponter to the Chair of the AOG dated 7 May 2024.

9. Engagement and consultation

To date, there has been no formal engagement or consultation on this report with other stakeholders or the public. The views of communities and Iwi/Māori have been represented by AOG members and council officers. This report is intended to support a process of engagement and formal consultation from late 2024 and into 2025, as councils consider service delivery options as part of the development of a WSDP in line with the requirements of legislation.

Current state of the network and case for change

Section summary

Councils in the Wellington Region face stark challenges to meet the investment needed for drinking water, wastewater and stormwater services and infrastructure. It is clear that transformational reform is required in water services for most councils, with significant and sustained investment over the coming decades to fix, maintain and improve the network - which is at risk of critical failure in some areas - as well as to enable growth, provide safe drinking water, improve environmental water quality, and enhance resilience. The issues are urgent and will also take sustained effort to address.

This section analyses the current state of the water services network based on best available information and varies from council to council. Key regional challenges include significant network failure and deterioration, risk of network fault runaway, constraints to growth and housing, more stringent regulatory standards and compliance requirements, as well as building seismic, network and climate resilience. Work is needed on wastewater, stormwater and drinking water supply to meet climate change and population growth. Some of the other system issues are lack of scale, workforce skills and capacity, and funding. There are also concerns regarding low revenue for water relative to actual costs, household affordability, risk management, and insurance.

While not all councils have the same issues, all councils in the region have major challenges to address. About 45% of all drinking water in the metropolitan area of Wellington is lost to leaks. Across the region, about 21% of the total three water pipe infrastructure has been assessed as worn out. Wastewater is in the worst condition with about 33% of the pipes worn out. Meanwhile, many wastewater treatment plants are failing to meet compliance requirements and need large-scale replacement or investment, with immediate risks of structural failure of some wastewater interceptor pipes.

A description of current levels of service and delivery models is set out in this section of the report. There are challenges with current delivery models with compliance issues and growth not being well managed.

While councils are planning significant investment to manage these risks, combined LTP investment over the next ten years is about \$4.82 billion (real), which is approximately \$470 million (or about 10%) less than the estimated investment required based on the recommended investment strategy in this report over the next 10 years and 30-40% less than what will be required, on average over the next 20-25 years.

10. An agreed need for change

Much of New Zealand has significantly underinvested in water infrastructure and water services over several decades. Councils around the country and in the Wellington Region now face stark challenges to meet the investment needed for drinking water, wastewater, and stormwater infrastructure.

This is not a new issue. The need to change how water services are funded and delivered has been the subject of several major reviews, policy processes and legislative reform. In 2000, the Parliamentary Commissioner for the Environment concluded the existing model for water services had reached the end of its design life, and this is even more the case in 2024¹⁷. Two more recent major reviews (the Havelock North Drinking Water Inquiry 2016-2017, and the Three Waters Review 2017-2019), both concluded that councils were struggling to maintain their ageing water infrastructure.

The 2020 Wellington City Council Mayoral Taskforce declared that “**tinkering is not going to cut it. Transformational reform is required.**”

While there may be disagreement on exactly how much investment is required, or how this is best resolved, there is compelling evidence¹⁸ and political alignment that there is a significant infrastructure investment deficit for three waters and change is urgently required.

Significant and sustained investment in water services and infrastructure is required over the coming decades to fix the network – which is at risk of critical failure in places – as well as to enable growth, provide safe drinking water, improve environmental water quality, and enhance resilience to potential future seismic and climate change events.

While some parts of the network are in much better condition currently (in particular in Kāpiti Coast District Council), these will require a significant increase in planned renewals to avoid the risks being faced in older parts of the network. To address these issues, an estimated \$15-\$17 billion of investment in the water network will be required over the next 20-25 years.

This level of investment is not possible for local government under current borrowing settings. In the current context, the steep increase in rates or water charges, will be unaffordable for communities. A sustained investment will also be very challenging in relation to sector capacity. There will be a need to work closely with contractors and suppliers to grow the workforce, explore new delivery models and find new and lower-cost solutions.

¹⁷ Water NZ “How councils can steer clear of troubled waters”.

¹⁸ Water Industry Commission for Scotland, 2021; Beca DIA Three Waters Reform WIS modelling review, 2021.

“The current funding and financing approach is not sustainable in the context of complex wellbeing challenges and increasing community expectations.

Numerous previous reviews of local government funding have highlighted the problems and recommended changes to the system to ensure that councils can more sustainably fund their activities (NZPC 2019). However, central government has failed to enact these recommendations and the issues are compounding.

The Panel recommends some significant changes to the local government funding and finance system that will coincide with the new system of local government. This time, change must happen. Without it, local communities and future generations will be the ones missing out.”¹⁹

- Review into the Future for Local Government, *He piki tūranga, he piki kotuku*
-

It is accepted that the region’s population ultimately needs to be able to sustain the cost of delivering high-quality water services. This issue is urgent and any delay to new solutions will push a bow wave of costs and investment forwards into the future and risk council and communities’ ability to ensure clean and safe water.

11. Summary of key regional challenges

Every day, millions of litres of safe drinking water are delivered to homes across the region and millions of litres of wastewater are safely treated and discharged. This relies on the hard work and dedication of more than 1,000 local people that work directly on three waters networks for councils, WWL and a range of partners, contractors and suppliers. Their day-to-day mahi and commitment to water services on behalf of the people in the region should be recognised and celebrated.

However, the Wellington Region has a significant backlog of investment needed in three waters infrastructure and an increasing number of faults and network failures. The worn-out state of the network poses significant risk of increasing major service failures.

Critical risks include:

Significant network failure: Investment is needed to replace an ageing and failing network, including addressing the impacts of failing asbestos pipes. Currently about 21% of the network is worn out leading to an increased risk of major failure. This includes more than 1,300 kilometres of asbestos concrete pipes²⁰. About \$4.2 billion of investment is needed to replace the worn-out parts of the network. This equates to about \$200 million per annum for the next 20–25 years.

Network deterioration: In addition to replacing the most worn-out parts of the network, to avoid further deterioration and increased costs of reactive ‘fixes’, ongoing investment of about \$250 million per annum is needed to maintain the network as an ongoing cost every year.

Risk of network fault runaway: This can occur in any network where the fault rate generated by failing assets exceeds the operational capacity to fix them. This issue is starting to be seen across the metropolitan area of Wellington in relation to water leaks. The short-term effect is that there is always a growing backlog of outstanding faults. This typically cannot be remedied

¹⁹ *He piki tūranga, he piki kotuku – The future for local government* (dia.govt.nz), 2023 page 54.

²⁰ Based on WWL information there are 1,392kms of AC pipes for all three waters (not including KCDC, CDC, MDC, or HDC).

without shutting down and renewing the part of the network affected. The longer-term effect is the diversion of resources and funding away from keeping the rest of the network operational.

Constraints to growth and housing: Funding and capacity for three waters infrastructure is a key constraint for greenfield and brownfield development and is already stopping some development occurring. An estimated additional 200,000 residents will live in the Wellington Region and Horowhenua by 2053, requiring about 99,000 new homes. While growth needs to pay for growth, challenges include current capacity constraints and financing infrastructure ahead of the recovery of costs.

New regulatory standards and compliance requirements: A new, more stringent regulatory environment for water services has been introduced which will require significant investment in plant, equipment, information systems and new, specialist skill sets to ensure clean and safe drinking water and improve environmental impacts of stormwater and wastewater. Currently three of the four major wastewater treatment plants in the metropolitan area are non-compliant and investment is required to ensure sufficient clean and safe drinking water and improve water quality. Further investment will also be required to meet economic regulations and focus on quality and price.

Seismic resilience: The entire region is highly sensitive to seismic activity and the 2016 Kaikōura earthquake clearly had a significant impact on the region's buildings and water infrastructure. The earthquake revealed weaknesses in the ageing network and significantly accelerated leaks with an urgent need to replace large areas of the failing water reticulation network. Serious seismic risk exposures remain for all water networks, particularly for the main trunk water supply network to Wellington running the length of the Hutt Valley beside State Highway 2.

Network resilience and redundancy: There are critical risks of summer water shortages in the metropolitan area and wastewater pipe failures. The network also has low levels of inherent resilience, particularly in storage, with a high risk of water shortages due to the current layout of water reservoirs and lack of network cross connections. For example, if the drinking water connections from the Hutt Valley to Porirua City fail, the city would only have two to three days of drinking water capacity. WWL estimates that in the event of a strong earthquake in the Wellington Region, some suburbs could be without water for 100 days and possibly longer²¹.

Climate change: The biggest risks driven by climate change are increasing severe weather events and coastal inundation and drainage. This risk is shared across the region but is particularly severe for the western lowlands of Horowhenua, Kāpiti, and coastal areas of Porirua City and Hutt City. Some parts of the region such as Wairarapa are expected to experience drier weather leading to less availability of drinking water. Metropolitan issues are also growing, as both parts of the lower Hutt Valley and Wellington CBD lie close to Wellington Harbour and are slowly subsiding, relative to average tides. In Hutt City, the wastewater treatment plant at Seaview faces the combined effects of sea level rise and flooding risk from the Hutt River. The iron trunk network in the Wellington CBD, which is already past End of Service Life²² (EoSL), is experiencing accelerated corrosion due to the ingress of saltwater from higher tides.

Wastewater: Significant and increasing inflow and infiltration into the network is resulting in more wet weather overflows from the network and treatment facilities in Wellington and the Hutt Valley. Compounded by increasing equipment failures, this reduces the ability to manage increasing loads. Treatment plants in Porirua and South Wairarapa are also reaching capacity and equipment failure risks are growing, limiting their ability to manage bigger flows. Treatment plants in Kāpiti will face challenges in consenting for discharges to meet growth. In some cases worn-out pipes are causing sea water to be ingested into the wastewater system and fed into

²¹ <https://www.wellingtonwater.co.nz/resources/topic/emergency-water-3/>.

²² The economic definition for 'End of Service Life' (EoSL) for an asset is when the "expected forward risk cost of asset failure exceeds the replacement cost of the asset". This means that it is more expensive to leave the asset in the network than it is to replace it. It does not necessarily mean that the asset has failed, although typically it means the asset is likely to fail.

wastewater treatment plants. This is exacerbated by the increased production of hydrogen sulfide, which is corrosive to both wastewater pipes and wastewater treatment plants.

Stormwater: More frequent and larger flooding events are expected due to climate change and urban densification. As community expectations rise, a significant increase in the need for flood mitigation initiatives is anticipated. Stormwater quality treatment and restoration of our waterbodies is also going to become increasingly important. This is already becoming evident as comprehensive consents in the Wellington Region are lodged. The stormwater system is incomplete within the Wellington Region and in some places has cross connections with the wastewater system. During high rain events, these cross connections can cause the wastewater network to overflow, spilling untreated wastewater into the environment.

Poor reliability of water supply services is challenged by worn-out pipe failures, limited storage, and limited water supply availability. This is exacerbated by nearly half of the drinking water supply being lost through leaks in the metropolitan area.

Other key water network challenges the Wellington Region needs to address include:

Lack of scale: The size and disjointed nature of councils constrain opportunities for efficiency, strategic investment and the ability to meet local challenges. It also makes it more challenging to invest in joint solutions, such as for wastewater treatment.

Workforce, skills and capacity: The capacity and capability of the water sector will need to be progressively increased to deliver on the investment needed. All councils and WWL advise that it is challenging to recruit and retain high-quality staff into the water services workforce. Reasons include lack of career paths, lack of training programmes, and better conditions in some water consulting firms. The risk is particularly acute for smaller councils that do not have the team depth to provide back-up for key skill sets or ensure cover for emergency events. New and different skills and experience will also be required to respond to economic regulation as this is phased in.

Funding and financing challenges: Councils have a diverse mix of funding challenges. Some councils are constrained in how much they can borrow, most are sensitive to affordability and face significant trade-offs with other activities or capital programs that need to be delivered. Funding for the sector is largely provided by the LGFA, at very favourable interest rates. With significant capital programmes the main constraint is in funding headroom (with flow-on challenges in serviceability). This constraint is also influenced strongly by credit ratings. It should be noted that an underpricing of water services and an overreliance on debt funding lies at the root of the funding challenge.

Low revenue for water relative to cost: Revenue from water users is significantly below what is required to fix and sustain the network, constraining both investment and borrowing. The average cost per household for three water services in the Wellington Region is about \$140/month²³ relative to about \$250/month for average power costs.

Household affordability: Monitoring affordability constraints on households is a key requirement with rising costs of living placing a strain on many households. This constraint will remain, with pressure on households only likely to grow where water revenue is funded by council rates.

²³ Note these figures are based on 2024 average rating costs for water at \$1,711/household.

Risk management and insurance: Insurance costs and the assumed reinstatement costs have escalated significantly in recent years. This is making it challenging for councils to ensure risks are adequately managed including sufficient insurance of three water assets.

Network Failure Case Study: Dixon St Adit Tunnel, Wellington City

Failures of water infrastructure can be sudden with severe impacts, as seen in the collapse of the Dixon St adit tunnel (wastewater connector) in Wellington in late 2019.

A targeted focus on improving health and safety has led to more costs and difficulties in inspecting large, buried water pipelines and tunnels. This has sometimes led to challenges in adequately understanding the condition of these extensive critical assets, says Wellington City Council Chief Infrastructure Officer Siobhan Procter.

Although earlier inspections of the central city Dixon Street adit tunnel had noted significant deterioration, the problem areas were unable to be readily accessed. Later inspections were less detailed because of the increased difficulties and costs. As a result, the tunnel discharging into the main wastewater interceptor was not identified as being at risk of failure. Without warning, the adit tunnel collapsed in the week before Christmas 2019, leading to a significant cavity in the carriageway, potentially threatening the stability of nearby structures and health and safety in the vicinity of Dixon Street and Willis Street.

Upstream pumping stations were temporarily turned off to divert wastewater away from the collapse, while immediate repair work took place. Emergency actions were also taken to minimise the overflows, which were directed to the stormwater overflow system and then into the harbour. However, approximately 6,500m³ of untreated wastewater was discharged over about 46 hours.

“Financial consequences of the unexpected failure far exceeded the cost of planned inspections of the adit with any subsequent rehabilitation or upgrade work prior to failure,” says Siobhan. Costs included those associated with the cleanup and provision of temporary solutions, investigations and monitoring, communications, delivery of the permanent solution in an urgent reactive manner, as well as third party loss of revenue and the risk of possible legal action. In addition to these financial consequences, there were significant:

- health and safety risks associated with both the untreated wastewater discharges as well as the road collapse,
- third party loss and significant disruption caused from closure, odour and construction activity,
- environmental risks and cultural offence to Iwi from discharge of untreated wastewater into the harbour, and
- council reputational damage.

“This incident showed that the huge impacts from unexpected failures dwarf those of planned works,” says Siobhan. “Out of sight should not mean out of mind.”

12. Summary of key issues by council

While not all councils have the same issues, all councils in the region have major challenges to address including debt constraints, network condition, resilience, climate change, compliance and growth. Some councils have immediate challenges; others have challenges to come over the coming decades.

A more detailed outline of the network and key challenges for each council, including network condition, is set out in the council profiles in Appendix D²⁴.

²⁴ At time of writing, no information on key challenges had been received from Carterton District Council.

Table 5: Key challenges for each council

Council	Key issues
Horowhenua District Council	<ul style="list-style-type: none"> • Ageing infrastructure such as the Levin Wastewater Treatment Plant. • Securing sustainable sources of water supply for growth, especially in Levin. • Infrastructure capacity to meet future population growth demand. • Increased severe weather events and stormwater impacts on wastewater and stormwater infrastructure. • Restoring the mauri of the water at Lake Horowhenua (Punahau) as this is a culturally significant and community asset.
Kāpiti Coast District Council	<ul style="list-style-type: none"> • Infrastructure capacity to meet future population growth demand. • Providing water supply network to unserved rural areas. • Water supply compliance to meet regulatory requirements. • Resource consents for wastewater treatment plants and proposed upgrades to meet future consent requirements. • Address flood hazards identified in 30% of urban properties. • Stormwater pipe network under capacity (50%) for one in 10-year event. • Organisational capacity and systems to meet future regulatory regime demands.
Porirua City Council	<ul style="list-style-type: none"> • Significant and growing renewals backlog in water and wastewater due to age profile of pipe materials. • The speed of population growth is ahead of current water infrastructure capacity. • High per capita water demand is outstripping supply due to water loss in the network and growth. • The condition of reservoirs makes them vulnerable to contamination. • The council is reliant on landfills accepting sludge from wastewater treatment plants which constrains ability to minimise waste. • Streams, rivers and harbours contain coliforms and other contaminants such as heavy metals and microplastics.
Wellington City Council	<ul style="list-style-type: none"> • Significant and growing renewals backlog in water and wastewater due to age profile of pipes. • Infrastructure capacity to meet future population growth demand. • High per capita water supply demand is outstripping supply due to water loss in the network and growth. • Water reservoirs conditions vulnerable to contamination. • Moa Point Wastewater Treatment Plant condition is resulting in ongoing compliance issues. • Karori Wastewater Treatment Plant outfall compliance issue. • Streams, rivers and harbours contain coliforms.
Hutt City Council	<ul style="list-style-type: none"> • Ageing water infrastructure and pipes that are failing and requiring urgent investment, i.e. 109km of water supply galvanised pipes. • Investing in finding and fixing leaks and managing water loss to avoid water shortages.

	<ul style="list-style-type: none"> • Infrastructure capacity to meet future population growth demand. • High per capita water supply demand is outstripping supply due to water loss in the network and growth. • Reservoir conditions mean they are vulnerable to contamination. • Wastewater investment is well short of what is required to renew ageing parts of the network (estimated only 10% of what is required). • Issues with compliance and ageing parts at the Seaview Wastewater Treatment Plant, i.e. sludge dryer. • Streams, rivers and harbours contain coliforms. • A significant increase in the value of water assets is expected this year resulting in significant increases in depreciation which are currently unfunded. • Market capacity issues regionally to undertake the level of renewals required.
Upper Hutt City Council	<ul style="list-style-type: none"> • Significant and growing renewals backlog in water and wastewater. • New environmental quality standards require very high investment to achieve wastewater and stormwater consent compliance. • Population growth is ahead of three waters infrastructure provision. Major investment is needed, especially in the wastewater network to enable growth to occur. • High per capita water demand is outstripping supply due to water loss in the network and growth. • As a bulk water purchaser, Council is a cost and service taker with limited influence over these aspects. • Major shared assets need upgrades, including sludge dryer at Seaview Wastewater Treatment Plant nearing end of life. • Network infiltration and inflows. • Wet weather overflows. • Contamination and overflows into waterways.
South Wairarapa District Council	<ul style="list-style-type: none"> • An ageing network results in asset failure and requires an increase in renewals. • The speed of population growth is ahead of current water infrastructure capacity. • Emissions from three waters are not reducing. • Lack of redundancy in critical systems to provide safe drinking water in accordance with the Water Services Act. • Poor condition of assets compromising water system and wastewater resiliency. • Inability to comply with resource consents. • Treatment plants lack multi-barrier protection and have significant operational and seismic resilience challenges. • Streams and rivers contain coliforms. • Flooding. • No new wastewater connections are available in Martinborough or Greytown.

Masterton District Council	<ul style="list-style-type: none"> • Meeting population growth demand. • Resource consent renewals. • Climate change impacts. • Affordability of levels of service. • Network capacity. • Compliance with new regulatory requirements.
GWRC	<ul style="list-style-type: none"> • Ageing water network that requires increased investment in renewals. • The speed of population growth is ahead of current water infrastructure capacity. • High per capita water demand for the metropolitan councils is outstripping supply due to water loss in the network and growth. • Current demand is highlighting that GWRC may not be able to meet its duty of care obligations as an asset owner under the Water Services Act in the long term. • Seismic resilience of the bulk water assets does not meet the required earthquake resiliency standard. • Work is underway, but the system is not yet reliable to meet regulatory requirements for fluoride due to lack of redundant systems and asset reliability. • Current demand is placing at risk the existing assets due to lack of headroom to allow major assets to be taken off-line. • Significant investment is required for the Pakuratahi lakes in the near future.

13. Current state of the water services network

Current condition, lifespan, and value of the water services networks

Network asset condition (such as for a power or telecommunications network) is usually assessed at quite a granular level and is considered a core requirement for mature essential network management. For water networks, most assets are underground and not easily inspected.

The Wellington Region's asset condition assessment is less mature than it should be. Accordingly, analysis is based on sample condition assessments of network pipes available from the latest AMPs. Key sources of information regarding asset condition, and the relatively low level of confidence in this information, are noted in the appendices.

Based on available information for most parts of the Wellington Region, three waters infrastructure is considered to be in a very poor condition (relative to a sustainable network) due to underinvestment over decades, as well as failure of asbestos pipes and impacts of the Kaikōura earthquake.

Asbestos Concrete Pipes

The Wellington Region has more than 1,300 kilometres of asbestos concrete pipes. Most of these were laid in the 1950s and 1960s and are now past their EoSL. They are susceptible to sudden collapse because over time, water flow has washed out most of the asbestos fibres²⁵ which make up the inside lining of the pipe and provides them with much of their strength. The residual concrete outer layer becomes porous, brittle, and liable to collapse due to vibration and earth movement in dry periods. Pipe failures are increasing rapidly and there is a high risk of wastewater pipes that remove waste for multiple streets or parts of suburbs failing.

While there is variability across the region (in particular, the asset condition of Kāpiti Coast District Council and GWRC networks are substantively better than other councils), an estimated 21% of the total three water pipe infrastructure has been assessed as worn out. This is a serious situation. Wastewater is in the worst condition with about 33% of the pipes worn out. This is a very high level for any network.

Key metrics for the three waters network are shown in the table below.

Table 6: Pipe network

	Drinking water	Wastewater	Stormwater	Total/Average
Length of pipe network²⁶	3,743km	3,445km	2,165km	9,353km
% in poor or very poor condition²⁷	17%	33%	15%	21%
Estimated average life	55 years	70 years	100 years	74 years

Meanwhile most treatment plants need large-scale replacement or investment. In the short term, there are immediate risks of structural failure of some wastewater interceptor pipes.

These worn-out assets (which are past the end of their 'End of Service Life') are generating faults such as water leaks, pipe failures, major road closures, inundation of wastewater with stormwater during rain events, untreated discharges and localised flooding. These events undermine the economic efficiency of the network by placing an additional cost burden on councils and diverting funds and maintenance resources away from productive activities including preventative maintenance and asset replacement.

The only way to address the deteriorating condition of the network assets is to aggressively replace worn-out assets with new ones until the risk of further major failures becomes manageable.

²⁵ Please note that asbestos concrete pipes do not pose a threat to human health. Refer to the background document for development of WHO Guidelines for drinking-water quality: <https://www.who.int/publications/i/item/WHO-HEP-ECH-WSH-2021.4> and information is also available on the Wellington Water website: <https://www.wellingtonwater.co.nz/help-desk/water-pipe-networks/>.

²⁶ AECOM and Tonkin and Taylor, Initial Draft Asset Management Plan, Entity G Wellington Wairarapa Draft version 2.0 December 2023 and updates from individual councils – refer Appendix E.

²⁷ AECOM and Tonkin and Taylor, Initial Draft Asset Management Plan, Entity G Wellington Wairarapa Draft version 2.0 December 2023 and updates from individual councils – refer Appendix E.

Figures 2 and 3 below show an analysis of the problem and the gap that needs to close. The condition of the wastewater network is particularly concerning, which is a key driver for investment.

Figure 2: State of the network²⁸

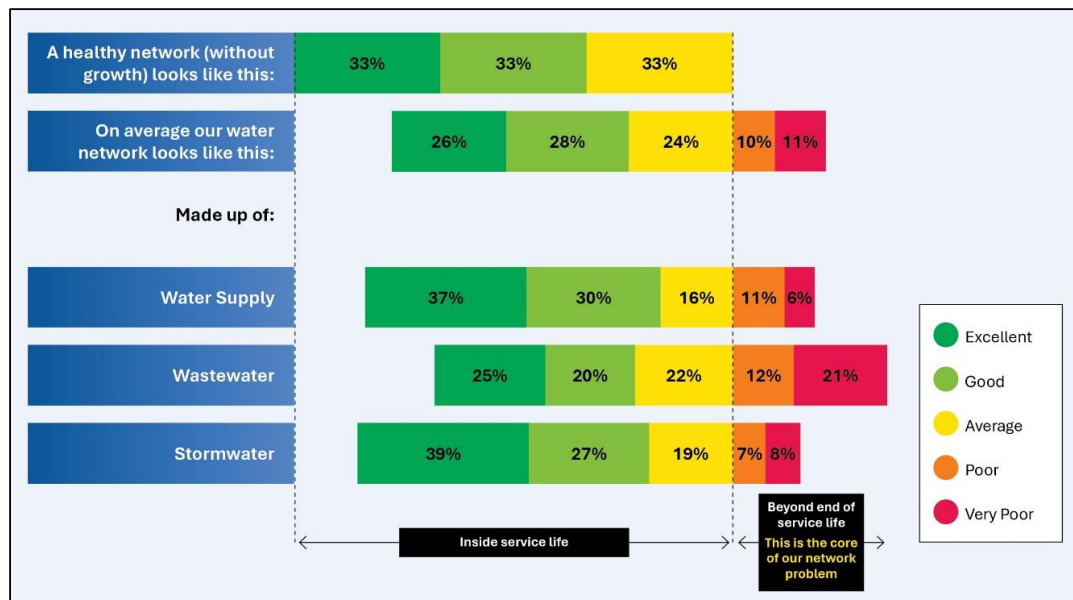
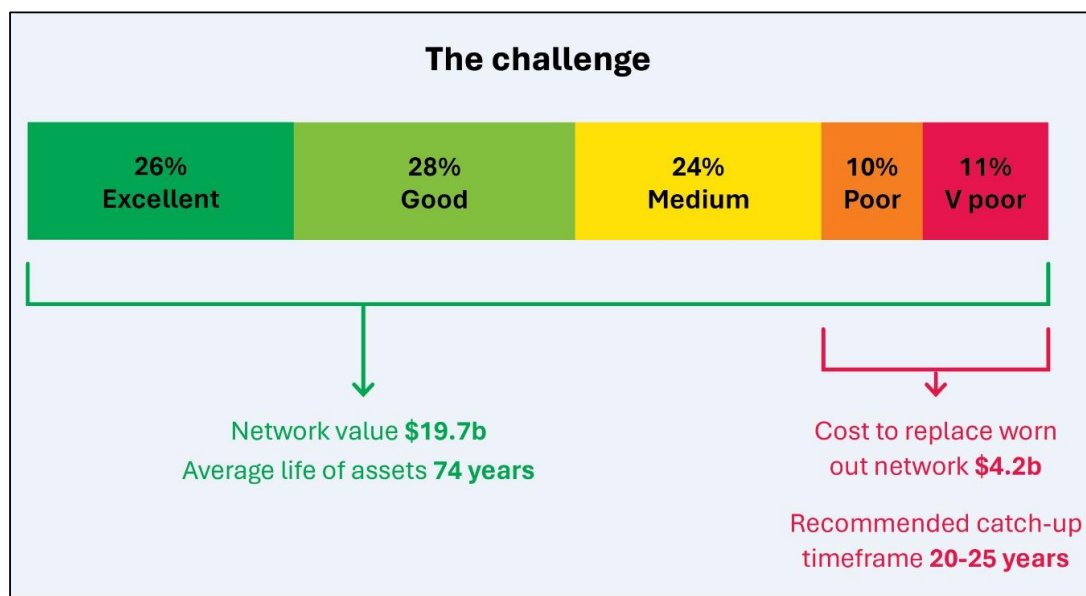


Figure 3: The challenge



²⁸ AECOM and Tonkin and Taylor, Initial Draft Asset Management Plan, Entity G Wellington Wairarapa Draft version 2.0 December 2023.

A note on network maintenance and renewal (catch up)

It is important to have a correct understanding of the terms ‘maintenance’ versus ‘renewal’ when applied to networks.

Once an asset has become worn out, it is often impractical and economically inefficient to continue to spend money maintaining it, if doing so no longer prevents its failure. Instead, it has to be replaced. This process is called ‘network renewal’ and is usually an ongoing process in large essential networks. Water networks need about 1/74th of the network on average replaced every year because the average maximum age of the assets – based on measuring when they wear out – is 74 years.

The key reason that large parts of our water networks are now suffering continual and increasing failures is not necessarily because the network has not been maintained properly, but because the worn-out assets have not been replaced or renewed sufficiently, due to underfunding. This has resulted in a large backlog of worn-out assets, which are now generating high volumes of network failures, including leaks.

This is also exacerbated at points in the ‘lifecycle’ of a city. For example, the region has a number of suburbs such as Naenae, Avalon and Taita which were developed over a short time period with all of those assets laid at around the same time and now due for renewal creating a large bulge of renewals over a relatively short time period.

These failures cannot be controlled by fixing the leaks themselves, because the underlying assets are worn out and just break again in a different place or way. The only way to fix the network, including getting rid of the leaks, is to replace or renew these assets. Funding both regular renewal (keep up) at the same time as renewing the backlog of worn-out assets (catch up) is what is driving the high cost required to fix our networks.

Other examples of the poor state of the water network

Loss of drinking water and leaks:

- About 45% of all drinking water in the metropolitan area of Wellington is lost to leaks²⁹. This equates to approximately 30 Olympic-sized swimming pools every day.
- At 30 June 2024, WWL reported 1,601 open leak jobs and had fixed 10,160 leaks over the previous 12 months³⁰. (Note: at time of writing this number has since declined, which is in line with reduced reported leaks during winter and increased council investment in leak repair).

Drinking water restrictions and drought resilience

- The metropolitan area faces ongoing severe water restrictions over summers or an acute water shortage. This includes low resilience to risk of droughts with current supply capacity only able to meet unrestricted water demand in a one in 13-year drought, as opposed to a target of one in 50 years.
- Changes in climate, water shortages during drought years and rising demand from increases in population will contribute to the network’s ability to meet current and future demand.

²⁹ WWL reporting.

³⁰ WWL report to Wellington Water Committee 26 July 2024.

Network Condition Case Study: Hutt Valley

Hutt City Council has allocated about \$1.6 billion over the next 10 years and is proposing a 16.9% increase to rates to address water issues, as well as increasing debt to \$1 billion. Hutt City Council Strategic Advisor Bruce Hodgins says “that is still far below the estimated \$2.6 billion needed for capital works. If we were to try and fund all that from rates, it would mean they would go up astronomically and unacceptably.”

But the challenges cannot go unaddressed. A recent report to Hutt City Council’s Audit and Risk Committee listed 23 major risks. These included an 18km sewerage pipe that could cost about \$700 million to replace, unresolved odour issues at the Seaview Treatment Plant, and the possibility of running out of drinking water.

The report noted that wastewater and stormwater network resilience, as well as drinking water network safety, was compromised due to poor condition of assets and underinvestment in maintenance and renewals. “Hutt City Council has invested a lot in water assets already, but significantly more is needed,” says Bruce.

“We were told we need to renew 30km of pipe every year for the next 30 years to get on top of the issue. We’re doing about half of that at the moment.”

Meanwhile the wastewater treatment plant is coming to the end of its working life and requires another \$225 million in investment over the next 10 years. Locals complain about the smell and the GWRC has issued many infringement notices, and an abatement notice in response to breaches of consent conditions.

Although only about 20 years old, many critical components have deteriorated with equipment failures severely limiting the plant’s ability to manage any additional flows or to realistically undertake any significant maintenance programmes. Significant renewal investment is underway to avoid further consent breaches, including an odour control upgrade, sludge dryer replacement and the UV system renewal.

“We’re talking some big money that needs to be invested and it’s going to be difficult,” says Bruce.

“There is unanimous support around the council table for investment in water service delivery and the community also understands that assets have aged, and it is part of the life cycle of the city,” he says.

“This is not something we can solve in 10 years. It will take 20 years to get to a point where we can deal with all of this under a new model.”

14. Current levels of service and delivery models

The Wellington Region includes about 224,000 residential properties. Of these, an estimated 89-90% are served by a connected public water network.

Key areas that do not receive three waters services include the rural areas of the region, while some smaller towns do not have a connected piped stormwater network.

This report does not go into detail on current levels of service for water services, which is a requirement of a WSDP, but rather provides an overview of current service delivery models.

Water services are provided through two main delivery models as detailed below.

In-house service delivery models

Of the five district councils in the region, four operate in-house delivery models while South Wairarapa District Council is part of the WWL model.

Each town in these areas typically has its own, standalone water supply and wastewater networks. There are a few instances where interconnections have been built to provide a

secondary water supply as a backup to the main source of water supply (such as between Greytown and Featherston). Most of the towns are situated on flatter terrain. This makes water supply and wastewater reticulation easier but often presents greater stormwater challenges.

A brief summary of each of the in-house delivery models follows.

Horowhenua District Council

Over the last seven years, Horowhenua has run its three waters service model through the Horowhenua Alliance Agreement. In 2023, a full review of the agreement was undertaken and in May 2024, the Council approved the three waters service model be returned in house, effective from 6 November 2024.

The current Horowhenua Alliance Model employs 26 staff dedicated to operation and maintenance of reticulation, waste and water treatment plants. The Council has a small three waters team of 12 staff, who oversee asset management, engineering, projects and project planning. Two staff in the finance team perform water billing, budgeting and forecasting roles.

Horowhenua's water services charges are collected primarily from targeted rates, general rates and development contributions. Currently, Horowhenua is rolling out a 24-month project to install water meters throughout the district. This project is due to be completed by December 2025 and is currently approximately 14% completed.

Masterton District Council

Masterton District Council's water service delivery is a hybrid model of in-house and outsourcing. Revenue is derived from targeted rates, general rates and development contributions. The Council plans to introduce water meter-based charges from 1 July 2025 and is developing the policy framework to support this. The majority of residential and industrial or commercial premises are currently metered. Consumption will not be fully meter-based; there will be a threshold allowance and anything over that will attract charges.

The Council contracts the maintenance of the water, stormwater, water race and wastewater reticulation networks to City Care; the operation of the two water treatment plants and four wastewater treatment plants is carried out by in-house staff. Larger water projects are awarded through a competitive tender process under the Council's procurement policy. A number of projects are managed in-house by a small project team with specialist support.

The Council has customer service staff supporting water services and a team of technical staff managing the water infrastructure. The small team includes seven staff directly operating the treatment plants, and four people responsible for the operation of the reticulation networks, managing the service contract and planning larger water projects. Compliance and asset management functions are supported in-house by staff in the Environmental Health and Asset Management teams.

Kāpiti Coast District Council

Kāpiti Coast District Council's water service delivery is currently run in-house. This includes bulk water and wastewater treatment, network maintenance and asset management of all three waters. Water services charges are collected primarily from targeted rates, general rates and development contributions. The council rolled out water metering 10 years ago and all reticulated supplies pay for water via a volumetric charge.

The Council has developed a staged 100-year water supply strategy to ensure the district's future and has implemented an active leakage control programme and volumetric consumer charging. A 2018 Auditor-General report, "Managing the supply of and demand for drinking water", showed that Kāpiti was setting a good example with its future-focused approach to supplying drinking water. Consequentially, Kāpiti has not needed to apply summer water restrictions since the last phase of measures, which included universal metering, was introduced in 2014.

The district has a wide distribution of assets across four main communities serviced by a number of water and wastewater treatment plants. The completion of Transmission Gully and other recent transport network improvements have had a major impact on the rate of growth being experienced across the district.

The Council has a dedicated Project Management Office in-house which manages the larger water capital projects. Operations and maintenance works are carried out by in-house resources, but all large capital works are carried out by external contractors. The current service model runs well and meets water quality standards. However, there are significant future challenges. These are growth-related pressure, potential increased environmental compliance in the future and resourcing, both operationally and in the asset management area.

The Council has 51 FTE staff supporting water billing and customer services, operations and maintenance of water infrastructure and the planning, investment and management of water.

Carterton District Council

Carterton District Council delivers water services on a hybrid model consisting of an in-house operations team and contractors for delivering major projects and network renewals.

Water services charges are collected primarily from targeted rates and general rates. Almost all water users are on smart water meters which makes billing relatively easy.

The current model delivers a very high level of customer service that meets all regulatory requirements for water supply and wastewater treatment, including making good progress towards a long-term goal of 100% land discharge of treated effluent. All major water service issues are included in the AMP and funded through the LTP. The delivery of the AMP will ensure continued compliance with all regulatory requirements as well as catering for anticipated growth.

The council has a three waters operations and maintenance team of ten staff, two support staff, a project manager and an asset development engineer.

Wellington Water Limited model

WWL was established in September 2014 as a result of a merger between Capacity Infrastructure Services and GWRC's water supply group. WWL became jointly owned by the Hutt City, Porirua City, Upper Hutt City, Wellington City and Greater Wellington Regional Councils in 2015. South Wairarapa District Council joined as a shareholder in 2019.

WWL does not own any water infrastructure, or set policies or user charges, or control rates. These functions sit with the six shareholding councils.

The model primarily services the metropolitan city areas comprising 75% of the region's population. The services rely on integrated water supply, wastewater and stormwater networks. For example:

- Drinking water collected and treated in the Hutt Valley. Bulk water is collected and treated from the Waiwhetu Aquifer and Wainuiomata River in Lower Hutt as well as from the Hutt River in Upper Hutt.
- Wastewater from Upper Hutt is piped to and treated in Seaview (Lower Hutt).
- Wastewater from northern areas of Wellington City is piped to and treated in Titahi Bay (Porirua City).

The WWL councils have a history of working together to address the challenges of local water services. This includes forming WWL as the second largest CCO in the country. WWL currently employs close to 400 staff, although it has a total workforce capacity of about 1,000 people,

which is procured through a combination of supplier arrangements. This includes partnerships with Fulton Hogan, Veolia, and contractor and consultancy providers³¹.

WWL delivered an annual capital programme of \$329.3 million for the year ended 30 June 2024.

The WWL model has been successful in many respects and provides invaluable learnings for the region:

- **Integrated network management:** The collective management of the city councils' integrated three waters network has provided opportunities to benefit from a larger scope and scale.
- **Scale:** The size of the WWL model enables it to employ a depth of water expertise and capability, which would be challenging for most of the owner councils if they operated an in-house model.

The WWL model does however have significant limitations which will constrain shareholding councils to meet the challenges going forward. These include fragmented accountabilities between WWL and its shareholding councils, constrained and uneven funding across the shareholding councils and the limited investment in critical core IT systems.

Other key limitations include:

- **Accountability:** The dispersement of accountabilities, especially of price, revenue setting and collection, investment planning, asset ownership and borrowing have been the source of many issues. As a result, WWL has to operate more than 20 different sets of accounts, such as an opex and capex account for each council. This is very time-consuming and prevents the design and execution of an investment programme which is optimised for the network as a whole. The fragmentation also inhibits the efficient and optimal operation of many other processes, such as investment planning, governance, customer service and consistency of bylaws.
- **Systems:** WWL was established on a constrained budget. There was minimal investment in providing the essential core IT systems. More than a decade on, WWL relies on Wellington City Council's financial system, third parties' maintenance management system and has no customer management system. This creates significant operational risk, impairs the ability of WWL to be effective and efficient in its performance, provide high-quality information and implement best practice financial processes.

Key aspects of the WWL model include:

- **Service provision:** WWL is contracted to provide water management, operations, maintenance services, future infrastructure and investment planning, and capital programme delivery services. It operates a mixed in-house and outsourced service model.
- **Asset ownership, revenue and debt funding:** All the water service assets, revenues (targeted rates, metering charges, development contributions etc) and debt remain with each council. As a result, WWL must agree discrete maintenance, capital works and funding programmes separately with each council. This inhibits WWL's ability to optimise investment across the network as a whole.
- **Shareholding:** WWL is 100% council owned. The councils' shareholdings approximately reflect their funding commitments (Wellington City 40%, Hutt City 20%, GWRC 15%, Porirua City 12%, Upper Hutt City 8%, South Wairarapa District 5%). Each council has an equal number of voting shares.

³¹ Source WWL figures at 30 June 2024.

- **Governance:** The key governance bodies are the (i) Shareholder Committee (Wellington Water Committee); and (ii) Board of Directors.
- **Shareholder Committee:** This committee comprises a representative from each council and Iwi/Māori representatives. Its role includes providing strategic direction, formulating a Letter of Expectations, coordinating feedback on the annual Statement of Intent and monitoring performance.
- **Board of Directors:** The company is governed by an independent Board which is appointed by the Water Committee. The Board appoints the Chief Executive.

WWL has been the subject of several reviews over the past two years, which have highlighted limitations and areas for improvement, including the need for clearer accountabilities and evolution of the model.

WWL is responding to these issues through an 'Organisational Capability Plan'³². This includes a range of actions in response to the findings of these reviews including improvements to accountability, assurance, financial controls, responsibility to shareholders, preparation for transition from reforms and embedding organisational values and behaviours.

WWL is also investigating the potential requirements and costs for enhanced IT systems and processes which are likely to require significant investment from shareholding councils and would need to be considered in council annual planning and budgeting processes for the 2025/26 and 2026/27 financial years.

Table 7: Key findings of reviews in relation to Wellington Water Limited

Review	Key findings
Inquiry into the cessation of water fluoridation by Wellington Water, Martin Jenkins, 2022	<ul style="list-style-type: none"> • Fluoridation was not a priority for WWL. • Drinking water has been safe but not optimally fluoridated. • Fluoridation was stopped to ensure the safety of the drinking water and operators, with no plan to turn it back on. • There were long-standing challenges to providing fluoridation safely. • There was good awareness of these issues within the organisation at operational levels, and attempts to address them, albeit slowly. • There were organisational barriers to raising and addressing issues. • The Board did not have the technical expertise to realise that they needed to be asking questions about fluoride in relation to oral health. • Escalation and communication of the decision to stop fluoridation took too long. • The complexity of the WWL model makes service delivery challenging. • The prospect of reform appears to be challenging for WWL's performance.
Wellington Water Contract Review, FieldForce4, 2023	<ul style="list-style-type: none"> • Maintenance costs had increased by 71% over the last three years. This review also found that the level of reporting from WWL was insufficient for a water utility of its size. • The review suggested that efficiencies could be found if there was more focus on performance measures and cost targets. • The report findings included: suboptimal contract management between WWL and its contractors; failure to ensure the performance and financial risk is proportionately shared between Wellington City Council, WWL and contractors; and a finding that the WWL reporting

³² WWL Committee report 27 September 2024.

	to the City Council fails to accurately capture and link network performance to the physical work programme and associated budgets.
Wellington Water Limited: capital programme estimating and budget systems, Roy Baker and Kevin Jenkins, 2024	<ul style="list-style-type: none"> • This noted the organisation was not as mature as reviewers would expect. • WWL is now 10 years old, but it has not evolved in step with the evolution of its functions and as an organisation has not kept pace with increased demand. • Unclear structures and accountabilities, with like functions not being grouped with like; a control environment that is loose and not fit for purpose; inadequate systems and processes; some missing competencies (including strategic leadership); underresourcing in the finance and the risk functions; and a mismatch between WWL's values and, as described, its culture. • A culture of not wanting to hear or present bad news. There is a tendency to want to manage bad news before informing stakeholders, and to try to shape their perceptions and reaction to the problem in order to minimise it. Although staff and middle management had formed good relationships with the shareholders, reviewers were told that WWL comes across as defensive to shareholders. • Problems from the 2022 fluoride review had not been addressed. • Issues in this review need to be addressed urgently, otherwise similar errors will happen again. The critical work to be done includes recovering the lost trust and confidence of WWL's shareholder councils. For the senior leadership, it also includes recovering some lost trust and confidence among their own people.

15. Enabling growth

This report does not go into detail on the future investment required to enable population growth and development capacity, which is a requirement of a WSDP. It focuses on demand for new housing growth and the extent to which this is currently being constrained due to a lack of capacity in existing infrastructure and little investment for new three waters infrastructure in areas that are set to intensify.

Planning for growth and housing demand

The Horowhenua-Wellington Region has been experiencing steady growth and development, with the population projected to reach more than 775,000 people by 2054. The Carterton and Masterton Districts' populations are expected to increase by more than 50%. In Wellington City the population may grow to more than 271,000.

The Wairarapa-Wellington-Horowhenua Future Development Strategy 2024–2054 (FDS),³³ sets out how the region plans to deliver well-functioning urban environments in existing and future towns and cities over the next 30 years. It proposes where to prioritise housing and business development, as well as investment in infrastructure to support this development. The strategy guides regional policy development, including Regional and District Plan changes in the future, as well as Land Transport Plans, infrastructure strategies, councils' budgets (LTPs) and other policies.³⁴

³³ 1404-GWRC-WLRC-Future-Development-STRATEGY-2024-240223-06.pdf (wrlc.org.nz).

³⁴ <https://wrlc.org.nz/future-development-strategy>.

The Wairarapa-Wellington-Horowhenua FDS informed by the 2023 Wellington Regional Housing and Business Capacity Assessment (HBA) Update,³⁵ projects that an additional 200,000 residents will live in the Wellington Region by 2053, requiring 99,000 more homes to be built over that period. These additional homes are expected to be built in both new greenfield locations and redeveloped brownfield locations within existing urban areas.

Constraints on growth

The regional HBA has identified that there is sufficient plan-enabled housing development capacity up until 2053 due to either plan changes, variations, or full District Plan reviews that will enable intensification as required by the National Policy Statement – Urban Development. This is currently being updated to reflect new Government policy and direction.

However, in some cases councils have identified housing capacity which does not have accompanying LTP funding for infrastructure investment to address constraints. An example is in Porirua City for the Northern Growth Area (NGA) which is considered the Wellington Region's most important greenfield housing opportunity³⁶ with capacity for 5,000-7,000 new homes. Porirua City has not included all the three waters infrastructure costs to enable development in the NGA in the 2024-2034 LTP due to affordability and balance sheet constraints.

Furthermore, in some areas, critical issues exist in allowing new water connections to reservoirs, which in metropolitan areas are nearly all in Levels of Service (LOS) deficit.

Some new wastewater connections are managing LOS by using retention tanks on private property, but the lack of monitoring and compliance could result in significant environmental and health issues as these systems fail and are not maintained.

The implementation plan for the FDS³⁷ highlights that investment in the required three waters infrastructure is unconfirmed for some key development areas including:

- Te Aro growth corridor, Johnsonville (Wellington City) – three waters.
- Trentham priority development area, Upper Hutt strategic public transport corridor (Upper Hutt) – potable water, wastewater and stormwater.
- Te Āhuru Mōwai (Western Porirua), Kenepuru, Northern Growth Area – potable water, wastewater and stormwater.
- Hutt Central priority development area – wastewater pipeline, pump station and emergency storage.
- Featherston priority development area – potable water, wastewater and stormwater.
- Carterton – new water supply.
- Masterton - wastewater treatment upgrade.

Other examples of capacity restrictions on growth

- **Martinborough:** Significant performance and compliance issues resulted in GWRC issuing an abatement notice for the Martinborough Wastewater Treatment Plant in August 2022. The plant has also reached its design capacity as population growth and annual connections have far exceeded expectations. Due to these issues, South Wairarapa District Council is no longer issuing building consents that need new wastewater connections³⁸.

³⁵ Regional Housing & Business Development Capacity Assessment 2023 - WRLC.

³⁶ Northern-Growth-Area-Selection-Decision-Report.pdf (kaingaora.govt.nz).

³⁷ GWRC FDS Implementation Strategy June 2024.

³⁸ <https://swdc.govt.nz/martinborough-wwtp/> and <https://swdc.govt.nz/greytown-wwtp/>.

- **Greytown:** In June 2024, WWL advised South Wairarapa District Council that there was not enough capacity at the Greytown Wastewater Treatment Plant to allow development of a proposed 200 lot subdivision or sufficient capacity for new connections to the wastewater network in Greytown. The plant was designed to service 2,200 connections and is currently servicing 2,700 connections³⁹.
- **Growth planning:** Porirua City Council, Upper Hutt City Council, Wellington City Council and Hutt City Council are all working with WWL to understand funding and constraints of current and future growth demands.
- **Water supply:** The region is approaching capacity constraints to meet current water demand in the greater Wellington metropolitan area, leading to the risk of more severe water restrictions and water shortages (see case study below). This has required a comprehensive programme of demand management (education, water restrictions and planning for water meters) and asset development (treatment plant upgrades), and potential additional storage⁴⁰.

Housing demand and projected shortfall

- Besides the very significant funding constraints facing councils, sustained growth pressures are affecting the Wellington Region including a current deficit of 9,500 - 12,000 houses and 2,400 families on the social housing register (representing an increase of more than 1,000 families since 2019).
- For the year ended 2023, a total of 2,427 new residential dwelling consents were issued, representing a 33% decrease since the end of 2021⁴¹. Based on current residential consenting rates for the past 10 years, it is expected there will be a housing supply deficit of 21,000 houses in the next 30 years.

Funding for growth

Along with the advantages of growth for the region comes the difficulty of funding and building sufficient infrastructure and community facilities (such as reserves and community infrastructure) to service a growing community.

Much of the cost of the infrastructure for new growth is covered by developers, particularly within property boundaries or where large-scale, comprehensive greenfield development occurs. This can include local pipe networks, stormwater detention and drinking water reservoirs.

However, development also adds pressure to existing infrastructure and the wider three waters network, which requires upgrades to add capacity. This includes water supply and reservoirs (especially where these serve multiple development areas), stormwater retention and discharge, and wastewater collection and treatment. These capacity upgrades are often very expensive and need to be integrated with other planned renewals work, which can lead to complex investment planning and long lead times.

Typically, councils recover much of the cost of these upgrades through development contributions or financial contributions⁴². These range significantly across the region in terms of costs to developers. There is however often a significant timing gap between the upfront investment to enable development and receipt of revenues. For example, a major wastewater upgrade may be required to enable development which will then repay these costs over the next

³⁹ <https://swdc.govt.nz/news/pause-on-new-applications-to-connect-to-greytowns-wastewater-treatment-plant/>.

⁴⁰ <https://www.wellingtonwater.co.nz/our-wai-can-run-dry/>.

⁴¹ WRLC Housing Data.

⁴² The purpose underlying development contributions as outlined in s197AA LGA2002 "is to enable territorial authorities to recover from those persons undertaking development a fair, equitable, and proportionate portion of the total cost of capital expenditure necessary to service growth over the long term.

20 years. The gap needs to be bridged by councils using debt and this is a problem for funding-constrained councils. Where infrastructure is not provided in a timely manner this can constrain development, as evidenced by the examples above.

Case Study: Mitigating the risk of water shortages for metropolitan areas of Wellington

GWRC owns the bulk water supply network for Wellington, Porirua, Lower Hutt and Upper Hutt. This involves large water collection areas, four water treatment plants, 15 pumping stations and more than 180kms of large-diameter pipelines.

On a typical day:

- Upper Hutt, Porirua and Wellington's northern suburbs are supplied from Kaitoke.
- Lower Hutt is supplied from Waterloo.
- Wellington's CBD, southern and eastern suburbs are supplied from a combination of Waterloo and Wainuiomata.

An important feature of the bulk water supply system is the interconnection between the two main pipelines (Kaitoke to Karori and Wainuiomata to Wellington) at Ngauranga. This interconnection provides some degree of security of water supply to the cities. This bulk water supply network is managed by WWL.

WWL plans to work with shareholding councils to reduce the rising risk of more severe water restrictions and water shortages and to reduce the impact on communities as much as possible. WWL reports that, based on planned activity and the level of investment councils can afford, removing the risk of Level 3 and 4 water restrictions is not realistic. Instead, WWL is aiming to reduce the risk of entering Level 4 water restrictions for the 2024/25 summer.

WWL's approach to this work is driven by three key outcomes: keeping the water in the pipes, reducing water demand and adding more water supply.

WWL is working on behalf of shareholding councils across a range of activities to mitigate these risks:

- **Fix the network:** continue to increase investment into finding and fixing leaks, managing water loss and replacing old infrastructure.
- **Reduce demand:** continue to encourage customers to reduce water use.
- **Water metering:** investigate and plan for water metering. All metropolitan councils have indicated they will support work towards water metering and will progress this on varying timeframes (South Wairarapa District Council already have residential meters).
- **Increase supply:** in the long term, there is a need to increase the amount of bulk water supplied to the Wellington, Porirua and Hutt and Upper Hutt City Councils by building two more water storage lakes. These lakes will ensure the region has sufficient water supply in the summer to meet demand in Wellington, Porirua and the Hutt Valley. WWL will develop concept designs, and work through consenting. The cost to build the lakes will be high and as a region, there is a need to first reduce the use of water by fixing leaks in the parts of the system owned by the city councils, and by reducing demand. Construction of any new water storage lakes will be subject to community consultation and resource consent approvals.⁴³

⁴³ GWRC LTP 2024-2034.

16. Compliance

New Zealand is in the early stages of implementing a system of water regulation. The Taumata Arowai – Water Service Regulator Act 2020 and the Water Services Act 2021 introduced a new regulatory environment for water services.

This is an evolving space and will require all water providers to have the capability, capacity and investment needed to meet regulatory and compliance standards.

Major changes to the compliance framework include:

- **Establishment of Taumata Arowai:** Taumata Arowai has established new Drinking Water Standards and is establishing Wastewater Discharge Standards. Taumata Arowai has made significant progress in developing and monitoring drinking and wastewater quality since it was established. Government announcements on 8 August 2024 signalled changes to how Taumata Arowai regulates drinking water suppliers. The changes will “...remove barriers to Taumata Arowai taking a proportionate, cost effective and efficient approach in its functions and duties.”⁴⁴
- **Tightening of environmental compliance requirements:** Direction is set by the Government via its NPS-FM, which is currently under review. GWRC implements this through changes to the Regional Policy Statement and Natural Resources Plan and ensures compliance with environmental standards, including the allocation of water supply (take) from natural sources and for wastewater/stormwater discharge requirements. Government announcements on 8 August 2024 signalled further changes including:
 - It will require Taumata Arowai to take account of the NPS-FM, and any regional plans, prepared under the Resource Management Act, that relate to freshwater, as part of the exercise of its functions, duties and powers.
 - Development of wastewater environmental performance standards that are being developed by Taumata Arowai under the Water Services Act. The legislation will be amended so there will be a single standard, rather than a minimum or maximum.
 - These amendments would be designed to ensure regional councils implement a single standard approach in resource consents and cannot exceed the standard in consenting conditions apart from on an ‘exceptions’ basis.
- **Appointment of the Commerce Commission** as the consumer protection and price/quality regulator for water delivery services (with detail and legislation to be confirmed in late 2024). More details of the economic regulatory regime will be announced later this year when Bill 3 is enacted. It is expected that the Commerce Commission will regulate the economic performance of water delivery through regulation of price and delivery service quality. Government announcements on 8 August 2024 confirmed an intent to introduce economic regulation primarily based on information disclosure with additional powers of oversight. The main purpose of this regulation will be to ensure the right level of investment to ensure good quality water services at an affordable level. This is a critical part of the new water regulatory framework and will be necessary to give communities assurance that prices set for water services are fair and reasonable.

⁴⁴ <https://www.dia.govt.nz/Water-Services-Policy-Future-Delivery-System>.

Drinking water

Most water supply treatment plants in the region are compliant for safety and those that are not, have existing remediation plans. There are several exceptions to this where water take and bore reliability will require more detailed and high-priority planning. While water safety requires continued investment, this is at a much lower scale than that required for water supply capacity, both in terms of supply take and storage. A summary of key compliance issues for drinking water is included in Appendix F.

Water pipes failure and capacity

The impact of water pipe failure will be considered as part of the quality component of water delivery service price/quality regulation and monitored by the Commerce Commission. The absence of sufficient focus on this issue by councils, when compared to water quality and environment regulation, has left this as the highest risk with the largest consequential cost to society from network asset failure.

Pipes represent about 80-90% of the total asset value of the water network, depending on differing locations in the region. As noted above, asset condition information on the pipe networks is currently incomplete. Water pipe condition assessment, identification of existing or imminent pipe failure, and the subsequent replacement of these pipes is considered the highest priority for the network, with the obvious exception of maintaining safe drinking water.

Wastewater pipe capacity is currently seriously impacting growth for many councils in the region including the targeted high-growth rate expected in Porirua and Kāpiti.

Wastewater header and interceptor pipe failures have been the predominant form of major network failure over the last few years and represent one of the highest risks of major network failure.

Wastewater

Many of the wastewater treatment plants in the region are not currently compliant. There are also serious capacity risks in both forms of treatment plant which is currently limiting population growth of many cities and districts within the Wellington Region. Because capacity constraints are not regulatory in nature, this is becoming a lower priority issue. It will be necessary to unlock these capacity constraints as a remediation priority for the network. A summary of key compliance issues for the main wastewater treatment plants is set out in Appendix F.

The high proportion of worn-out assets, and limited storage and sourcing capacity of the network is expected to result in significant economic regulatory non-compliance and required improvements as part of regulation by the anticipated economic regulator. The low historical priority given to network fault rates, failures and renewal is likely the consequence of not having economic regulation for water to date.

As noted above, the network has a very high percentage of worn-out assets and these give rise to frequent failures, repair backlogs, and divert remediation and network maintenance funds to fixing leaks and trying to achieve environmental compliance. This also raises the cost of running the network due to the burden of high levels of faults.

In practice, it will not be possible to achieve sustained compliance to wastewater discharge standards with the network failures that are currently occurring and the current design of the stormwater network including cross connections. These will need to be fixed first, as no amount of treatment plant enhancement will be able to cope with these two upstream weak spots in the network.

Priority must be given first to fixing the pipe networks because this will:

- reduce water supply leaks to both lower cost and retain water supply capacity for our summers, and
- allow wastewater treatment plants to operate at known peak load capacity without the significant ingestion of seawater and groundwater.

17. Current and required expenditure and funding

All councils (with the exception of South Wairarapa District Council) have recently consulted their communities and confirmed proposed three waters investment (capital and operating expenditure) for 2024-2034 through the LTP process.

While councils are planning significant investment to manage network risks, combined LTP investment over the next 10 years is about \$4.82 billion (real), which is approximately \$470 million (or about 10%) less than the estimated investment required based on the recommended investment strategy in this report over the next 10 years and 30-40% less than what will be required, on average over the next 20-25 years.

Based on the assessment of the condition of the network, as well as investment required to enable growth and meet compliance requirements, the level of funding planned under LTPs is considered below what is needed and this will lead to further network deterioration and increasing risks. This is highlighted starkly in the WWL Statement of Intent 2024 which states that *“The likely levels of funding will exacerbate the region’s critical risks and create new ones”*.

Investment required versus what is affordable – increasing the risks

As part of the LTP process, WWL shareholding councils are advised on required funding by WWL. From the WWL 2024 Statement of Intent⁴⁵:

Wellington Water advised councils that regional capital investment in the order of \$10 billion is required over the next 10 years to deliver on all the region's strategic priorities. This level of investment is unaffordable and currently undeliverable.

Based on delivery to date, Wellington Water recommended that councils (excluding South Wairarapa District Council) invest \$7.6 billion in capital expenditure over the 2024-34 LTP period. This level of funding is the maximum that can be delivered in the region⁴⁶.

Some councils have invested more in water infrastructure than ever before. However, the councils have been clear to Wellington Water that \$7.6 billion is still unaffordable due to council debt headroom constraints and impact on ratepayers.

The capital investment programmes agreed by councils collectively totals \$3.6 billion, around half of what Wellington Water recommended as being deliverable. Funding is particularly constrained in the first three years of the 2024-34 LTP period.

Wellington Water recommended a regional 10-year operating expenditure budget totalling \$1.7 billion (excluding South Wairarapa District Council). Councils have provided a 10-year operating expenditure budget of approximately \$1.5 billion.

The level of funding set by councils for the 2024-34 LTP period means we cannot achieve a balanced programme that delivers on all the region's strategic priorities.

\$2.8 billion baseline programme – based on funding assumptions from councils' 21-31 LTPs, this is the basic level of capital investment to keep the lights on but won't improve the region's water assets to a sustainable and manageable level.

The likely levels of funding will exacerbate the region's critical risks and create new ones. Of particular concern is the ability to supply water to communities in the coming summers and the longer-term costs of deferring this investment now. Based on councils' proposed level of funding, there will be limited work to support population growth, renew infrastructure at a sustainable rate, improve water quality and resilience and reduce carbon emissions.

The risks below are key risks that all our councils across the region face. The likelihood of these risks occurring is dependent on the level of investment each council provides and some, therefore, will vary by council:

- *Severe water restrictions or an acute water shortage in future summers.*
- *Continued risk to drought resilience across the region. In the Wellington metro area, the current supply capacity is only able to meet unrestricted water demand in a 1 in 13-year drought, as opposed to 1 in 50 years.*
- *Wastewater treatment plants are not reliable and do not comply with consent conditions with limited ability to bring the wastewater treatment plants back to compliance reliably in the next three years.*
- *Environmental damage and not meeting communities' and mana whenua expectations due to wastewater overflows from network and treatment plants.*
- *Assets fail more regularly due to lack of investment in proactive activities such as renewing and replacing assets, planned maintenance, leak detection and condition assessments.*
- *Customers face more disruption and longer waits for repairs on the wastewater and stormwater networks.*
- *Disruption and repair times on the drinking water network will initially improve but begin to worsen from July 2025.*
- *Additional population growth puts pressure on the capacity of the network and treatment plants, leading to impacts on customers and the environment.*

⁴⁵ WWL Statement of Intent 2024 <https://www.wellingtonwater.co.nz/>.

⁴⁶ This is based on a 30% uplift of work year on year that plateaus at \$1b per year. WWL Statement of Intent 2024.

Planned renewals

Another example of planned investment relative to required investment is the:

- planned length of pipe replacement (renewals) relative to the length of the network, and
- average service life (how long a pipe is expected to last - this is a proxy for actual asset condition information).

This table helps to illustrate how long it would take, at that rate, to replace a pipe network. For 2024/2025, the planned meters of pipe replacement for each council are shown in the table below.

Table 8: Planned pipe replacement for Wellington Water Shareholder Councils 2024/2025 financial year⁴⁷

Council	Planned pipe replacement 2024/25 (km)	Total meters of pipe in network (km)	No. of years to replace pipe network at 2024/25 rate
Hutt City	4.971	1,845	371
Wellington City	0.427	2,728	6,388
Porirua City	0.200	1,065	5,325
Upper Hutt City	2.838	662	233
South Wairarapa District	0.472	209	442
GWRC	0.180	187	1,038
Total	9.088	6,696	736

⁴⁷ WWL Statement of Intent 2024 <https://www.wellingtonwater.co.nz/>.

Options and recommendations for a regional delivery model

Section summary

This section outlines the process followed and key considerations and options for a joint WSDP and high-level design for a future delivery model.

The process focused on the development of ‘best for region’ options. This section sets out a *recommended* delivery model which needs to be endorsed and then fully developed in subsequent phases of work as part of the decision making regarding a joint WSDP and potential establishment of a WSCCO. This will require consideration of the provisions in Bill 3 when this is introduced into Parliament (expected to be December 2024).

The councils took a collaborative approach, facilitated by a joint regional team based on a series of workshops with the officers, Chief Executives and the AOG to consider options and alternatives, provide feedback and direction. This process helped confirm the key requirements and case for change.

A range of possible different models and structures for a joint delivery model were considered, informed by current models in the region including in-house delivery models; a joint CCO service delivery only; a joint CCO full-breadth, asset-owning, a joint council-owned company (COC); a consumer trust; and a private sector option, which was not explored.

Based on the analysis of options and direction from workshops, the recommended option is for a **joint council-owned company** (that is, a full breadth water utility, owning all assets, revenues and liabilities). This would have a similar structure to a CCO but with reduced council oversight, enabling the company to have greater control and certainty over investment plans. The recommended option is consistent with the Government’s policy announcements on 8 August 2024 relating to a new class of financially independent water CCOs that councils will be empowered to establish under Bill 3.

The new WSCCO model will operate in a much more regulated environment, which will provide a strong focus on assurance, quality, delivery and value for money. The primary relationship of a WSCCO will be with its customers, not its shareholders (or owners). Council direction and oversight would therefore be less than under traditional CCO models. The new entity needs the independence and accountability to deliver. A skills-based Board with a clear set of competencies is at the heart of the recommended governance model.

The new WSCCO would provide all services directly to water customers and bill them for water usage and services provided. Councils are keen to ensure that any future regional WSCCO will provide a high level of local service delivery, including good compliance, response times, and supply. The new model needs to be able to meet these expectations.

18. Process to test options for a joint WSDP and joint delivery arrangements

As mentioned, the councils in the Wellington Region have agreed to work together to consider a joint approach to development of a WSDP. Dependent on decision making of councils, the key deliverable from this joint process is intended to eventually be a draft joint WSDP, including implementation plan for a delivery model.

The process for this report focused on the development of 'best for region' options and did not consider alternative council-specific or provincial options – these are being developed and evaluated in parallel to this process by councils to inform their own decision making in relation to the WSDP.

Outlined below is a recommended approach which would need to be confirmed as part of future work relating to the development and decision making of a joint WSDP and the implementation planning and establishment of a WSCCO.

The approach was informed by a series of workshops with the officers, Chief Executives and the AOG to consider options and alternatives, provide feedback and direction to guide the development of this process. The workshops were supported by analysis of information, data, options and alternatives, to support informed discussion and direction.

The key stages of the approach are set out below.

Table 9: Workshops

	Workshop 1	Workshop 2	Workshop 3	Workshop 4	Workshop 5
Overall focus	Process Key requirements for success	Network economics, funding and financing	Governance and structure options	Concept model, funding and pricing pathways	Council positions, draft report and transitional issues
Summary of options and direction	Confirmation of process Key requirements Preferred type of model	Approach to network economics and scale of the challenge Level of investment required	Governance design principles and model including role of council owners, Board and Iwi/Māori	Key elements of concept model Risks and benefits of different funding and pricing pathways to achieve financial sustainability Transition principles	Council position updates Draft regional report feedback Key activity in September and October Transitional issues and alignment
Timeline	April/May 2024	June 2024	July 2024	August 2024	September 2024

19. Type of model

A WSDP is required to identify the likely form of any joint arrangement, including whether it is anticipated to involve water services being delivered by a joint delivery model and the proposed model or arrangements for delivering water services.

In terms of different types or structures of joint delivery models, a range of options were considered. This assessment was informed by consideration of what does or does not work well in current models across the region, including council-delivered options and through WWL. Key learnings were:

- In-house delivery models can be prone to underfunding, less commercial expertise and potential lack of role clarity.
- WWL Board's power to chart strategic direction is hindered by not owning assets or controlling funding and the WWL model has led to underfunding.
- The WWL model has a practical overlap between Committee and Board.
- Wellington Water Committee (WWC) has a strong focus on operations, relative to performance oversight.
- Shareholder representatives on the WWC can focus on local issues at the expense of a regional and network-wide focus.
- Small shareholding councils of WWL can feel their voices are not heard.
- Consumers have underpaid for the full cost of services under all models and there has been little use of all potential funding and price levers.

Key options considered and recommended model

More details on the key options can be seen in Appendix G. A range of possible structures for a joint delivery model were considered, informed by current models in the region, including:

1. In-house delivery models,
2. Joint CCO – service delivery only,
3. Joint CCO - full-breadth, asset-owning,
4. Joint COC (which is a slightly modified version of number 3) ⁴⁸,
5. Consumer trust, and
6. Private sector option (Note: this was not explored due to strong opposition from councils to the privatisation of water).

Recommended delivery model

Based on the analysis of options (summarised in Appendix G) and direction from workshops, the recommended delivery model is for a **joint council-owned company** (that is, a full breadth water utility, owning all assets, revenues and liabilities).

This recommended option was selected as it was the only option that met the key requirements of councils, aligned with Government policy intentions, and the anticipated requirements of the Preliminary Arrangements Act and Bill 3.

The entity would be of the type that councils will be empowered to establish under Bill 3 to be introduced in December 2024. It would have a similar structure to a CCO under the LGA, but with reduced council oversight (as provided for under Bill 3), enabling the company to have greater control and certainty over investment plans. This is one of the features necessary to enable borrowing by the new entity.

A key assumption is that Government will introduce details for a new asset-owning WSCCO through Bill 3 – in line with the announcements on 8 August 2024 – which will provide this type of organisation with the necessary purpose, powers and functions to meet the region's requirements.

The recommended model is well aligned with the guidance on delivery models announced on 8 August 2024. This includes a similar structure to the 'multi-council-owned water organisation'

⁴⁸ Since the workshops, the government has adopted the term Water Services Council-Controlled Organisation (WSCCO) in legislation to describe the new type of water services entity. This aligns with other regulations. Throughout this report therefore we also use this term as the description of the new proposed entity.

outlined in DIA guidance including a similar governance and accountability framework. The exception to this is in relation to stormwater, as discussed below.

The announcements on 8 August also support the recommended model option in that:

- this delivery model is well aligned with the minimum requirements that will be set out in Bill 3, and
- it would meet the requirements for a ‘water organisation’ (which refers to separate organisations that councils may establish to provide water services), which will be necessary to ensure lending from the LGFA.

Since AOG workshops on governance arrangements, the Government has provided broad details of the governance and accountability arrangements that will apply to the new class of CCOs that will be enabled under Bill 3. The three accountability documents provided for in these announcements are a Statement of Expectations, WSS and water services annual report. The Statement of Expectations is directly comparable to the Letter of Expectations considered during the council workshops. Similarly, the proposed water services annual report is as envisaged during those workshops. The workshops anticipated a Statement of Intent which is currently the primary accountability document for CCOs established under the LGA, but it seems likely that water CCOs established under Bill 3 will have a WSS in place of a Statement of Intent.

Until Bill 3 is enacted, however, there remains some (albeit a relatively low) risk that this type of WSCCO is not fit for purpose or able to meet the region’s identified key requirements. This will require ongoing engagement with the legislative process.

20. Design principles and assumptions

Informed by the policy announcements on Bill 3, a number of design principles and assumptions have been identified for the recommended model. This includes the relationship between the proposed WSCCO and the other key “players” who form part of the water service delivery ecosystem.

Key relationships

- **Councils (owners):** New council-owned WSCCO delivering three waters services across the region directly to customers. This will ensure ongoing public ownership and control. Bill 3 is likely to confirm further protections against privatisation⁴⁹. Councils will have some ability to set purpose and direction including processes to appoint and hold the Board to account through the constitution.
 - **Transfer of assets and debt:** Councils transfer all their water assets, liabilities and customers to create a full-breadth water utility.

⁴⁹ Protection against privatisation. Government announcements on 8 August confirmed that legislation will likely include the following statutory protections:

- Only local authorities and/or consumer trusts will be permitted to own shares in a water organisation.
- Provisions that prevent:
 - water infrastructure assets from being used as security for any purpose
 - divestment of ownership or other interest in a water service except to another local government organisation or water organisation; and
 - lose control of, sale, or other form of disposal of the significant infrastructure necessary for providing water services in its region or district, unless, in doing so, the local authority or water organisation retains its capacity to meet its obligations
- Shares in water organisations cannot give any right, title or interest in the assets, security, debts, or liabilities of the entity, and would not be able to be sold or transferred.

- The existence of strong regulators and an independent Board leaves councils with a relatively light, residual oversight role. The shareholders provide a Statement of Expectations and the WSCCO Board, having considered the Statement of Expectations, prepares and adopts the WSS (after having provided shareholders with an opportunity to comment on a draft) and an annual report. See Section 21: Ownership and Governance.
- **Water customers:** Water consumers become customers of the WSCCO. The WSCCO provides all services directly to water customers and bills them for their water usage and services provided.
- **Iwi/Māori partners:** Embraced as partners of the WSCCO, as both parties work to achieve an aspirational vision to restore Te Mana o te Wai. See Section 21: Ownership and Governance.
- **WSCCO:** The WSCCO is 'non-profit making' in that it is not allowed to pay dividends but needs to generate a sufficient and fair surplus. 'Sufficient' means that the surplus revenue is sufficient to fund the renewals to maintain a high-quality water network and to operate the organisation with sufficient investment in people, systems and processes. 'Fair' means that there is good alignment between the generation that funds the cost of infrastructure and the generation that benefits from that investment.
- **Governance – Board:** The WSCCO is governed by a professional, independent Board with members selected for their skill sets and experience.
- **Debt funders:** The LGFA is likely to be the WSCCO's main funder at first. Government announcements on 8 August 2024 confirmed that the LGFA would immediately be able to lend to new water organisations⁵⁰. Over the longer term, the WSCCO is likely to develop the financial strength and maturity to be investment grade in its own right.
- **Regulators – wastewater quality:** Taumata Arowai sets the three waters' standards and monitors the performance of drinking water. At a local level, the regional council applies the standards and ensures compliance for discharges and bulk water takes. Additionally, regional councils are environmental regulators under the Resource Management Act.
- **Regulators – economic efficiency:** The economic regulator role will be to regulate availability and quality of services, and to protect consumers' interest by ensuring that the WSCCO sets fair prices and drive cost efficiency.

The key operating relationships and design principles are shown in Figures 4 and 5 below.

⁵⁰ Defines 'water services provider' means all forms of local government provider and including councils that continue with direct (in-house) delivery as well as new water organisations. The term 'water organisation' refers only to separate organisations that councils may establish to provide water services and does not include councils with direct (in-house) delivery.

Figure 4: WSCCO operating relationships

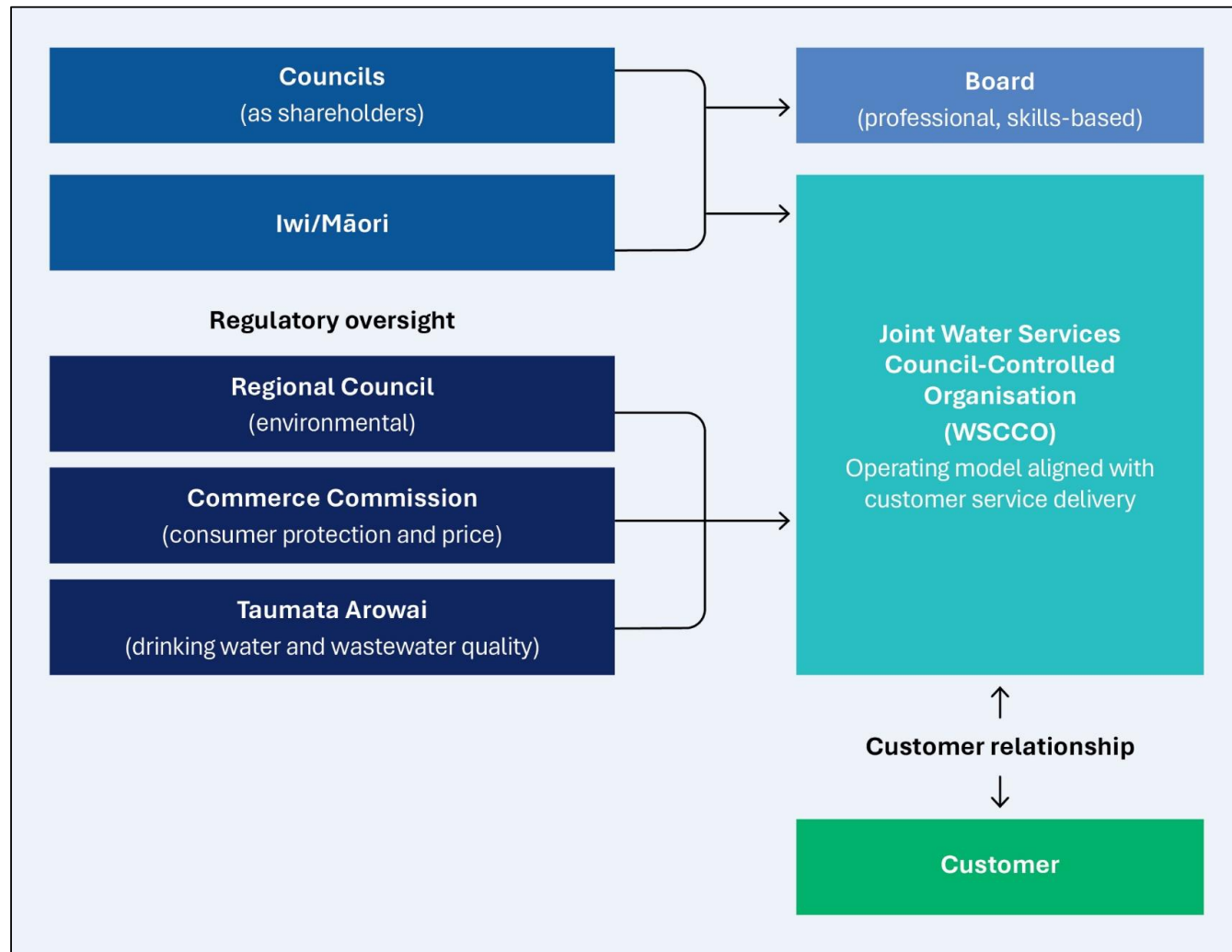
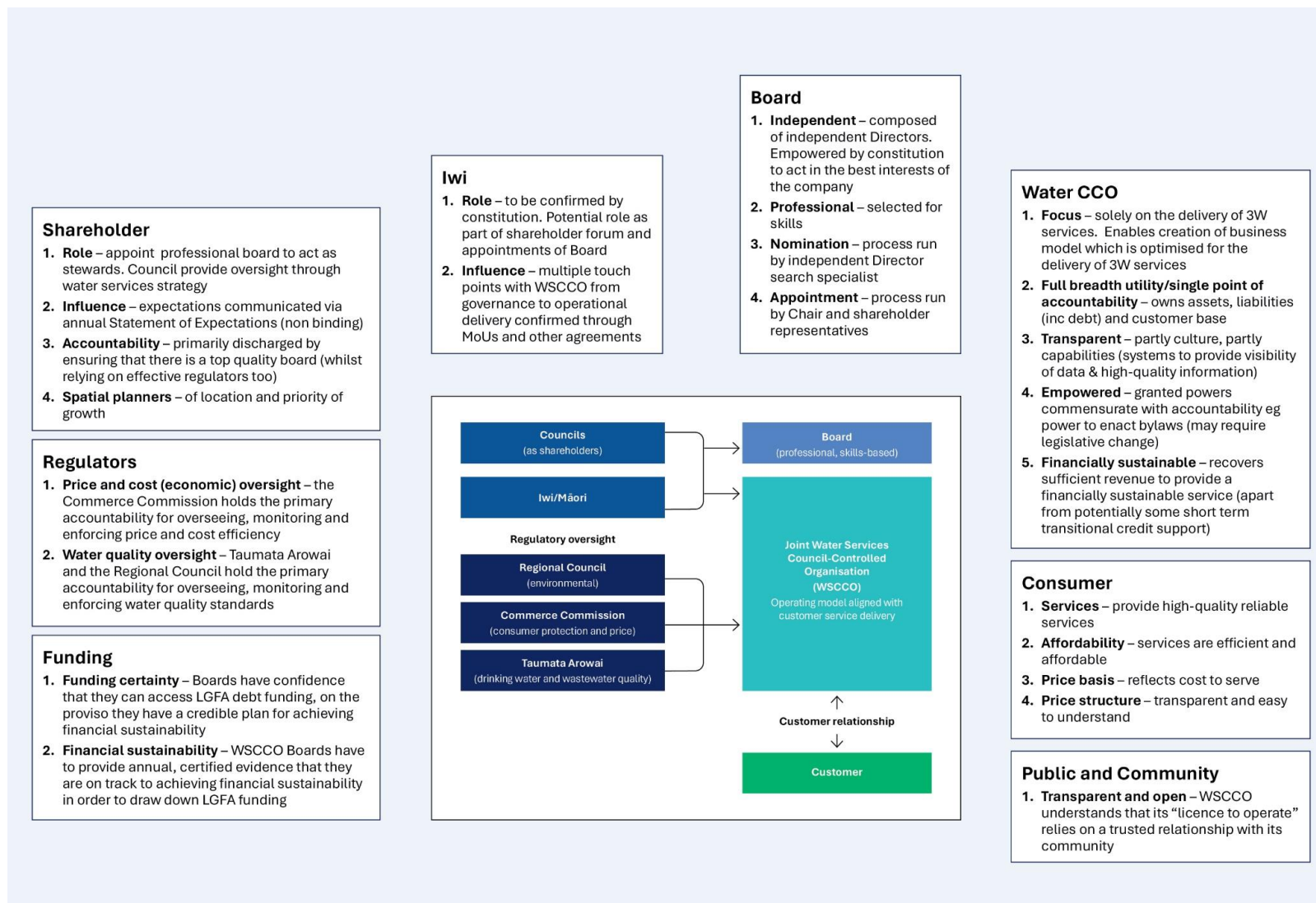


Figure 5: WSCCO key design principles



21. Ownership and governance

Through the workshops, councils considered a range of options for ownership and governance of a WSCCO. These were guided by the following council requirements relating to governance and have been updated in line with the policy announcements on Bill 3:

- Public ownership – no privatisation of water assets or delivery.
- Local (shareholder) influence to ensure alignment and enable broader outcomes.
- Single point of accountability for service delivery and wider clarity of role.
- An independent, professional Board appointed based on skills, with strong commercial discipline.
- Iwi/Māori input must be meaningful.
- Board to be empowered to operate independently and innovate to achieve outcomes.
- Board has certainty to plan, fund and invest (implies limit on shareholder role).
- Board adopts a long-term planning horizon.

Other key considerations were:

- The new WSCCO model will operate in a much more regulated environment – economic, environmental, quality, so not the same as existing CCO models.
- Regulation provides a strong focus on quality, assurance, delivery and value for money. These also provide channels for customers.
- The need to recognise that the primary relationship of WSCCO will be with its customers, not its shareholders (owners).
- Role of shareholders will be less than under traditional CCO models – with direction and oversight through Board appointments, Statement of Expectations and annual plan reporting.
- In this context, there is a need for clarity on the role and influence of shareholders and focus, such as outcomes, alignment with growth and housing.
- The new entity needs independence and accountability to deliver.
- A skills-based Board with a clear set of competencies is at the heart of the proposed governance model.

Options considered focused on the role of the Board of a WSCCO and the role of shareholders.

Table 10: Appointment of the Board of Directors – recommended model and other options

	Recommended option and design principles	Other options considered
Board appointment process	<ul style="list-style-type: none"> • Shareholder agreement covers appointment rights • Appointment process should be apolitical • Shareholder appoints member to appointments panel which (with Board Chair) then appoints directors by unanimous vote • Appointments panel adds rigour 	<ul style="list-style-type: none"> • Directors appointed by unanimous shareholder committee resolution (current WWL model) • Same as option above but appointment by majority vote • Same board for entity establishment and BAU operation

	<ul style="list-style-type: none"> • Small establishment Board can have different focus 	
Board skills and membership	<ul style="list-style-type: none"> • Experienced professional directors given WSCCO's challenges • Director skills matrix is key to having relevant skill sets and experience on Board • No elected members or specific local representation on Board • Key skills would include commercial, asset management, network utilities, Treaty of Waitangi, customer, and local government 	<ul style="list-style-type: none"> • Constitution could allow or prohibit elected members on Board • Iwi/Māori representation on Board

Table 11: Role of shareholders – recommended model and other options

	Recommended option and design principles	Other options considered
Shareholder role and influence	<ul style="list-style-type: none"> • Shareholder forum to agree Statement of expectations and comment on draft WSS • Panel to appoint/remove directors • Objectives in WSS to reflect entity's statutory purpose and responsibilities • Bill 3 may need to provide more independence especially around WSS 	<ul style="list-style-type: none"> • Statement of Expectations only • Statement of Expectations and power to modify WSS • Individual shareholders produce Statement of Expectations and comment on draft WSS • Bill 3 may provide new options to consider
Performance monitoring	<ul style="list-style-type: none"> • Annual report only • Compliance burden on CCO needs to be managed • Annual report should not duplicate plans required by regulators 	<ul style="list-style-type: none"> • Half yearly/quarterly reports • Residual monitoring
Oversight	<ul style="list-style-type: none"> • Two meetings in public only, and Parts 1-6 of LGOIMA (availability of information) • One additional shareholder meeting (AGM) • Regulators, Auditor-General and Ombudsman will provide oversight across all areas of activity 	<ul style="list-style-type: none"> • All Board meetings in public • Additional shareholder meetings • Bill 3 will clarify oversight by Commerce Commission and Taumata Arowai.

Other feedback and future considerations

Specific matters will require further consideration in the detailed development of the recommended model, including alignment with the minimum requirements for delivery models under Bill 3⁵¹. These will need to be worked through as part of any shareholding agreement, constitution and clarification of the roles and process for appointment of the Board. Issues include:

- Details in Bill 3 – this is likely to define the purpose of a new WSCCO established under that legislation and may clarify the roles of owners and Board as well as reporting requirements.
- The importance of economic regulation in a new model – vital to ensure fair prices and sustainable investment. Economic regulation oversight and price change will need to be phased in over time, to ensure that there is sufficient capability for both the regulator and delivery models.
- Role and oversight from owner councils and Iwi/Māori partners:
 - There will be a transitional development of the new entity and significant compliance requirements in the first few years. There is a need to ensure the Board and WSCCO are not overloaded. Council oversight may change as regulators are established.
 - There will need to be some form of shareholder forum to set and agree direction, with a need to clarify membership or role of Iwi/Māori on this.
 - Key roles of councils include holding Board to account, alignment with growth, and equity.
 - Foundation documents will need to provide clarification on the role of councils and mana whenua in relation to Board appointments panel – membership, process, decision making; and shareholder forum – such as membership, role, key areas of focus, representation.
 - Councils will need to communicate the changes to their communities, including the shift in relationship from council-customer to WSCCO-customer, with the regulator as ‘backup’.
- Board of WSCCO and entity:
 - It is important to have skilled people on the Board and get the setting right to make this attractive. Skills/competencies to be considered would include commercial, asset management, network utilities, Treaty of Waitangi, customer, local government, and local knowledge.
 - The Board needs to be professional and skills-based, not representative – with appointments by panel. The appointments process will need to work through challenges and options regarding the membership of the appointments panel and decision-making requirements – such as consensus or majority, and role of Iwi/Māori.
 - Unanimous decision making often does not work, and this is a learning from WWL. Particularly when appointing directors to boards, the decisions should not need unanimity.

⁵¹ Government announcements on 8 August noted councils can design own arrangements as long as these meet minimum requirements:

- Will have to meet clear minimum requirements set out in legislation. This includes meeting regulatory standards, financial sustainability requirements such as ringfencing of water services.
- Restrictions against privatisation.
- Additional requirements for water organisations to ensure they are operated and governed effectively.

- There is potential for a transitional Board during the establishment period.
- There is a need to be clear on how to ensure effective day-to-day operations and in relation to a skills-based governance board.
- The new model must not impact on Treaty settlements.
- Following a concern that smaller councils may not get same priority as bigger councils, there should be a focus on a baseline of level of service and local delivery.

Establishment period and rights of entry and exit

A further matter for consideration in the next phase of work and the establishment documents will be rights of entry and exit as shareholders.

During the first 3–5 years of the new WSCCO it may be necessary that there is a ‘lock down’ period of shareholders.

This is to provide the WSCCO with sufficient certainty of accountabilities, shareholders and investment and to avoid potential significant distraction caused by shareholders joining or leaving the model while the WSCCO is developing capability.

This approach would potentially also allow for a formal review point for the WSCCO that could provide for a review of constitution, governance arrangements and shareholders.

This process would need to recognise the potential cost and resource implications for the WSCCO and shareholders of this review and for joining or leaving.

GWRC has indicated a preference to focus on their resource management regulatory role and in time may plan to exit from asset ownership and associated accountabilities related to bulk water supply.

22. Treaty obligations, principles and partnership

Two of the key design principles are to ensure that:

1. Iwi/Māori have meaningful influence and
2. Treaty of Waitangi obligations are honoured.

The role of Iwi/Māori in relation to the governance of a WSCCO is discussed above and will need to be confirmed through any foundational documents such as the constitution, shareholders’ agreement and role of the Board appointment panel. This includes a potential role as part of a shareholder forum and Board appointments. The Board would also need to have suitable competencies and skills in relation to the Treaty of Waitangi.

The new WSCCO will need strong relationships with Iwi/Māori in operations and delivery. There is an opportunity to learn from the Watercare model, which has enduring MoU arrangements that set durable and long-term arrangements which go beyond the transactional.

This will need to be confirmed through the development of the WSDP to ensure that the organisational design has clear, designated roles to partner with Iwi and to give effect to any Treaty settlement obligations which transfer across from the councils.

Watercare model and partnership with Iwi/Māori

Watercare is the CCO, 100% owned by Auckland Council, that provides water supply and wastewater services in Auckland. As well as being a CCO, Watercare is an “Auckland Water Organisation (AWO)” as defined in the Local Government (Auckland Council) Act 2009 (LGACA), and as an AWO is given various rights and obligations under Part 5 of that Act.

The LGACA does not require that the Watercare Board has any particular level of mana whenua representation on it. Instead, Auckland Council appoints the directors of the Watercare Board in the normal way, and subject to ordinary LGA requirements.

These include section 57(3) of the LGA, which states that when identifying the skills, knowledge and experience required of directors of a CCO, the local authority must consider whether knowledge of tikanga Māori may be relevant to the governance of that CCO.

Auckland Council has an Appointments and Remuneration Policy for Board members of Council Organisations. One of the core competencies the Council requires on the boards of its substantive CCOs, including Watercare, is: uphold the principles of the Treaty of Waitangi, readiness to promote improved outcomes for Māori and knowledge of Te Ao Māori and established Māori networks.

In 2012, Watercare established the Mana Whenua Kaitiaki Forum (the Forum) to encourage discussion and guidance, and to share views on the management of water and wastewater. The Forum’s focus has widened to all Watercare matters affecting the strategic interests of mana whenua across the Auckland Region. There are 19 tribal authorities represented on the Forum.

The Kaitiaki Schedule is regularly sent to the 19 tribal authorities on the Forum. It sets out Watercare’s planned work programme, most of which requires resource consent. Representatives are invited to express interest in projects.

Watercare has also entered into relationship agreements with various Iwi and hapu in Tāmaki Makaurau (Auckland) and beyond. These include kawenata with Waikato Tainui and other ‘river Iwi’ that acknowledge the parties’ respective interests, desired outcomes, and sets out how the parties will work together. Watercare also from time to time enters into agreements with Iwi/Māori entities relating to specific projects.

Watercare’s Board is supported by the Executive Leadership Team at Watercare, including the Tumuaki Rautaki ā-Iwi me ngā Hononga (Chief, Māori Strategy and Relationships.) This officer is responsible for ensuring Watercare has the structures and resources to meet its obligations under Te Tiriti o Waitangi.

23. Joint arrangements and stormwater management

A WSDP must confirm the extent of any joint arrangements, including whether the joint arrangement will deliver all water services for all the territorial authorities that are parties to the joint arrangement, or other arrangements.

Through the workshops, councils considered the extent of joint arrangements and whether this would cover two or three waters. Councils have confirmed a preference for the recommended model to include all three water services. This would also mean the transfer of these assets and any relevant liabilities.

A three waters delivery model aligns with the current WWL service model for shareholding councils, and it would be challenging for councils to build or retain sufficient internal capacity for stormwater outside a separate WSCCO.

The identified exceptions to these recommended joint arrangements are:

- Non-piped stormwater networks in urban areas would remain under council ownership. It is likely that councils would enter into service level agreements to confirm management for these areas as part of an integrated approach to stormwater.
- GWRC intends to retain ownership of drinking water catchment areas in Kaitoke and Wainuiomata to support broader outcomes including ecosystems, recreation and climate change.
- Wairarapa councils intend to retain water races that service agriculture.

This recommended model may not fully align with the Government announcements on 8 August 2024 in relation to stormwater management and expected content of Bill 3. The announcements⁵² set out that:

Councils will retain legal responsibilities for the management of stormwater services, but they can choose to:

- *continue to deliver stormwater services in-house and contract aspects of stormwater service delivery to a new water organisation,*
- *transfer aspects of stormwater service delivery (this might include stormwater network assets) to a water organisation, and*
- *contract aspects of stormwater service delivery to a third-party provider, via long-term contract or public-private partnership.*

Councils can determine the levels of service and performance targets for the delivery of stormwater management services. Water service organisations identify the costs of delivering stormwater management services that meet the expected levels of service and meet performance targets.

Councils will continue to collect revenue through rates from residents and businesses for stormwater management services. Revenue for the delivery of stormwater management services is identified separately within council's accounts (ring fenced). Depending on the stormwater management services that are contracted or transferred, the revenue collected through rates may be allocated between councils and water service delivery vehicles to deliver stormwater service outcomes.

The key potential issue here is for conflict of accountabilities and funding under a model where councils choose to transfer delivery and assets to a WSCCO but are legally required to collect revenue (ring-fenced) and have legal responsibility for stormwater. This is particularly challenging where there are cross connections in the network between wastewater and stormwater.

The approach to stormwater is an issue that councils will need to further consider in Phase 2 of this process and may need to submit on in relation to Bill 3 including further engagement with DIA.

Separation of stormwater and clarification of optimal arrangements for the region may be complex and key aspects to work through will be:

- legislative requirements,
- network condition and investment required to deliver outcomes including improved discharge quality,
- achieving financial sustainability, including council financial positions, pricing and financing,

⁵² <https://www.dia.govt.nz/Water-Services-Policy-Future-Delivery-System>.

- asset ownership, debt transfer, revenue transfer,
- asset and network types and interconnections including between piped networks, overland flow paths, roading and other parts of the stormwater system,
- accountabilities and potential service delivery and resourcing options, and
- interrelationship with flood management, risks and accountabilities.

24. Customer model and local service delivery

The new WSCCO would provide all services directly to water customers and bill them for water usage and services provided. Councils are keen to ensure that any future regional WSCCO will provide a high level of local service delivery, including good compliance, response times, and supply. The new model needs to be able to meet these expectations.

Under the recommended model, water consumers would become customers of the WSCCO. The WSCCO would provide all services directly to water customers and bill them for water usage and services provided. This would require the WSCCO to have the ability to:

- proactively communicate to customers,
- receive and respond to service requests, and advice regarding leaks on private property,
- transparently bill customers based on an agreed price basis, and
- ensure service levels are met.

As reflected in the key requirements, councils have expressed a strong view that any future regional WSCCO would need to provide a high level of local service delivery and not result in a loss of service levels for communities. Typical levels of services and performance measures include:

Compliance and quality:

- compliance for drinking water supply with Taumata Arowai drinking water quality assurance rules,
- providing an efficient and effective stormwater system to minimise the impact of heavy rainfall,
- delivering stormwater services in a manner that is acceptable, safe and, where possible, enhances the environment, such as water quality at beaches,
- number of flooding events due to stormwater overflows,
- number of complaints received about water clarity, taste, odour, pressure, flow, and continuity of supply, and
- compliance with resource consents.

Response times:

- response times to a fault or unplanned interruption to the water network,
- resident satisfaction with the water supply service they receive,
- resolution of urgent callouts,
- attendance for non-urgent callouts, and
- resolution of non-urgent callouts.

Supply:

- average drinking water consumption per resident per day,

- percentage of real water loss from networked reticulation system, and
- kilometres of renewals for three waters infrastructure.

It will be important that the organisational design and operating model for a regional WSCCO is set up to meet these expectations for local service delivery. This may draw upon the benefits of scale which provides additional capacity and capability with a local focus to ensure effective customer services, including website, channels, and call centre and quality local service delivery; including local depots for service delivery to ensure local knowledge and efficient response to service requests.

Based on the Government announcements on 8 August, it is expected a WSCCO would be required to develop and implement a WSS which will likely include elements to:

- state publicly the activities and intentions of the water services provider, and the objectives and outcomes to which those activities will contribute,
- provide transparency about the regulatory requirements and other expectations that apply to the provider (including financial sustainability), how it proposes to meet those requirements and expectations, and the associated costs and levels of investment needed, and
- provide a basis for the accountability of the provider for its performance.

25. Capability and capacity development

The intended reforms represent a significant opportunity for the water industry and for local employment, and there will be a need for a national focus on capability and capacity development. Working with wider sector partners, a new WSCCO would need to have a significant focus on capability and capacity development to be able to deliver the scale of investment required, meet new regulatory requirements, service customer needs and drive efficiency gains.

While it is assumed that many of the people working in the water sector will continue to do so, this new model will also require new and different skills that are not currently part of the WWL or in-house council delivery models.

This will require a focus on:

- IT systems and processes: significant investment will be required to ensure that the WSCCO has the full end-to-end digital capability to undertake its functions effectively.
- Quality and completeness of asset data including asset condition information: greater focus on asset data, condition inspections and the management and use of this information to support effective investment decision making.
- Planning: long-term strategic network planning and investment to support financial sustainability and meet the requirements of the regulators.
- Regulation: new and enhanced capability to meet regulatory requirements, in particular for economic regulation.
- Supply chain and procurement: working with the wider sector to identify opportunities to drive efficiency and support private sector investment in new capability and capacity building.
- Training and development partnerships: working with a range of partners and stakeholders to identify and provide training and career pathways. Leveraging existing local providers where possible.
- Technology and innovation: new ways to do work more effectively, especially for pipe condition assessment and replacement work as this represents the greatest challenge.

- Customer focus and billing processes: to ensure good quality service provision, and transparent and effective service delivery.

Financial sustainability of water services

Section summary

A WSDP will need to demonstrate how financially sustainable delivery of water services will be achieved by 30 June 2028. This document does not provide this level of detail but does provide a strategic level of analysis of these matters to ensure councils to have sufficient understanding of the level of investment required and a potential pathway to financial sustainability, including opportunities to use financing arrangements to help manage cost increases.

Informed by modelling of a range of investment scenarios, the recommended investment strategy to ensure financial sustainability is based on increased debt and pricing to enable an investment programme that will **'keep up'** with network maintenance, **'catch up'** on the backlog of worn-out infrastructure, **'build up'** network capacity to enable growth and **'clean up'** wastewater and stormwater to improve discharge standards by upgrading assets as they are replaced at end-of-life.

To ensure that this strategy is affordable, careful use of long-term financing will be required to smooth and balance cost increases over time.

It is estimated that it will take about 20-25 years to replace worn-out parts of the network and ensure substantial environmental compliance. It is also possible to extend the time for this catch-up period, which may result in lower costs but is likely to result in increased risk of network failure and consequential failure and repair costs.

The actual investment and therefore financial strategy and price path will be informed by development of the WSDP and then implemented by a WSCCO. This will be done in the context of a new economic regulator that will have a strong focus on quality and price based on the actual cost to provide sustainable networks and services.

A range of scenarios has been modelled to indicate average potential price increases across the region and do not reflect the actual cost to serve a particular local area, existing prices or an agreed price transition. Under all scenarios modelled, prices will need to increase to address the backlog of investment needed. Price rises will need to be managed through the use of financing tools and effective and efficient targeting of works required. This is expected to result in a more affordable rate of increased costs to water consumers than would otherwise be possible under current local government funding arrangements.

Based on the scenarios modelled:

- Price rises could be up to 9% per annum on average across the region to address the backlog of investment in the network. This rate of price increase will need to be managed through financing arrangements and/or the level of investment undertaken.

- The average price per connection across the region in 2024 is \$1,711⁵³. The amount that this rises to could be up to twice current prices or a peak of about \$3,000 to \$4,000. However, it may be possible to reduce this peak price through financing arrangements and a sustainable price is estimated at about \$2,596 when the catch-up phase is completed in about 20 years' time. This sustainable price is about 51% above the level of current charges, meaning that this level of increase could be gradually managed over time.

To manage affordable changes in prices, key assumptions include:

- Economic regulation will include a core principle that water prices must be based on the cost to provide services to the relevant group of customers.
- The WSCCO will need to develop and agree a pricing and revenue strategy working with the economic regulator that will balance price and quality.
- The WSCCO will use LGFA financing arrangements and additional debt headroom to manage the rate of cost increases.
- People across our region currently pay different amounts for water services depending on where they live and whether water use is metered. These existing price differentials will be locked in for a three-year transitional period to help ensure that consumers do not receive a major price shock.

26. Financial sustainability

A WSDP will need to demonstrate how financially sustainable delivery of water services will be achieved by 30 June 2028. This requires confirmation of:

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

Further guidance has recently been provided by the DIA on how financial sustainability should be demonstrated within a WSDP⁵⁴.

This document does not provide this level of detail but does provide a strategic level of analysis of these matters to ensure councils have sufficient understanding of the level of investment required and a potential pathway to financial sustainability, including opportunities to use financing arrangements to help manage cost increases. This has been informed by a network economics approach (see Appendix H).

Further work will be undertaken to demonstrate financial sustainability in line with legislative requirements, departmental guidance and associated templates as investment scenarios are refined and the WSDP is developed. In particular, this will need to focus on financing arrangements to manage affordability and rate of cost increases. This work is expected to result in a more affordable rate of increased costs to water consumers than would otherwise be possible under current local government funding arrangements.

⁵³ Based on 2024 costs.

⁵⁴ <https://www.dia.govt.nz/Water-Services-Policy-Water-Services-Delivery-Plans>.

Limitations: It is important to note that this report is intended as a strategic level of analysis and investment strategy to support this phase of council decision making. This modelling is indicative only and the actual WSDP will need to demonstrate financial sustainability by 30 June 2028. The financing, pricing and investment strategy will be developed as part of the WSS by the Board of a WSCCO over some decades, with oversight from the economic and quality regulators to ensure a balance of compliance, quality and affordability.

27. Approach to modelling

This report has been informed by network economic and financial modelling to support strategic options assessment and initial consideration of financial sustainability requirements. The methodology followed is based on established best practice network economics for regulated networks (see Appendix H).

The network economic and financial modelling is multi-dimensional and can be used to test a wide range of alternative investment, price, debt and risk scenarios. These scenarios are not intended to represent planned investment or financial arrangements, but to help understand tradeoffs and potential options.

Apart from the rate of catch-up investment, the total investment required was taken as an assumed fixed quantum on the basis that it is the essential investment required to turn the network around and to meet growth and compliance standards. It is noted that this is an *estimate* only of the level of investment required and will require significant further refinement through the development of the WSDP. These estimates will continue to be reviewed and refined as part of a WSDP based on more robust bottom up analysis of the investment needed.

The variables to trade off then become a scale of capital programme (which informs the network remediation period) and the funding sources, being price and debt. In assessing financial sustainability and arriving at a recommended investment strategy, several key considerations need to be balanced including:

- addressing the critical network challenges through increased revenue from price and borrowing. The WSCCO will also need to ensure that the level of borrowing is sustainable and within covenants agreed with the LGFA,
- rates of price increase and ensuring cost increases are affordable for households. All scenarios modelled require price increases over time. Without price increases, it will not be possible to catch up and the region will face ongoing risks of significant network failure,
- balancing the risk and costs of network failures with affordability of price increases and with the level of debt that is sustainable. Taking a longer time to fix worn-out pipes will mean increased risk of critical network failures as well as carrying the faults cost burden for longer,
- financing arrangements, including how the WSCCO can utilise and structure borrowing to manage and smooth the rate of cost increases (note, only limited focus has been undertaken to date on financing opportunities and this will need to be fully explored in subsequent phases of work) and
- being deliverable based on sector capacity.

28. Scenarios

The considerations outlined above inform a two-stage logic to modelling scenario options for network remediation, price and debt. The modelled scenarios have been based on the

information, assumptions and limitations as noted in Appendix C, are intended to inform strategic trade-offs only and are not the basis for investment decisions or price pathways.

The scenarios are all modelled based on FY24 real numbers (not inflated) and all scenarios assume pricing for Years 1-3 are based on LTP investment levels and rates increases.

Consideration one – scale of capital programme and network remediation period

The amount of network to be remediated is fixed (this is estimated at ~\$4.2 billion based on 21% of the network being worn out with a total replacement value of \$19.7 billion). Remediation of the network can be practically achieved over about 20-30 years based on sector capacity.

The slower this occurs, the lower the annual capital spend required because it spreads the \$4.2 billion catch-up cost over a longer period. This means that fixing the network over a longer period may result in lower costs overall because the lower capital spend means that less borrowing is required while prices are being raised until Funds from Operations (FFO)⁵⁵ cover capital requirements.

However, the slower the network is fixed, the more investment will be required to fix faults. Also, this will lead to higher risks of both critical network failure and network fault runaway increasing, due to leaving worn-out assets in the network for longer.

These risks are assessed as already having high likelihood of occurrence with corresponding serious consequences and potentially very high associated costs which are not currently factored into the modelling. These include consequential costs from sustained or regular occurrences of lack of water supply delivery, lack of wastewater delivery and localised flooding from stormwater. Once these are factored into modelling, these may outweigh additional interest costs from lower borrowings.

Consideration two – price rise rate and debt

Until the FFO exceed capital expenditure, the balance must be borrowed in some form of debt. Use and structure of debt will be an effective way to efficiently and equitably invest in the network over time, and deliver network improvements faster.

Raising prices more quickly lowers the total debt required and reduces the overall cost to the consumer over the longer term.

Raising prices slowly is more affordable to consumers but may also raise the overall cost during network remediation due to the increased overall debt and associated interest cost burden.

Modelled scenarios

Based on the considerations above, the range of scenarios modelled include testing of the following variables (see Appendix I):

- lower and higher rates of price increases,
- slower and faster rates of network remediation,
- higher and lower construction costs,
- higher faults costs,
- higher debt, and
- investment based on LTP investment levels.

⁵⁵ Funds from operations (FFO) is the actual amount of net cash flow generated from a company's business operations. FFO Formula = Net Income + Depreciation + Amortization +/- Gains or Losses on Property Sales.

29. Investment sufficiency - Level of investment required

Requirement: the projected level of investment is sufficient to meet levels of service, regulatory requirements and provide for growth.

Informed by consideration of a range of scenarios, the recommended investment strategy to ensure investment sufficiency is to **'keep up'** with network maintenance, **'catch up'** on the backlog of worn-out infrastructure, **'build up'** network capacity to enable growth and **'clean up'** wastewater and stormwater to improve discharge standards by upgrading assets as they are replaced at end-of-life, and as much as possible separate the stormwater system from the wastewater system (so that the latter can be made discharge compliant).

It is estimated that it will take about 20-25 years to replace worn-out parts of the network and ensure substantial environmental compliance. It is also possible to extend the time for this catch-up period to around 30 years, which may result in lower costs but is likely to result in increased risk of network failure and consequential failure and repair costs.

Even with an optimised investment strategy, the costs will be substantial. It will rely on a combination of price and debt. Over the next 20-25 years, the total network investment required is estimated at about \$15-\$17 billion at an average of approximately \$700-\$750 million per annum (note this will require a gradual increase in investment to ensure market capacity to deliver).

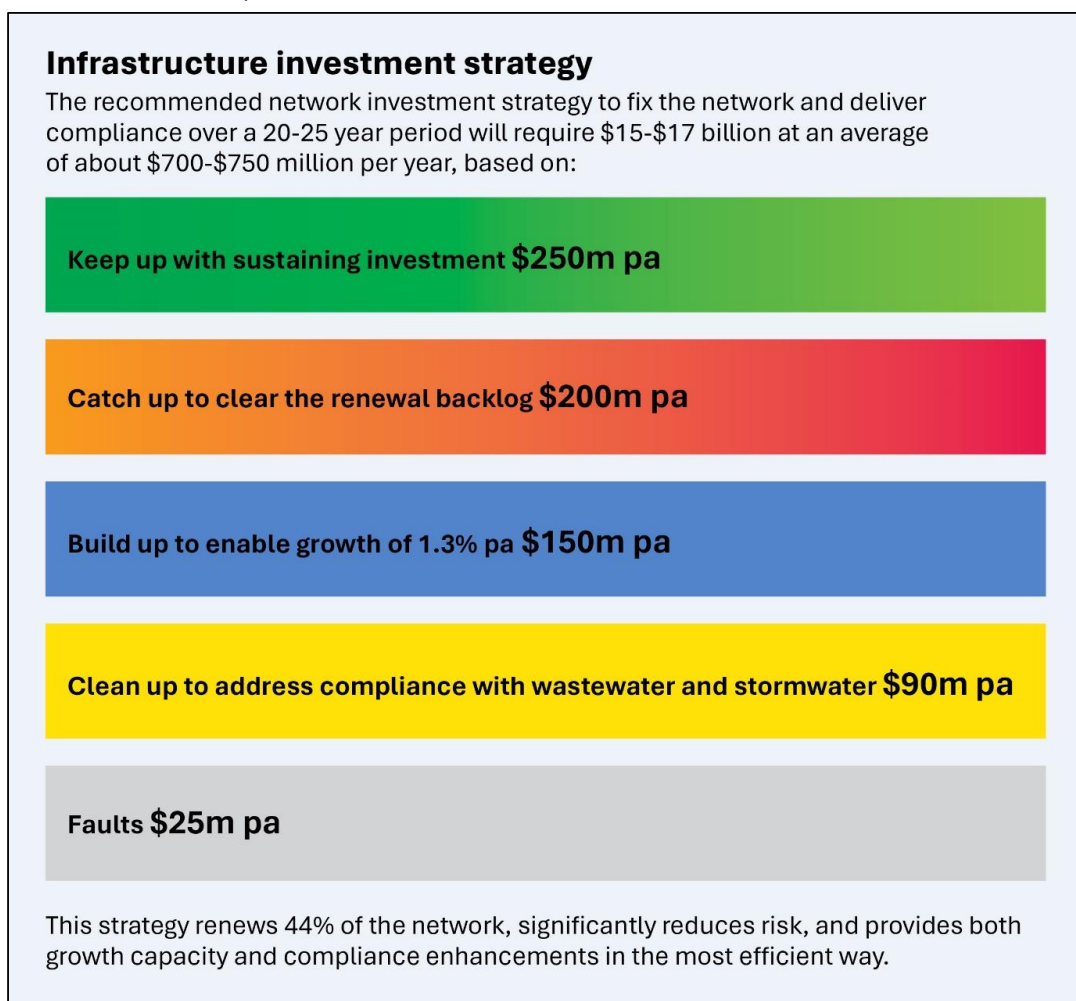
This is based on investment sufficiency to:

1. **Keep up by investing an average \$250 million per year in sustaining investment.**
This is the investment required to simply maintain the network in its current state. The \$250 million is the average annual sustaining investment required for a \$19.7 billion network with an average 74-year maximum asset life and a 1.3% per annum population growth over an initial 10 years.
2. **Catch up by investing an average of \$200 million per year to redress the renewal backlog over 21 years.**
Based on the \$19.7 billion replacement cost, a \$4.2 billion investment is required to replace the 21% of assets which are in poor or very poor condition. The rationale for selecting a 21-year recovery period is explained below.
3. **Build up capacity by investing \$150 million per year in growth.**
This is the annual growth investment required to expand the capacity of the network to support the forecast population growth of 1.3% per annum. This figure has been matched to current annual capital growth costs for the region net of development contributions.
4. **Clean up by investing \$90 million per year to meet drinking and wastewater quality standards.**
There is huge uncertainty regarding the cost and timeframe for achieving water quality standards, particularly around wastewater. In the absence of a solid fact base, it has been assumed partial compliance can be achieved by upgrading assets when they are replaced at the end of their lives. The \$90 million per annum is a placeholder calculated at 5% of the replacement cost of the assets replaced each year. Once the network has been fixed, the remainder of the \$2 billion allocation to compliance will be spent on remaining wastewater pipes that have not yet been replaced during the catch-up period, and on treatment plant compliance.

5. Faults

The annual cost of fixing faults (including leaks) is currently estimated at more than \$41 million per annum (based on the WWL Annual Report). This cost is driven largely from the fault repair cost associated with worn-out assets in the network and will reduce over time as parts of the network are fixed resulting in an average assumed cost of \$25 million per annum over a 20-year period. If fault rates continue to increase (due to non-replacement of worn-out assets) then this cost burden will also increase. There is low confidence in this figure of \$41 million due to leaks only being classed as faults when reported by the public (in the absence of metering), increasing fault backlogs (which do not create an accounting cost until they are repaired), and underground leaks (which are often not visible), so on review this figure may need to become much larger. Nearly all faults (particularly leaks) represent capital inefficiency in the network because they occur only at low levels when the network is functioning properly.

Figure 6: Infrastructure investment strategy (figures are indicative and subject to ongoing review and validation)



Basis for catch-up timeframe

The current condition of the network, and the high risk and cost of major failures, highlight the need for early and significant network intervention, mainly in the form of asset renewals for pipes and plants.

However, the 'low' price being charged for water by councils does not currently allow the network to be sustained in its current state, let alone remediate a large portion of worn-out assets.

The recommended investment strategy is to complete the catch-up investment over about 20-25 years. This balances the cost of faults versus the cost of interest. It also results in the replacement of about 44% of network assets over this time, due to both sustainable asset renewal and catch-up renewal.

Through increased use of financing tools and debt, an alternative investment strategy would be to target a 12-15-year catch-up period. This would significantly lower the risk of network failure but is unlikely to be deliverable based on sector capacity. The alternative to this is to spread the costs over 30 years but would also have higher risk of network faults due to the extended period the network continues to be held in its current poor condition.

The cost of a failing asset

The cost of a failing asset depends on its position in the network because this impacts the consequential cost of its failure. An asset which is centrally located (upstream) in the water supply network (and downstream in wastewater and stormwater networks) is typically replaced earlier in its degradation process because its failure causes a larger impact on the delivery edge (downstream) of the network.

A typical example would be a low-cost rubber seal in a pump that supplies water to a reservoir. A failure of this seal causes a failure of the pump, which prevents the filling of the reservoir that may then run out of water for all the downstream connections. For highly critical network components, assets are replaced earlier in their degradation cycle. Conversely, even seriously failing assets on the edge of the network that impact only a few customers are often intentionally run to failure because this is still cheaper than replacing the asset earlier.

30. Revenue sufficiency - Revenue required and affordability

Requirement: there is sufficient revenue to cover the costs (including servicing debt) of water services delivery.

As noted above, the actual investment and therefore financial strategy and price path to deliver the investment strategy will be informed by development of the WSDP and then implemented by a WSCCO with oversight from the economic regulator. The revenue and price analysis below is intended to help illustrate how much could be funded based on a range of scenarios and is not intended as an accurate estimate of actual price increases or an investment strategy.

To understand potential trade-offs to deliver on the 'investment sufficiency' and also ensure affordability, a range of scenarios has been modelled. Further analysis of these will be required informed by financing arrangements (see Section 31: Financing sufficiency) to smooth and balance cost increases over time.

Delivering affordable water is a major challenge, not just in New Zealand but in most developed economies. A recent World Bank Study determined that the percentage of GDP spent on water

infrastructure by developed economies is currently 2% and needs to rise to 4%. This is consistent with the economic analysis in this report and is a material change.

Councils are keen to ensure that any future regional WSCCO will provide a high level of local service delivery, including good compliance, quality, response times, and supply while also ensuring that these services remain affordable.

The new WSCCO would provide all services directly to water customers and bill them for water usage and services provided.

Currently the full costs of delivering water services are not fully funded by the water portion of council rates, and current council LTPs do not make an allowance for full funding of water services into the coming years.

A new water company will be required by the economic regulator to fully fund the costs of water services. Because of this, the WSCCO will need to effectively use debt and households are also going to have to pay more for water than they have been.

The scenarios have been modelled to provide an indication of average potential price increases across the region. These do not reflect the actual cost to serve a particular local area, existing prices or an agreed price transition. Under all scenarios modelled, prices will need to increase to address the backlog of investment needed. Price rises will need to be managed through use of financing tools and effective and efficient targeting of the works required. Based on the scenarios modelled:

- Price rises could be up to 9% per annum on average across the region to address the backlog of investment in the network. This rate of price increase will need to be managed through financing arrangements and/or the level of investment undertaken.
- The average price per connection across the region in 2024 is \$1,711⁵⁶. The amount that this rises to could be up to twice current prices or a peak of about \$3,000 to \$4,000. However, it may be possible to reduce this peak price through financing arrangements and a sustainable price is estimated at about \$2,596 when the catch-up phase is completed in about 20 years' time. This sustainable price is about 51% above the level of current charges, meaning that this level of increase could be gradually managed over time.

Key assumptions in relation to pricing and ensuring a focus on affordability include:

Economic regulation:

- Legislation will confirm the Commerce Commission as the economic regulator. They will have a key role in customer protection and ensuring a focus on both price and quality.
- In particular, the Government has stated that the economic regulations will include a core principle that water prices must be based on the cost to serve the relevant group of customers.

Financing, pricing and revenue strategy:

- The WSCCO will use LGFA financing arrangements and additional debt headroom to manage the rate of cost increases.
- Actual price increases from about 2027 will be based on the actual investment required and an agreed pricing and revenue strategy that the WSCCO develops with the economic regulator.

Harmonisation of pricing structures, over time:

- People across our region currently pay different prices for water. This varies a lot depending on where they live and whether their water use is metered.

⁵⁶ Based on 2024 costs.

- The WSCCO will inherit a diverse suite of revenue sources and pricing structures from across the region. Given this, revenue and pricing will be very complex. For example, there are very diverse charging structures for non-residential services such as development contributions, although there is scope for these to be set (and continue to be set, even by a regional or sub-regional entity) on a local 'catchment' (as opposed to 'district' or 'service-area') basis. Charging structures are likely to require simplification and alignment over time, to avoid overcomplicating the new entity's systems on day one and to avoid early price shocks for consumers.
- The WSCCO will have a significant challenge to transition these into a simple set of services with fair and transparent prices. This will be a key task for the first three years of operation, which will be supported by the proposed economic regulation framework.

Transitional period:

- Until a WSCCO is fully up and running (about 2027), water prices are likely to be based on existing council rates with increases based on what councils have set through their LTPs. These levels of increase will vary from council to council.
- A key assumption is that there will be a **three-year price differential lock in period** to help ensure that consumers do not receive a major price shock on transition. This could be applied evenly to residential charges across the region, thereby maintaining existing residential price differentials. (Note: This is subject to existing revenues being sufficient to cover the full costs of water service provision, i.e. the council having set the existing revenue at a sufficient level to fully fund the costs of water service provision per the water services Financial Impact Statement).

Ability to charge customers

Based on the Government announcements on 8 August 2024, it is assumed that legislation will include provisions to enable boards of water organisations to:

- assess, set and collect water services charges, including charges for any or all of the following:
 - water supply, wastewater, and stormwater (where applicable),
 - the initial connection to one or more of the above services,
 - contributions to the capital costs of infrastructure needed to service additional demand on the network, and
 - meeting the costs that the water organisation incurs in performing and exercising its functions.
- determine how charges are assessed and invoiced, when they are due, and how they will be paid or collected.

31. Financing sufficiency - Financing and borrowing

Requirement: funding and financing arrangements are sufficient to meet investment requirements.

Actual debt required will depend on the selected investment strategy and will need to balance efficient financing of long-term assets to ensure equity. The WSCCO will need to carefully use increased levels of debt to manage the rate of price increases, balanced with the costs of servicing debt and therefore the longer-term total cost to consumers.

The Government announcements on 8 August 2024 and subsequent information from the LGFA confirmed some of the financing arrangements that will be available to support WSCCOs.

- The LGFA will support leverage for water organisations up to a level equivalent to 500% of operating revenues (around twice that of existing councils), subject to water organisations meeting prudent credit criteria.
- The LGFA has subsequently indicated that this will be based on FFO. Basing the criteria on FFO is likely to result in the WSCCO being able to borrow less than the indicated 5x revenue limit. This would be negotiated between the LGFA and WSCCO.
- LGFA will treat borrowing by water organisations as separate from borrowing by parent council or councils.
- A parent council(s) guarantee or uncalled capital (proportionate amongst shareholders) will be required.
- The additional debt funding from the LGFA is only available to water CCOs ('water organisations')⁵⁷ who must meet prudent lending criteria and have the characteristics of an investment-grade utility provider over the medium term (within 10 years).

Key points to note based on the in relation to financing and borrowing:

1. **Opening debt:** It has been assumed that the WSCCO will inherit about \$2.3 billion of debt in 2027 from the councils. This is because when water assets transfer, so would the associated revenue collection powers and associated debt. *The opening debt at 1 July 2027 is currently a placeholder and subject to ongoing review will need to be confirmed as part of Phase 2 and 3.*
2. **Source of funds:** It is assumed that as a water organisation, the entity will rely on the LGFA as its lender. The LGFA is currently working on the covenant framework that will apply to WSCCOs. LGFA has indicated it will align with the covenants used by the WSCCO international peers. The primary metric being the ratio of Funds from Operation to Net Debt, where a ratio of >9% is the minimum standard setting required to maintain an investment grade rating.
3. The **long-term funding** objective is to reach a sustainable position, whereby operations and infrastructure are funded by the generation(s) that benefit. The long-term strategy for achieving this objective is to:
 - ensure today's revenues are sufficient to fund the delivery, operation and maintenance of fully compliant services/infrastructure for today's generation⁵⁸ (sustaining + catch up + growth + compliance), and
 - use debt to fund capacity growth for the benefit of future generations.
4. **Transitional funding:** For about 10 years, revenue is likely to be insufficient to cover the full delivery and investment costs of the current network and services, resulting in a potential funding shortfall. Therefore, the transitional funding strategy is to:
 - phase in the price increases necessary to correct the revenue shortfall at a rate which is acceptable to consumers,

⁵⁷ 'Water services provider' means all forms of local government provider and including councils that continue with direct (in-house) delivery as well as new water organisations. The term 'water organisation' refers only to separate organisations that councils may establish to provide water services and does not include councils with direct (in-house) delivery.

⁵⁸ A utility operating at a financially sustainable level would typically have an optimal gearing ratio of about 40%. Once the optimal gearing level is reached, and depending on the level of debt used to fund growth, equilibrium can likely be maintained by ensuring operating cash flows are sufficient to cover renewals expenditure and using debt to fund growth expenditure.

- spread catch-up remediation over a 20–25-year period. This is still relatively fast and would help to stabilise and prevent further deterioration of the network, and
- gear up the balance sheet to a fiscally prudent level to manage the rate of price increases and ensure efficient and equitable use of debt.

The accompanying financial projections are set out in Appendix J.

32. Potential for efficiency gains and economies of scale

Efficiency can be defined as: the act of spending less and receiving the same outcome, or of receiving a better outcome for the same level of spending. This does not mean less jobs. On the contrary, this report assumes that significantly more people will be employed in the water sector.

The scenarios modelled have not made any assumptions or allowance for efficiency gains.

It is considered that it will be challenging to deliver efficiency at a meaningful scale during the early establishment years of a WSCCO as the organisation sets in place the required capability and capacity to deliver. As the organisation then grows in maturity there will, however, be some significant opportunities for efficiency gains over time which can lead to overall lower costs for consumers and better outcomes for the community and the environment.

Key opportunities to deliver efficiency include^{59 60}:

Preconditions: Efficiency is dependent on the set-up of the organisation and the broader water services system including governance and regulation, and:

- the entities need to have effective governance arrangements and be able to attract and retain appropriately skilled management,
- regulatory compliance and enforcement with water quality and other matters is effective,
- effective economic regulation is established, and
- the entities have access to the necessary resources to fund the amalgamation and reform processes and over time make the required investment.

Economy of scale: Efficiency can be achieved through economies of scale, focused on shared consumer use of networks. This includes:

- standardisation of materials and plant and consumables,
- fit for purpose procurement and supplier management processes,
- power cost savings,
- improved systems and use of technology,
- focused design principles for network design to provide for reliability, capacity, redundancy, and growth in all planning⁶¹,
- ensuring that the assets in the network are maintained and replaced appropriately to avoid the additional cost burden from failing assets such as leaks,
- certainty of workflow which allows the supply chain both to invest and reduce unit costs,
- a genuine commitment to benefit sharing and sharing the risks of innovative approaches, and

⁵⁹ Water Industry for Scotland, Economic analysis of water services aggregation, May 2021.

⁶⁰ Three waters reform, review of methodology and assumptions underpinning economic analysis of aggregation. May 2021, farrierswier.

⁶¹ Cost estimate for Phase 2 and 3 is indicative only and subject to a range of risks and assumptions including the passage of legislation.

- both capital and operational savings achieved through asset rationalisation.

Capability: Scottish Water managed to retain and reward the high-quality staff, attracting talented senior management and building the required capabilities (for example, on strategic asset management and water modelling). This has, in turn, allowed it to achieve additional capital investment efficiencies through improved asset planning and strategic asset management.

Network efficiency: Optimal network efficiency requires intensive designing and planning, with focus on the in-house skills required to do this. It is a lot cheaper to change a design before it is implemented rather than after. It makes sense to make sure it is right before building it as the network will need to last for many decades. This includes:

- building for long life – this is the only way to get efficiency from capital – reworking networks destroys this,
- maintaining the network well – the network is at its most efficient when it is not ‘going wrong’, all forms of which create a cost burden, and
- ensuring a mechanism for continuously piloting innovation.

Compliance costs: Planning for and investing to make resilient networks, rather than continually undertaking reactive maintenance leads to lower compliance costs. Besides the highest priority being on safety (drinking water, wastewater containment, flooding management etc), the main focus of compliance should be on network and plant reliability and immediate capacity constraints.

Evaluation of the recommended regional delivery model

Section summary

Under the Preliminary Arrangements Act, councils need to confirm their approach to a WSDP – whether they want to develop a joint WSDP with other councils and the extent of any joint arrangements; for example, for all or only some water services.

Councils must assess in the course of the decision-making process on the WSDP, both their existing service delivery model and the option of establishing, joining or amending a WSCCO or a joint local government arrangement. If they choose, they may also consider other options for delivery of water services. The assessment of (at least two) alternatives needs to be credible with sufficient information to ensure decision-makers can reach a properly informed view.

This report does not deal with the assessment of the status quo delivery model in each district, or potential options for delivering water services other than the recommended model, as these are matters for each council to consider. However, to support councils to undertake this assessment, the recommended regional option has been evaluated here in relation to the key requirements and other key factors including cost to implement, risk, level of benefits and political acceptability.

The evaluation will help councils to undertake a comparative analysis of service delivery options, as well as the scope and approach to ongoing development of a joint WSDP and WSCCO.

33. Assessment of options

Under the provisions of the Preliminary Arrangements Act, councils need to **confirm their approach to a WSDP**: Whether to develop a joint WSDP with other councils (section 10) and the extent of joint arrangements (section 11), for example, for all or some water services.

Each council's assessment of service delivery options (at least 2 as noted above, one of which is the status quo) needs to be credible. The analysis can identify a preferred option but must also ensure that decision-makers have sufficient information to reach a properly informed view and make their own assessment of advantages and disadvantages of the different options, including by reference to the matters set out Part 3 of the Act.

Making this decision should enable the council to commit to the development of a joint WSDP, or to take another approach. This will then inform the scope, approach and timeline for this work.

34. Evaluation of recommended model

The recommended model is for a full-breadth water utility vested with ownership of all regional water assets, revenues and liabilities; with a similar structure to a CCO but with reduced council oversight, to ensure sufficient financial and decision-making separation from council owners.

An *initial* evaluation of the recommended model has been undertaken in relation to the key requirements and other key factors, including the ability to meet new regulatory requirements, alignment with Government announcements on 8 August 2024 (including minimum requirements), cost to implement, risk, level of benefits, and political acceptability.

For each factor, the relevant benefits, risks and challenges and key assumptions have been identified. This evaluation is subjective and has been informed by the current state case for change as outlined above.

The evaluation is intended to help support and inform:

- councils to undertake a comparative analysis of the recommended model and the status quo, and
- the scope and approach to ongoing development of a joint WSDP and WSCCO.

Table 13: Evaluation of recommended regional model - benefits, risks and challenges, assumptions

Key requirements identified by councils	Alignment with council requirements	Benefits	Risks and challenges	Assumptions and details to work through
Water consumers	Good alignment	<ul style="list-style-type: none"> Council ownership ensures ongoing public ownership and protection from privatisation. More affordable and transparent pathway for water services than may be possible under current local government funding constraints. Customer focus and local delivery model part of design. Compliant services through increased investment and capability. Scale of organisation enables continuous improvement. Higher rates of investment deliver better network outcomes and levels of service. 	<ul style="list-style-type: none"> Assurance of no loss of service and local delivery. Ability to meet environmental compliance requirements in the short term will be challenging. Will require price increases under all scenarios. Transitional pricing arrangements. Understanding that key relationship will be with WSCCO not with councils. 	<ul style="list-style-type: none"> Establishment of the economic regulator to support consumer protections. Role of Taumata Arowai and GWRC as environmental regulators. Organisational design and operating model for a regional WSCCO is set up to meet these expectations for local service delivery. Overall impact of change (increased and separate water services charges, impacts on rates) to be understood.
Councils	Good alignment	<ul style="list-style-type: none"> Financial separation from councils will result in improved council financial metrics including revenue to debt for most councils. Council governance role enables alignment of investment and outcomes. Clarity of accountability between WSCCO and councils. Long-term approach to planning and investment. Scale to enable efficiency and capability. Three waters model. 	<ul style="list-style-type: none"> Financial impacts on councils post reform to be confirmed. Confidence of alignment on outcomes given financial pressure on WSCCO. 	<ul style="list-style-type: none"> Confirmation of principles and process for transfer of debt, revenue and liabilities. Assessment of alternative options. Public acceptability of need for change and preferred model. Approach to stormwater in relation to Bill 3.
Iwi/Māori	Good alignment	<ul style="list-style-type: none"> Meaningful role and influence through governance and operations. WSCCO to embrace Te Mana o te Wai. Improvement to water quality. 	<ul style="list-style-type: none"> Time to address water quality issues. 	<ul style="list-style-type: none"> Confirmation of role and influence through foundational documents. Establishment of meaningful operational relationships and structures.

Future water entity	Excellent alignment	<ul style="list-style-type: none"> • Empowered to operate independently. • Skills-based Board. • Long-term planning and investment. • Full service and good quality systems. • Depth and breadth of people. 	<ul style="list-style-type: none"> • Time to establish and reach full organisational maturity. • High consumer expectations with high price rises. • Establishment costs. 	<ul style="list-style-type: none"> • Sufficient investment to 'set up right'. • Establishment process and timeframes. • Ability to retain and grow capability and capacity.
Central Government	Good alignment	<ul style="list-style-type: none"> • Alignment with minimum requirements for delivery models. • Financially sustainable model by 30 June 2028. • Scale to deliver. • Increased compliance with regulation and ability to comply with economic regulation. • Enables housing growth. 	<ul style="list-style-type: none"> • Alignment on stormwater policy settings. 	<ul style="list-style-type: none"> • Public acceptability of need for change and preferred model.
Transition	Reasonable alignment	<ul style="list-style-type: none"> • Equitable and fair process for transfer. • A focus on people with clear pathways. • Seamless change. 	<ul style="list-style-type: none"> • Time and cost to agree preferred model and implementation. • Costs to establish. • Risks of disruption during establishment phase – delivery, people, networks. • Lack of certainty of which councils are part of a future WSCCO / WSDP 	<ul style="list-style-type: none"> • Confirmation of principles and process for transfer of debt, revenue and liabilities. • Confirmation of principles for transfer of people. • Alignment with requirements of Bill 3. • Sufficient resourcing to plan and deliver change process.

Table 14: Other key factors

Other key factors	Alignment with other key factors	Comment
Ability to meet new regulatory requirements	Good alignment	<ul style="list-style-type: none"> Scale and level of investment, capacity and capability of the WSCCO will enable alignment with compliance including economic regulation and improved water quality. Will be some ongoing challenges to deliver full compliance in the shorter term with environmental compliance due to costs and level of investment required.
Alignment with Government announcements 8 August 2024	Good alignment	<ul style="list-style-type: none"> Recommended model aligns very well with Government announcements on 8 August 2024 including minimum requirements for delivery models. This includes protection against privatisation and a similar structure to the ‘multi-council owner water organisation’ outlined in DIA guidance including similar governance and accountability framework. Recommended model well aligned with the proposed funding arrangements from the LGFA including meeting requirements for a ‘water organisation’. It is important to note that LGFA will only lend to WSCCOs that are financial supported by their parent council(s). This means that either a guarantee or uncalled capital will be required from councils to match the liabilities of the water CCO. Potential area of misalignment is in relation to urban stormwater and policy requirement that councils retain legal responsibility for stormwater including revenue, even if service delivery and assets are transferred to a water organisation. This will require further consideration. It appears workable but may pose challenges in relation to ensuring sufficient revenue for stormwater and alignment of broader investment by a WSCCO.
Cost to implement	Some challenges	<ul style="list-style-type: none"> Costs to complete detailed work required to complete a joint WSDP and an implementation plan will be high and are not currently budgeted for by councils. Implementation costs for a full service WSCCO are expected to be high, in part driven by the need for fit for purpose IT processes and systems. This will need to be funded by way of an establishment fund against the balance sheet of the new WSCCO.
Risk	Some challenges	<ul style="list-style-type: none"> Shorter term: Coordination of planning and delivery of a joint WSDP and joint WSCCO will be challenging with multiple risks of time, cost and scope. See list of risks and assumptions below. Longer term: The scale of a joint WSCCO will have significant ability to manage network and investment risks due to scale, capacity and capability.
Level of benefits	Excellent alignment	<p>Investment in water is critical to the health, well-being and economic sustainability of our region and will enable significant regional benefits. A large, full-service, asset-owning WSCCO is considered to provide opportunity to deliver on a range of benefits based on effective leadership, depth of expertise, influence with government, easier integration with regional spatial planning, digital capability and financial scale to tackle network challenges.</p> <p>Key potential benefits include:</p> <ul style="list-style-type: none"> New homes: The investment will better enable planned growth and new housing of both greenfield and brownfield for the region.

		<ul style="list-style-type: none"> • More jobs: The investment will require growing the capability and capacity of the water industry to deliver the required works. • Resilience: Over the next 20 years, an estimated 44% of the network could be replaced, building significant resilience for future events. Investment will also address the region's critical water shortage challenges through meters, increased water storage and fixing leaks. • Scale and efficiency: Addressing these issues at scale and coordinating efforts across council boundaries offers significant opportunities for efficiency and reduced long-term costs. • Focus on affordability: Household costs for water services will increase. Under the proposed regional model, there is an opportunity to ensure that affordability remains a key focus for delivery with lower total costs in the long run through effective use of funding and financing arrangements than are currently available to councils. • Potential efficiency gains over time through strategic investment decisions, supply chain management and reduction in duplication of roles. • More expertise and capacity. • Better able to respond to regulators.
Political acceptability	Good alignment	<ul style="list-style-type: none"> • Recommended model aligned with expected direction in Bill 3 for asset-owning WSCCO as outlined by Government announcements on 8 August 2024. • The level of political acceptability across multiple councils is still to be confirmed through council decision-making processes.
Position of councils	Good alignment	<ul style="list-style-type: none"> • The recommended regional model was developed with considerable input from councils from the AOG, Chief Executives and officers through workshops and feedback. • At time of writing and based on feedback from councils on the draft version of this report, no significant issues with the recommended model have identified and the model is considered to be the 'best for region'. This is not the same as 'best for council' and each council will need to undertake its own evaluation and decision-making process in line with the requirements of legislation.

35. Other key assumptions

Other relevant assumptions include:

- Bill 3 policy parameters as expressed in the 8 August 2024 announcements, are given effect in the Bill introduced in December 2024.
- Bill 3 is introduced into the House in December 2024 and will introduce details for a new asset-owning WSCCO, that will provide this type of organisation with the necessary purpose, powers and functions to meet the region's requirements.
- Councils have sufficient information to confirm a preferred approach to water services delivery by the end of October 2024 in order that detailed development of a WSDP can get underway from November 2024.
- Councils are able to undertake stakeholder and community engagement as required by legislation. Councils have sufficient information to undertake annual plan reviews and amend their LTPs as required.

36. Other key risks and challenges

Other relevant key risks and challenges include:

- **Mandate and support**
 - political support, including due to timing of local government elections,
 - lack of alignment on decision making by councils,
 - lack of support or loss of confidence in the process by councils,
 - lack of support from Government, including required legislative changes,
 - lack of buy-in or understanding from community, and
 - lack of support or loss of confidence in the process by Iwi/Māori partners.
- **Decision making** – process and requirements for council decision making is unclear or not understood resulting in rework and/or challenges to decision making (such as judicial review).
- **Model** – future models are not financially viable.
- **Resourcing** – lack of effective resourcing for the process by councils, including capacity of senior staff, or funding for future phases.
- **Scope** – balancing expectations of detail vs progress.
- **Quality** – analysis and outputs do not support effective decision making.
- **Timing**
 - ability to be agile and respond to changing needs,
 - ability of councils to make decisions on a timely basis,
 - alignment of process and consultation to LTP amendment process, and
 - ability of councils to make decisions ahead of local government elections in 2025.
- **Legislation** – misalignment with legislation or legislation does not enable the preferred model.
- **Engagement** – lack of clarity on engagement and consultation requirements of new legislation or these are unworkable.

- **Impacts on existing delivery models** and productivity due to uncertainty of the potential change process.
- **Impact on councils' ability to enable and deliver on growth.** The decisions, priorities and capacity of a water services organisation will have significant impact on a range of council activities. It will be challenging to ensure close coordination between councils and the water organisation to ensure councils are able to drive and deliver on directions without an added layer of complexity or being at the mercy of another organisation's priorities. This is especially important for housing growth where the water organisation will be a growth plan taker rather than a plan maker.

Implementation considerations

Section summary

Decisions on subsequent phases of work to consider a joint WSDP and WSCCO are expected to be made on an in-principle basis by late 2024 in order that these can be further developed.

Phase 2 will need to include development and delivery of the WSDP. This will support councils to make decisions in relation to the development and adoption of a regional WSDP that meets councils' legislative obligations, as well as establishing joint arrangements for the delivery of water services and preparing for the subsequent implementation of the preferred approach in Phase 3.

Phase 2 includes the need to undertake consultation and engagement on at least part of the WSDP relating to the proposed service delivery model, and the implementation planning required for Phase 3. This will involve significant decision making in relation to early establishment resources, accountabilities and funding.

The draft regional WSDP will need to be aligned with requirements of Part 2 of the Preliminary Arrangements Act including:

- asset condition information and a related AMP,
- funding, financing and revenue requirements to achieve financial sustainability,
- the anticipated or proposed model or arrangements for delivering water services, including how these will meet compliance requirements, and
- an implementation plan for the WSDP including timeframes and milestones, and how a future delivery model would be established in Phase 3.

Implementation planning will consider the potential establishment of a large, full-service, multi-council-owned WSCCO.

Details regarding the structure, accountabilities, decision-making rights and resourcing will need to be finalised. Decisions will need to be made on a high-level operating model and organisational design, with a service delivery model, change process and strategy, entry and exit rights, as well as requirements for information systems, legal, procurement, and costs, budget and funding.

The strategy, processes and principles will also need to be established for debt and asset transfer, pricing, contract transfer, people transition, customer experience and billing.

Councils will need to undertake communications, engagement and formal consultation during Phase 2. It is assumed that councils will confirm a regionally coordinated approach to this with the process still based on individual decision making by each council.

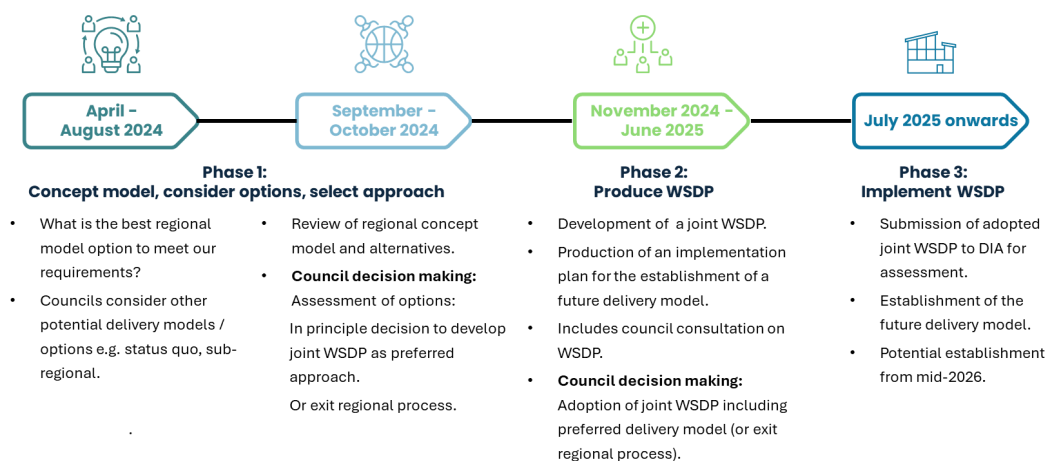
An indicative timeline and costs are shown below. Key transition principles will need to be followed to complete the transition in a fair and equitable manner.

37. Next phases of work

Subsequent phases of work to consider a joint WSDP and WSCCO will be informed by the decisions councils make in relation to a joint WSDP and joint arrangements. It is expected that

these will be made on an in-principle basis by late 2024. This is on the assumption that some or all councils commit to an ongoing process to develop a joint WSDP.

Figure 10: Phases of work



Phase 2 will include development and delivery of the WSDP. This will support councils to make decisions in relation to:

- the development and adoption of a regional WSDP that meets councils' legislative obligations, and
- establishing joint arrangements for the delivery of water services as described in the WSDP and preparing for the subsequent implementation of the preferred approach in Phase 3.

Phase 2 includes the need to undertake consultation and engagement on at least part of the WSDP relating to the delivery model and the implementation planning required for Phase 3. This will involve some significant decision making in relation to early establishment resources, accountabilities and funding.

The two key outputs from Phase 2 are:

- a draft regional WSDP, and
- an implementation plan for the establishment of the selected future delivery model.

Scope of a regional WSDP

The draft regional WSDP will need to be aligned with requirements of Part 2 of the Preliminary Arrangements Act. Guidance and templates provided by the DIA in September 2024 have helped to clarify requirements but, in general, the WSDP can be conceived as having four parts:

- asset condition information and a related AMP,
- funding, financing and revenue requirements to achieve financial sustainability,
- the anticipated or proposed model or arrangements for delivering water services, including how these will meet compliance requirements, and
- an implementation plan for the WSDP including timeframes and milestones.

38. Implementation plan

The implementation plan is also to be aligned with the requirements of Part 2 of the Preliminary Arrangements Act and will need to comprise the plan for how a future delivery model would be established in Phase 3. The detail of the plan will be driven by the delivery model selected by councils. Initial planning will need to be on the assumption that the selected model will be a WSCCO as outlined in DIA guidance in August 2024. The details of what this entails, its powers and funding arrangements will not be known until the Bill 3 is released in late 2024. Pending this, it is expected that the implementation plan will include:

- The preconditions that need to be met before the establishment of the entity can commence.
- Governance arrangements during both the establishment period and steady state, including arrangements for establishing an appointments panel, the role of Iwi/Māori, a Board constitution, shareholder agreements, and clear timelines and decision points for the establishment and transfer of decision-making rights to the establishment Board and Chief Executive.
- Entry and exit rights of shareholders and the timing and process for this including potential review point after 3-5 years.
- The structure, accountabilities, decision-making rights and resourcing for an establishment entity (potentially comprising a Chief Executive, selected functional leads and specialist support). This would include clear handover points between the project team and the establishment entity.
- The strategy, processes and principles for:
 - debt and asset transfer
 - financing for new WSCCO
 - pricing
 - contract transfer
 - people transition
 - customer experience and billing.
- A high-level operating model and organisational design.
- Service delivery model and local service locations.
- Change process and strategy.
- Information systems requirements.
- Legal requirements, including merger and acquisition, incorporation, banking and tax.
- Costs, budget and funding.
- Procurement strategy.

39. Engagement and consultation

To meet legislative requirements, and understand the position of partners, stakeholders and the community, it is assumed that councils will undertake communications, engagement and formal consultation on at least part of the WSDP (relating to the proposed service delivery model) during Phase 2.

Further details on required public consultation are set out in the Preliminary Arrangements Act, including a simplified consultation and decision-making process. It is assumed that councils will

confirm a regionally coordinated approach to consultation and engagement and a key question for Phase 2 is the optimal timing for consultation. Any consultation process will still be based on individual decision making by each council.

The scope and approach of this will be confirmed as part of the establishment of Phase 2 based on the legislative requirements of the LGA and the Preliminary Arrangements Act.

This process is likely to include:

- early engagement with key partners and stakeholders – from September 2024,
- confirmation of consultation approach and alignment with LTP amendment processes – by March 2024, and
- formal consultation process on the WSDP and WSCCO linked to consultation on an amendment to the LTP - April/May 2024.

40. Indicative time and cost for Phase 2

The issues considered during Phase 2 are significant, relating to investment planning for billions of dollars of investment in water assets and operations. Implementation planning will consider the potential establishment of a large, full-service, multi-council-owned WSCCO. This will have a significant impact on councils, including future role, operating model, financial arrangements and scale.

This is a challenging, complex and highly political process in the context of evolving legislation and is made more challenging due to the need to work across multiple councils, Iwi/Māori partners, central government, statutory consultation with the public and input from other stakeholders.

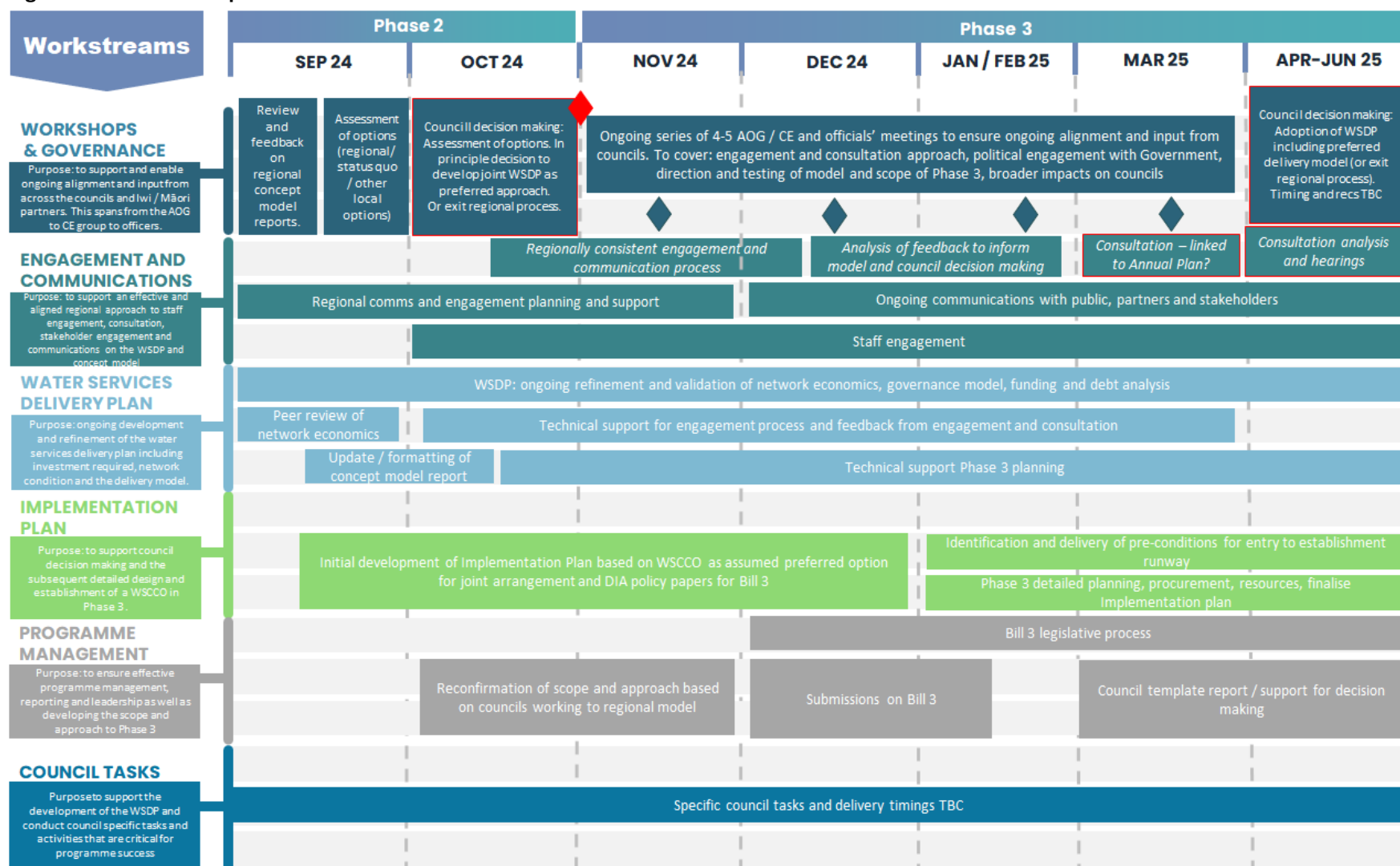
This will be challenging to complete in the 12-month period required by Bill 3 and is highly contingent upon the timing of Bill 3 and ability of councils to align consultation processes with LTP amendments.

Indicative costs to complete this work will depend on a range of factors including number of councils, timeline, consultation requirements, and guidelines from DIA. At this point the indicative cost range to complete Phase 2 for all ten councils on the timeline above is in the order of \$2-\$3 million⁶². This cost would need to be split across participating councils on an agreed basis.

The indicative timeline and key workstreams to enable delivery of a joint WSDP by September 2025 is shown below. This is a work in progress and will continue to be refined and confirmed by late 2024 informed by decisions by councils on whether to remain part of the regional WSDP process.

⁶²This is an indicative cost estimate and will be further refined and confirmed by the end of October 2024.

Figure 11: Workstream phases



41. Indicative timeline and cost for Phase 3 – establishment of a WSCCO

Implementation costs and timeline will be developed during Phase 2 and are highly contingent on the model, scale, and day one requirements of a WSCCO.

It is assumed at this point that the best-case scenario for time required to fully establish a WSCCO once councils adopt a WSDP is 12 months. This is based on the modelling and timeline developed by DIA to establish the proposed 10-entity structure. A tentative 'go live' date for a new WSCCO is therefore assumed to be by early 2026 with some ongoing transitional handover from councils to the WSCCO through to 2027. This may include a staged process to manage resourcing and risks.

Phase 3 costs are expected to increase markedly, as this phase involves establishment of a new entity, including set up of systems and processes. This will require a larger and more dedicated team and budget.

During Phase 2, the potential option of an early drawdown on the new WSCCO funding facilities to cover the costs of Phase 3 will be explored. It is anticipated that the entity's funding facilities would be provided by the LGFA with any early drawdown guaranteed by the owner councils.

Phase 3 establishment of a large regional WSCCO entity is estimated to cost somewhere in the order of \$75 million to more than \$125 million. The wide range is due to the costs for establishment of a new delivery model depending on many factors (scale, timing, resourcing model etc). These costs would need to be staged over time and in large part are driven by the costs of fit for purpose IT systems and processes.

42. Key transition principles

The transition process from existing delivery models to a new delivery model will be very challenging. Through the key requirements, councils have identified some issues that will need to be successfully navigated during the transition phase. These will help complete the transition in a fair and equitable manner and have been captured as key transitional principles. These will need to be reviewed and reconfirmed as part of the next phase of work to develop a WSDP and implementation plan.

People

- **People are at the heart:** The region has a team of highly committed people with irreplaceable expertise who deliver the region's water services and who have remained dedicated through an extended period of uncertainty within the water sector. The region has a values-based duty to water service teams and people to resolve the uncertainty, establish a high-quality future entity and make the staff transition as smooth and seamless as possible.
- From an operational perspective, the region cannot deliver high-quality water services without the support of these teams and people. The water sector currently has a **significant skills deficit**, and the region can ill-afford to lose valuable staff due to a poorly executed transition.
- **Job guarantee and pathway:** An intention to provide water services staff with certainty as quickly as possible. Accordingly, the new WSCCO would need to consider putting in place a job guarantee and pathway for all water staff from Level 3 down (Level 1 and 2 being Chief Executive and senior executive levels respectively).

- **Clear communication and dialogue:** There is a need to open clear communications and dialogue channels with all affected employees as soon as there is a way forward.

Financial transition principles

- **Equitable debt transfer:** The amount of debt that each council transfers to the new water entity will have a major bearing on the financial health of both the water service entity and each council. Agreeing a fair and equitable debt figure with each council will be a complex exercise.
- **Independent expert:** The standard practice for this type of 'merger transaction' is to appoint an independent financial expert to establish the accounting principles for preparing the settlement accounts, including the debt figure.
- **Review of accounts:** The external financial expert reviews each party's settlement accounts to ensure that they have been prepared in accordance with the specified principles. If the expert deems that the accounting principles have not been equitably and consistently applied, then they are empowered to issue a determination as to the final figures to appear in the settlement accounts. This approach provides all parties with confidence that the debt figures will be determined on a fair, consistent and equitable basis.
- **Equitable asset transfer:** A number of councils have experienced very large changes in their water asset valuations in recent years (for example, Wellington City Council saw an 88% uplift in 2022 and Hutt City Council approximately 300% in 2024). The valuation of assets is likely to be less contentious than debt, but accounting standards require a consistent and current valuation at the date of transfer. Accordingly, an independent valuer will be retained to provide a consistent and up-to-date valuation at the date of transfer.
- **Primary purpose:** Assets whose primary purpose is to enable the provision of water services will transfer to the new entity. During the transition phase, a principle-based framework will be designed and applied to determine the treatment of shared assets.
- **GWRC:** It is noted that GWRC has stated that the Hutt and Wainuiomata conservation/catchment land will not be transferring, and that the new entity will be granted the necessary rights to continue using and accessing the catchments and land identified for future storage, for water supply purposes.
- **Share allocation:** The shareholdings will be allocated between councils. A potential approach is based on pro rata of the value of net assets transferred. This would ensure that the value of shares received by a council matches the net asset value of the water services balance sheet it transfers. As a result, the transfer should have a neutral impact on a council's P&L account (i.e. it should not generate a profit or loss for the transferring council).

Consumer transition principles

- **Three-year price differential lock in period:** A common concern raised by councils in workshops was the need to ensure that ratepayers did not receive a major price shock on joining a regional entity, as a result of price harmonisation or price rises to cross subsidization of adjacent regions. To alleviate this concern, during the first three years, the potential price rises outlined in the section above on local delivery, customer service and price will be applied evenly to residential charges across the region, thereby maintaining existing residential price differentials. (Note: This is subject to existing revenues being sufficient to cover the full costs of water service provision, i.e. the council

having set the existing revenue at a sufficient level to fully fund the costs of water service provision per the water services Financial Impact Statement).

- **Revenue and pricing** will be a very complex area given the diverse pricing structures that exist across the region. For example, there are very diverse charging structures for non-residential services such as developer contributions. These are likely to require simplification and alignment to avoid over complicating the new entity's systems on day one. This is the reason for applying the "differential lock in" principle to residential charges only.

Contract and relationship transition principles

- **Contract transfer:** To smooth the transition and continuity of service provision, the baseline principle will be to roll over existing contracts and relationship agreements, by way of novation or assignment to the new entity. A clear detailed framework and rules for shared contracts or unusual contracts will be developed during the detailed design phase.
- **Te Tiriti obligations:** The transition will pay particular care to ensure that any Te Tiriti undertakings are not only legally transferred, but that Iwi/Māori have a clearly identified relationship structure to work with the new entity. The aim is to ensure that both the legal agreement and personal relationships are seamlessly transitioned (noting that it will take time to nurture new relationships and trust).

43. Next steps

Based on the requirements of legislation, councils will each need to make decisions on whether to develop a joint WSDP with other councils in the region with joint delivery arrangements, for example, across drinking water, wastewater and stormwater services; and whether to establish a joint delivery model.

It is expected that councils will make this in-principle decision by late 2024 in order that work can be progressed. Councils may choose to continue to develop other options in parallel.

The evidence in this report confirms the need for change. The status quo cannot continue and, under the requirements for developing a WSDP, councils will need to make some difficult choices about how to fund and deliver the urgent work needed on the three waters network.

The recommended regional model is considered well aligned with the key requirements set by councils and the emerging legislative framework that gives effect to Local Water Done Well. This recommended model will need to be assessed in relation to the status quo and any alternative arrangements that councils might choose to identify and assess.

Significant aspects of the recommended model will require further development and decision making in line with the requirements of Bill 3. This will require ongoing input and discussions with DIA to ensure that there is alignment.

Completion and decision making in relation to a joint WSDP and WSCCO in the 12 months required by the Preliminary Arrangements Act across multiple councils will be challenging. This will be a complex process in the context of evolving legislation working across multiple councils, Iwi/Māori partners, central government, statutory consultation with the public and input from other stakeholders. It will therefore be imperative that councils work effectively together and with the Government to maintain momentum and ensure analysis and further phases of work support effective decision making.

Councils can maintain momentum by:

- considering the recommended regional model and deciding to whether to develop a joint WSDP with other councils and the extent of any joint arrangements,
- assessing the status quo, alternative CCO model (may or may not be the recommended model) and, if they choose, other service delivery options,
- making in-principle decisions on the proposed model by late 2024 in order that this can be further developed,
- consulting on the draft WSDP (at least the part containing the proposed model) from late 2024 and into 2025,
- considering the implications for council, including the need to amend the LTP,
- adopting the WSDP (and any LTP amendment that may be required), and
- planning for implementation of the WSDP in 2025 (especially if a new model is to be adopted).

Appendices

Note: A separate document containing detailed appendices is available, including:

Appendix A: Clarification of the alignment with the requirements of a WSDP

Appendix B: Detailed key requirements

Appendix C: Key assumptions, sources of information and levels of confidence

Appendix D: Council profile summaries (separate document)

Appendix E: Network condition information

Appendix F: Key compliance issues

Appendix G: Types of entity model options

Appendix H: Network economics approach

Appendix I: Investment, price and debt scenarios

Appendix J: Financial projections



Wellington Region Water Services Delivery Planning
 Appendices to report on
 Recommended regional approach to a
 joint Water Services Delivery Plan and
 delivery model

October 2024



LIMITATIONS AND DISCLAIMER:**Purpose**

These appendices support the report titled “Recommended regional approach to a joint Water Services Delivery Plan and delivery model” dated 4 October 2024.

That report aims to provide sufficient information to support decision making by councils on whether to develop a joint Water Services Delivery Plan (WSDP), and joint delivery model with other councils in the region.

The report does not represent the position of any of the councils involved in this process but rather outlines a recommended ‘best for region’, concept-level delivery model for a regional Water Services Council Controlled Organisation (WSCCO) to deliver water services in the region, should councils decide to adopt this approach. It follows the requirements of Government policy and legislation and provides a robust strategic-level analysis of the case for change and investment required.

The report is not intended to fulfil the statutory requirements for a WSDP nor to be a basis for investment decisions. A full WSDP along with further development and decisions on the proposed delivery model, will need to be developed by councils later, based on the confirmed approach. Councils will need to separately consider and evaluate alternative options in relation to the recommended model to inform decision making.

Limitations of information and analysis

The information in these appendices has been based on best available information and is intended as a strategic and directional-level analysis to inform decision making on an approach to a WSDP, rather than the level required of a complete WSDP or to inform investment decisions. Where possible, the sources and limitations have been noted. As new or more robust information becomes available, this will be used to further inform and refine the analysis. Key assumptions, sources of information and levels of confidence are set out in Appendix C. This includes how information has been verified where possible, including through discussions with council officers and Wellington Water (WWL) staff to ensure accuracy and correct interpretation. There are a number of documents referenced in this report, (such as the draft Entity G Asset Management Plan) that were developed by the Department of Internal Affairs (DIA) but never finalised. These have been relied upon in the absence of other information in order to significantly reduce the time and costs of this process. As noted, reasonable efforts have been made to cross-check such information with other sources.

It should be noted that:

- Forecasts almost always turn out incorrect, especially over a 30-year horizon.
- There is great difficulty in estimating investment requirements over the next 30 years given poor information on asset condition, lack of detailed engineering assessment of what is required to address water quality to match the proposed water quality standards, and uncertain growth investment.
- Choices need to be made over a myriad of modelling approaches, inputs, and assumptions that reasonable minds may disagree with over some decades.
- There is a range of decisions yet to be made and legislation to be enacted to give effect to reform of water services.
- All modelled network economics figures should assume to have a +/-20% accuracy such as in relation to revenue, investment and debt over the 30-year period, which is considered a sufficient level of accuracy for strategy decision-making purposes at this stage. Some of these, such as the available asset condition metrics, are known to be weak.
- However, based on the analysis of information and cross-checking, there is a relatively high level of confidence that the analysis is directionally correct and sufficiently robust to support the strategic level of analysis in this report and the decision making that it is intended to support.
- As noted, the detail will be subject to ongoing refinement and change as more accurate, specific information is identified and councils complete the required detail in a WSDP.

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Prepared for:	Councils in the Wellington Region and Horowhenua District
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Appendix A: Clarification of the alignment with the requirements of a WSDP

Table 1: Alignment of the report with requirements of a WSDP (as described in Section 13 of the Local Government (Water Services Preliminary Arrangements) Act 2024)

Contents of Water Services Delivery Plan: A territorial authority's Water Services Delivery Plan must contain the following information in relation to the water services delivered in the authority's district:

Section 13(1)	Relevant section of this report	Notes and limitations
(a) a description of the current state of the water services network:	Sections 10 -17	
(b) a description of the current levels of service relating to water services provided:	Section 14	High-level delivery models only
(c) a description of — (i) the areas in the district that receive water services (including a description of any areas in the district that do not receive water services); and (ii) the water services infrastructure associated with providing for population growth and development capacity:	n/a	
(d) whether and to what extent water services — (i) comply with current regulatory requirements: (ii) will comply with any anticipated future regulatory requirements	Section 16 Appendix F	High-level overview only
(e) if any water services do not comply with current regulatory requirements or will not comply with any anticipated future regulatory requirements — (i) a description of the non-compliance; and (ii) a description of how the anticipated or proposed model or arrangements provided under paragraph (j) will assist to ensure water services will comply	Section 16 Appendix F	High-level overview only
(f) details of the capital and operational expenditure required — (i) to deliver the water services; and (ii) to ensure that water services comply with regulatory requirements	Sections 17, 26-32	High-level overview only
(g) financial projections for delivering water services over the period covered by the plan, including —	Section 29 Appendix I	High-level overview only

(i) the operating costs and revenue required to deliver water services; and (ii) projected capital expenditure on water services infrastructure; and (iii) projected borrowing to deliver water services:	Appendix J	
(h) an assessment of the current condition, lifespan, and value of the water services networks:	Section 13	High-level overview only
(i) a description of the asset management approach being used, including capital, maintenance, and operational programmes for delivering water services:	n/a	
(j) a description of any issues, constraints, and risks that impact on delivering water services:	Sections 10-17	High-level overview only
(k) the anticipated or proposed model or arrangements for delivering water services (including whether the territorial authority is likely to enter into a joint arrangement under section 9 or will continue to deliver water services in its district alone):	Sections 18-25	High-level overview only
(l) an explanation of how the revenue from, and delivery of, water services will be separated from the territorial authority's other functions and activities:	n/a	
(m) a summary of any consultation undertaken as part of developing the information required to be included in the plan under paragraph (j):	n/a	
(n) an explanation of what the territorial authority proposes to do to ensure that the delivery of water services will be financially sustainable by 30 June 2028:	n/a	
(o) an implementation plan — (i) for delivering the proposed model or arrangements described under paragraph (j); and (ii) if a territorial authority is proposing to deliver water services itself and not as part of a joint arrangement for delivering water services, that sets out the action that the territorial authority will take to ensure its delivery of water services will be financially sustainable by 30 June 2028:	Sections 37-43	High-level overview only
(p) any other information prescribed in rules made by the Secretary under section 14.	n/a	
Section 13 (2)		
For the purposes of subsection (1)(o), an implementation plan must include the following: (a) a process for delivering the proposed model or arrangements: (b) a commitment to give effect to the proposed model or arrangements once the plan is accepted: (c) the name of each territorial authority that commits to delivering the proposed model or arrangements: (d) the time frames and milestones for delivering the proposed model or arrangements.		

Section 14

Contents of joint water services delivery plan

- (1) A joint water services delivery plan must contain the following:
- (a) information that clearly identifies each territorial authority that is proposed to be a party to the joint arrangement;
 - (b) information as to whether the joint arrangement will deliver—
 - (i) all water services for all of the territorial authorities that are parties to the joint arrangement; or
 - (ii) all water services except for some or all services in relation to all of the territorial authorities' stormwater networks; or
 - (iii) all water services for some of the territorial authorities, and all water services except for some or all services in relation to stormwater networks for the other territorial authorities;
 - (c) all of the information listed in **section 13**;
 - (d) information on the likely form of the joint arrangement, including whether it is anticipated it will involve water services being delivered by—
 - (i) a joint WSCCO; or
 - (ii) an arrangement described in section 137 of the LGA2002; or
 - (iii) another organisation or arrangement that the territorial authorities are considering.
- (2) To the extent that further information about the joint arrangement is available when the plan is submitted to the Secretary under **section 18**, a joint water services delivery plan may also contain that information, including—
- (a) the ownership structure; and
 - (b) the governance structure; and
 - (c) the control and financial rights of each territorial authority in the joint arrangement.
- (3) For the purposes of **subsection (1)(c)**, a joint plan must contain the information required under **section 13** in relation to—
- (a) each territorial authority that is a party to the joint arrangement; and
 - (b) all water services delivered in the joint service area (including services relating to each territorial authority's stormwater network).
- (4) **Subsection (1)(c)** applies to a territorial authority's delivery of water services relating to its stormwater network even if the delivery of those services is not part of the joint arrangement.
- (5) A joint plan must also comply with any requirements prescribed in rules made by the Secretary under **section 16**.

Appendix B: Detailed key requirements

As part of the development of a recommended 'best for region' approach, councils identified a number of issues that will need to be addressed as part of the development of a WSDP and WSCCO and these have been captured as key requirements. It is recognised that the categorisation used here for different organisations and groups is subjective and that some requirements relate to multiple groups (for example, water is a taonga for all, not just for Iwi/Māori).

These will need to be reviewed and reconfirmed as part of the next phase of work to develop a WSDP and implementation plan based on the outline below, as well as the minimum requirements for delivery models expected to be set out in Bill 3.

Consumer requirements

Public ownership: All councils in the region have expressed an absolute commitment to ensure that the provision of water services remains under public ownership. This is consistent with the model adopted by most countries around the globe with many examples of the model working successfully (for example Australia).

Affordable water; fair, equitable and transparent pricing: Delivering affordable water is a major challenge, not just in New Zealand but in most developed economies. A recent World Bank Study ("Funding a Water Secure Future") determined that the percentage of GDP spent on water infrastructure by developed economies was currently 0.5% and needed to rise 2.7-3 times current levels in order to achieve Sustainable Development Goal targets. This is consistent with the economic analysis in this report and is a material change from current price levels.

Increases to price and ensuring affordability will need to be managed very carefully and will require ongoing engagement with communities and careful use of financial tools to manage the rate of cost increases.

Recent consultation by councils through LTP processes has identified that ratepayers are prepared to spend more on fixing the water infrastructure if there are demonstrable improvements. Implementing an efficient and effective model will be essential to secure consumer support.

Price setting and price increases will ultimately need to be determined by a new WSCCO. This will be done in the context of new economic regulation, which will have a strong focus on price and quality based on actual cost to provide sustainable networks and services.

The new entity will inherit a diverse suite of revenue sources and pricing structures. It will be very challenging for the entity to transition these into a simple set of services with fair and transparent prices. This will be a key task for the first five years of operation. The transition principles in the main report are designed to provide councils with confidence that their residential ratepayers will not experience any major rebalancing of prices in the early years of the entity and that any subsequent rebalancing of charges will be phased in over time.

High-quality, seamless, environmentally compliant services: As noted, ratepayers (water consumers) have indicated a willingness to pay more for water services if they experience demonstrable improvements in service quality (reliability, reduced leaks, improved discharge quality etc).

Customer focus: This is a key requirement, particularly for smaller councils such as Kāpiti Coast and the Wairarapa councils, where there is a strong concern about loss of service levels to a larger regional model. Councils have expressed a strong view that any future regional WSCCO would need to provide a high level of local service delivery and not result in a loss of service quality levels for communities.

Continuous improvement: The extent of the challenges faced means that the creation of a new model and delivery entity will be merely the start of a continuous drive to optimise services and delivery processes. The range of services and processes to be optimised is extremely wide. For example, from the optimisation of pipe replacements in the field to the streamlining of data collation and reporting for regulatory purposes.

Iwi/Māori requirements

Aspirational vision and water treated as taonga: The most important requirement expressed by Iwi/Māori is that the entity shares an aspirational vision to restore te mana o te wai. This should be at the heart of a new entity's vision and DNA.

Meaningful influence: Iwi/Māori feedback has been supportive of a skills-based Board where treaty and cultural awareness are two of the key skills required. Iwi/Māori also want to see a genuine commitment to local/Māori procurement.

Water & environmental quality improvement: Iwi/Māori are looking for a major, ongoing commitment to improvement of water quality.

Future water entity

Empowered to operate independently: The entity will inherit a wide range of services, assets, systems, investment requirements and billing arrangements. This includes assets and systems which are beyond the end of their life. The entity will require mandate to prioritise investments if it is to resolve the challenges in a cost-effective and optimal manner.

Independent, skills-based Board: Following on from the previous requirement, the magnitude of the challenges will require not only the mandate to optimise but also the appointment of an exceptionally skilled Board. These skills will need to include commercial, cultural, people and transformational expertise. The Board will need to appoint an exceptional executive leadership team.

Certainty to plan, fund and invest optimally: This is firstly about independence so that the entity can commit to a long-term investment plan without the plan being “chopped and changed” by short-term funding and political shifts. Secondly, given the potential funding shortfall, the entity will also need to have confidence that it has committed debt funding lines, albeit that they may be linked to the entity demonstrating that it is on track to achieve its key business plan milestones.

Full breadth, integrated utility: One of the major learnings from the current WWL model is that there needs to be a single entity accountable for the effective delivery of water services. In particular, the entity needs to own, and have full control over the assets, revenue streams and funding facilities, if it is to resolve the challenges and provide seamless services to water consumers.

High-quality systems and staff: High-quality people and system capabilities will be essential for the entity to meet the challenges it inherits. The new regulatory environment will also require a quantum shift in the data collection, analysis and reporting capabilities of all water delivery services.

Councils

Sustainable funding and financing (prior to the Government's policy announcements made in August 2024 around new financing options for councils via the LGFA, this was noted as 'balance sheet separation'): Local councils and central government require water services revenue, costs and borrowings to be financially sustainable in line with legislative requirements by 30 June 2028.

Local influence to ensure alignment of accountabilities, particularly for growth: While recognising that the entity has to be independent, councils also require the entity to support urban growth and deliver broader community outcomes. Historically, councils have found it challenging to fully fund new growth from Development Contributions or Financial Contributions. Councils have had to fund growth infrastructure from general rates, debt or defer growth infrastructure. Councils have a requirement that the new entity must support housing growth and also plan and invest to ensure the entity supports broader outcomes of the community.

Single point of accountability for service delivery: One of the learnings from the Wellington Water model is that all parties (including consumers, councils and entity staff) require a single point of accountability who is responsible and takes ownership for the delivery of water services.

Water delivery entity has strong processes, systems and data: As noted, the lack of investment in WWL's foundational systems, and associated high-quality information has inhibited the performance of WWL and has also been a perpetual source of frustration for councils. Councils require a new entity that has high-quality core systems.

Long-term planning horizon: Councils need to work with utilities (electricity, water, telecommunications) that take a long-term approach and can be meaningful partners with councils in planning the long-term development of the region.

Economies of scale & integration: All councils require a regional entity to deliver economies of scale, both financial and depth of operating model capabilities. In addition, the city councils require a single entity to manage the highly integrated city water services network.

Three waters (for all?): Further consideration will be required in relation to urban stormwater. WWL currently manages the delivery of all three water services for the metropolitan councils and South Wairarapa District Council. This includes responsibility for the reticulated stormwater network. Over the past decade, this definition of the scope of the stormwater responsibilities delivered by WWL has worked well. It provides a relatively simple delineation point and suits the metropolitan area, which has legacy waste and stormwater networks that were designed with a high number of integration and interconnection points. Accordingly, the metropolitan councils will require a future, regional entity to provide a similar scope of stormwater services. The situation in the semi-urban or rural council areas is different. The network topography has a lower level of integration between the wastewater and stormwater networks. In addition, these areas make greater use of open, as opposed to reticulated, stormwater drains.

Council financial sustainability: The demerger of each council's water services creates two potential issues for each council in respect of their residual activities:

- i. Stranded costs: i.e. overheads which a council will still incur, that were previously recovered from the water services. Examples include the fixed cost of support services and fixed software licence costs;
- ii. Reduced debt capacity: the LGFA typically sets a council's maximum debt limit at 3 times revenue. If a council's water-related debt:revenue ratio is less than the council's current

average ratio then the demerger of the water services will leave the residual council with a higher debt:revenue ratio and reduced debt capacity than it has today.

These two issues are likely to affect all councils. They may even create financial sustainability issues for some councils.

Central Government

The Government has several requirements for delivery models, with further details of these expected as part of Bill 3. The Government has stated that councils can design their own arrangements as long as they meet clear, minimum requirements set out in legislation including meeting regulatory standards and financial sustainability requirements. There will be restrictions against privatisation and there will be additional requirements for water organisations to ensure they are operated and governed effectively.

Financially independent and sustainable: Central Government requires water service entities to be financially sustainable.

Compliant with regulation: Central Government requires water service entities to be able to “meet all regulatory standards and requirements for delivering water services”. This requirement will be very challenging for the region’s wastewater discharges and will depend on how the changes to the National Policy Statement for Freshwater Management flow down into the Taumata Arowai wastewater standards and then into the Regional Councils’ plan and resource consent process. The timeframe for achieving standard compliance will be particularly important.

Enables housing growth: The Government has simply stated that a water services entity is required to demonstrate how it will “unlock housing growth”.

Scale: The legislation supports regional collaboration and the creation of regional water services delivery entities.

Appendix C: Key assumptions, sources of information and levels of confidence

Table 2: Key assumptions – Economic Model

Item	Assumption	Sources of information	Confidence/Limitations
Network condition	21% of regional network in poor or very poor condition	<ul style="list-style-type: none"> AECOM Entity C Working Draft Asset Management Plan 2024 – 35 (draft, not finalised). AECOM Entity G Wellington/Wairarapa Initial Draft Asset Management Plan 2024 – 35 Version 1.1 October 2023 (draft, not finalised). AECOM and Tonkin and Taylor, Entity G Wellington Wairarapa Initial Draft Asset Management Plan Version 2.0 December 2023. Feedback and clarifications from councils on asset condition information Interviews with council staff. Interviews with WWL staff. Council staff review and feedback. 	<ul style="list-style-type: none"> Network pipe condition assessment by approximately 10% sampling. Pipe condition assessment extrapolated to treatment plant condition assessment due to lack of specific data. Low-medium data accuracy confidence. Confidence in impact of asset condition assessment on required funding is considered acceptable.
Network valuation	Network replacement value \$19.7 billion	<p>The valuation is based on the triangulation of the following valuations:</p> <ul style="list-style-type: none"> \$21.2 billion WICS Entity G valuation produced for DIA (\$20.4 billion plus \$0.8 billion for Horowhenua). \$21 billion indicative valuation provided by WWL for WWL Councils to Entity G team, plus the replacement cost asset values for Horowhenua, Kāpiti, Carterton and Masterton. 	<ul style="list-style-type: none"> Reasonable level of confidence that the value of the network is between \$19 - \$21 billion. The latest council asset valuations indicate \$19 billion, but majority of these are still in draft and not yet final. Asset replacement valuations in water networks fluctuate due to changes in available civil contracting costs.

		<ul style="list-style-type: none"> \$19.2 billion latest three water asset valuations from WWL Councils (but with latest WCC, HCC and UHCC valuations and associated uplifts yet to be added in). Plus, the replacement cost asset values for Horowhenua, Kāpiti, Carterton and Masterton. <p>https://www.dia.govt.nz/diawebsite.nsf/Files/Water-Services-Reform/\$file/Entity-G-(Wellington)-2054-projected-household-costs.xlsx</p>	
Levels of service		<ul style="list-style-type: none"> WWL Quarterly reporting to the Wellington Water Committee. WWL Statement of Intent. Council LTP information. Council feedback on challenges and issues. 	<p>Low confidence in reported fault rates for councils without metering due to:</p> <ul style="list-style-type: none"> increasing faults backlog not included in fault costing. historical financial reporting of leak cost means costs are at least one year behind actual. leaks require public reporting. underground leaks are not visible and not included in reporting in areas without metering.
Compliance		<ul style="list-style-type: none"> WWL reporting. Council reporting. Council feedback on compliance issues. 	<ul style="list-style-type: none"> Drinking water compliance is well specified. Wastewater discharge compliance standards are still fluctuating. Economic compliance (waters delivery price & quality) is yet to be introduced.
Operational expenditure		<ul style="list-style-type: none"> Council LTP information. 	<ul style="list-style-type: none"> High confidence in the draft LTP numbers and detailed budgets for strategic modelling purposes. The draft LTP information will be updated with the final council approved

			<p>LTP budgets for the next version of the model.</p> <ul style="list-style-type: none"> The detailed budget and assumptions could be refined further at a later stage once the entity setup is confirmed, and more detailed information is available from councils.
Capital expenditure			<ul style="list-style-type: none"> 2024 LTP 10 yr forecast intentionally does not contain all capital required to maintain the water network or to support growth over the 10 years. Many of the large capital expenditure items required sit outside of the 10 yr LTP process and are not yet allocated to water by councils.

Table 3: Key assumptions – Financial Model

Item	Assumption	Sources of information	Confidence / Limitations
Revenue – price change	9% real pa after growth and inflation	<ul style="list-style-type: none"> Base case assumption per economic modelling chapter. Range of different price scenarios are able to be modelled. 	<ul style="list-style-type: none"> This is a placeholder based on average price. Further work is required to conclude the price affordability vs financial sustainability challenge. This is not an indication of actual price or charging.
Revenue – population growth	Average 1.3% pa	<ul style="list-style-type: none"> Local council projections for the 2024 LTP, including forecast information from the 2023 Wellington Regional Housing and Business Capacity Assessment (HBA) Update report prepared for the Wairarapa-Wellington-Horowhenua region in September 2023. 	<ul style="list-style-type: none"> Reasonably reliable noting has been ongoing fluctuations in population growth and immigration / emigration.

		https://wrlc.org.nz/wp-content/uploads/2024/04/HBA3-Draft-full-report-with-COVER-updated-16.02.24.pdf	
Revenue & Expenses – water consumption volumes	No change to current consumption		<ul style="list-style-type: none"> This will become important if meters and volumetric charges are rolled out. Typically, meters lead to a ~30% reduction in water required.
Revenue & Expense Inflation – staff, maintenance, operations & capital expenses	2.6% 27/28 2.5% 28/29 2.3% 29/30 2.2% average pa thereafter	<ul style="list-style-type: none"> Sourced from the 'Cost adjusters 2023 interim update' produced by BERL for 2024-34 Long Term Planning purposes. The water and environmental management adjustor have been used. 	<ul style="list-style-type: none"> Accurate at date of estimate. Likely to reduce based on slowing economy. Reduction in expense inflation will be counterbalanced by reduction in revenue inflation.
Staff Expense – vacancy rate	8%	<ul style="list-style-type: none"> Expense based on costed organisation design reduced by 8% assumed level of vacancies. 	<ul style="list-style-type: none"> Reasonable confidence as this is based on Wellington Water Limited's historical vacancy rate.
Staff Expenses – capitalisation of labour	40% of personnel costs	<ul style="list-style-type: none"> Capitalised labour is a conservative assumption based on Wellington Water Limited's 23/24 labour recharge to projects budget scaled up for the regional entity. 	<ul style="list-style-type: none"> This is a conservative assumption. e.g. Watercare capitalise almost 80% of staff costs.
Consequential Operating & Maintenance Expenses – from new capital expenditure	0% except \$5.4 million for sludge minimisation	<ul style="list-style-type: none"> The one material growth investment is the Wellington Sludge Minimisation Facility. A \$5.4 million pa uplift in operating costs has been factored in from 27/28 based on information provided by Wellington City Council. 	<ul style="list-style-type: none"> 80%+ of capital expenditure is renewal or improvement to existing infrastructure. This should lead to a longer-term reduction in repair costs - hence the assumed 0%. The one material growth investment is the Wellington Sludge Minimisation Facility.

			<ul style="list-style-type: none"> A \$5.4 million pa uplift in operating costs has been factored in from 27/28 based on information provided by Wellington City Council.
Interest Rates	5.47% 27/28 5.47% 28/29 5.47% 30/31 6.01% average pa thereafter	<ul style="list-style-type: none"> Years 1-4 based on LGFA borrowing yield for an unrated guarantor plus a credit rating adjustment of 5 basis points pa for a regional water entity. 	<ul style="list-style-type: none"> Accurate at date of estimate. Likely to reduce based on slowing economy. Any reduction in interest rates likely to be accompanied by reduction in inflation and hence offset reduction in revenue inflation assumption.
Depreciation (useful lives on existing assets) <ul style="list-style-type: none"> Drinking Water Wastewater Stormwater 	31 years 37 years 61 years	<ul style="list-style-type: none"> Average remaining useful lives on existing assets were calculated based on depreciation budgets and asset book values provided by Councils. 	<ul style="list-style-type: none"> High level of confidence for strategic modelling purposes. Actual useful lives of individual assets may vary and can be refined at a later stage once detailed asset information is available from councils.
Depreciation (useful lives on new assets) <ul style="list-style-type: none"> ➤ Drinking Water ➤ Wastewater ➤ Stormwater 	55 years 70 years 100 years	<ul style="list-style-type: none"> A weighted average useful life of 74 years has been used across the 3 water assets based on the book value information provided by councils. 	<ul style="list-style-type: none"> There is a reasonable level of confidence on the weighted average useful life for strategic modelling purposes. Actual useful lives of individual assets maybe higher or lower than forecasted. This information can be further refined at a later stage once the detailed investment is confirmed for the new water entity.
Opening debt	The opening debt of \$2.3 billion at 1 July 2027 is a placeholder at this stage. The final will	<ul style="list-style-type: none"> The opening debt for 1 July 2027 is based on the forecasted opening debt figure for 2025 provided by Councils, which have been rolled forward based 	<ul style="list-style-type: none"> The debt figures for the 10 councils are placeholders only and will need to be agreed during Phase 2 and the Establishment Phase.

	be based on figures agreed with councils.	on the final adopted 2024 LTP income and expenditure.	
Forecast opening asset book value	\$9.5 billion for 24/25	<ul style="list-style-type: none"> The forecast opening asset book value for 24/25 is based on council forecast 24/25 opening asset book value of \$7.4 billion plus the impact of recent draft valuations on Optimised Depreciated Replacement Cost (ODRC) of \$2.1 billion. 	<ul style="list-style-type: none"> There is a reasonable level of confidence in the draft valuation figures. The assumptions can be refined once the current valuations are finalised, and when a full valuation is undertaken prior to transition to the new entity.
27/28 Opening revenues	\$697 million	<p>For the first 3 years of the plan, the forecast uses the councils' 2024 final adopted LTP operating revenue as a base after adjusting for known revenue that will no longer exist under the new entity such as the GWRC Levy.</p> <p>The revenue is then projected out from year 4 based on the following assumptions:</p> <ul style="list-style-type: none"> Adjusting for known one-off revenue and other revenue that will no longer exist under the new entity such as the Wastewater Joint Venture revenue. It is also assumed that IFF levies on the new Sludge Minimisation Facility will remain with Council. Rates revenue – the real price path 9% per annum assumption (after allowing for inflation and growth). Non-rates revenue – BERL inflation adjustor (after growth has been applied to customer base where applicable). <p>Note: Other income may include some interest income which should be netted off against interest expense. The amount is not material.</p>	<ul style="list-style-type: none"> There is a high level of confidence in the final adopted LTP information, but the forecast price increase of 9% is a placeholder at this stage. Further work is required to conclude the price affordability vs financial sustainability challenge.

27/28 Staff (net of capitalised labour) Expense	\$64 million	<ul style="list-style-type: none"> Staff costs (\$109 million) are based on the Entity G detailed organisational design and estimated job-sizing for roles, including other employment costs. Any potential savings from governance arrangements are offset by additional staff transferred from Horowhenua. A vacancy factor of 8% has been applied, and 40% of the remaining total personnel costs is assumed to be capitalised. 	<ul style="list-style-type: none"> There is a reasonable level of confidence in the estimates as it is based on best available information at the time. The forecast assumes that all roles are full-time equivalents, but some roles may potentially be part time. The cost would reduce accordingly. This can be refined further at a later stage once the entity setup is confirmed.
27/28 Maintenance Expense	\$71 million	<ul style="list-style-type: none"> Maintenance costs largely consist of planned/routine and reactive maintenance. The forecast spend is based on WWL's maintenance budget forecast for Year 1 of the 2024 LTP for WWL shareholding councils with a 15% uplift for Carterton, Kāpiti Coast, Masterton and Horowhenua based on historical portion of spend between the councils. 	<ul style="list-style-type: none"> There is a reasonable level of confidence in the estimates as it is based on best available information at the time. The detailed budget and assumptions can be refined further at a later stage once the entity setup is confirmed, and more detailed information is available from councils.
27/28 Operations Expense	\$80 million	<ul style="list-style-type: none"> Operations costs mainly consist of operation technology, disposal, general treatment plant operations, and compliance costs. The forecast spend is based on WWL's operations budget forecast for Year 1 of the 2024 LTP for WWL shareholding Councils with a 15% uplift for Carterton, Kāpiti Coast, Masterton and Horowhenua based on historical portion of spend between the Councils, plus provision for power costs of \$16 million that is currently paid by the Councils (not included in WWL forecasts). 	<ul style="list-style-type: none"> There is a reasonable level of confidence in the estimates as it is based on best available information at the time. The detailed budget and assumptions can be refined further at a later stage once the entity setup is confirmed, and more detailed information is available from councils.
27/28 Planning & investigations	\$41 million	<ul style="list-style-type: none"> The forecast spend is based on WWL's budget forecast for Year 1 of the 2024 LTP for WWL shareholding Councils with a 15% uplift for 	<ul style="list-style-type: none"> There is a reasonable level of confidence in the estimates as it is

		<p>Carterton, Kāpiti Coast, Masterton and Horowhenua based on historical portion of spend between the Councils.</p>	<p>based on best available information at the time.</p> <ul style="list-style-type: none"> The detailed budget and assumptions can be refined further at a later stage once the entity setup is confirmed, and more detailed information is available from councils.
27/28 Other Operating Expenses	\$78 million	<ul style="list-style-type: none"> Digital costs - \$19 million budget based on a pro-rata of Watercare's digital costs (e.g. IaaS, software licensing etc). 7 FTEs for technology staff have been budgeted under personnel costs. Rates expense - \$15 million based on the national forecast from the Three Waters programme allocated on population. It assumes 70% of three waters related land will transfer to the entity. Insurance - \$15 million based on 2022 council premiums with an uplift applied for impact of asset valuations and inflation increase based on analysis done through the Three Waters programme. Other costs of \$29 million including administration, consultancy, motor vehicles, telecommunications, bad and doubtful debts, Taumata Arowai regulatory costs – based on a combination of pro-rating Watercare's costs or based on forecast from the Three Waters programme as appropriate. The Data and Digital costs were a placeholder until the impact of the actual system solution and costs are known, therefore the related costs may be higher or lower than forecasted. 	<ul style="list-style-type: none"> There is a reasonable level of confidence in the estimates as it is based on best available information at the time. The detailed budget and assumptions can be refined further at a later stage once the entity setup is confirmed, and more detailed information is available from councils.

		<ul style="list-style-type: none"> • The Rates Expense costs were based on high-level estimates from the Three Waters programme and require detailed information from Councils to understand actual costs which may be higher or lower than forecast. • Insurance costs were a placeholder until an insurance strategy is worked through for the new entity. 	
27/28 Depreciation	\$277 million	<ul style="list-style-type: none"> • Depreciation is based on assumed asset lives rather than actual asset lives and calculated on the projected capital investment profile with an allowance for the impact of asset revaluations. • Actual useful lives may be shorter or longer than the assumptions used, therefore the depreciation cost maybe higher or lower than forecasted. 	<ul style="list-style-type: none"> • Reasonable level of confidence based on assumed average useful lives. Actual useful lives may be shorter or longer than the assumptions used and can be refined at a later stage.
27/28 Capital	\$522 million	<ul style="list-style-type: none"> • For Years 1-3, the capital investment profile is taken from councils' final adopted 2024 LTPs. • For Years 4 onwards, the capital investment total is taken from the Network Economic Analysis and inflation adjusted. • The resulting value of the total envelope should more than encompass the existing Year 4-10 LTP. • However, the new entity will almost certainly recast the capital plan for this period. • At this stage, the capital expenditure figures exclude establishment, transition and set up costs. These will be significant. • \$20 million pa has been allowed for ongoing property, vehicles, digital and sundry capital expenditure. This is based on a pro-rata of Watercare and Wellington Water Ltd budgets. 	<ul style="list-style-type: none"> • There is a high level of confidence in the final adopted LTP information. • The capital investment plan from Year 4 onwards will likely be recast by the new entity. Provisions for establishment and transition setup costs need to be made at a later stage.

Table 4: Other key documents and sources

Documents and sources
<ul style="list-style-type: none"> Review into the Future for Local Government (2023) He piki tūranga, he piki kōtuku, Wellington: New Zealand.
<ul style="list-style-type: none"> Wellington Regional Leadership Committee Regional Dashboard, https://wrlc.org.nz/reports/housing-data
<ul style="list-style-type: none"> The Mayoral Taskforce on the Three Waters Report (2020)
<ul style="list-style-type: none"> Wellington Water Limited Statement of Intent (2024)
<ul style="list-style-type: none"> Water Industry Commission of Scotland (WICS) Reports (2021)
<ul style="list-style-type: none"> DIA Three Waters Reform – WICS Modelling Phase 2. Beca Ltd (April 2021)
<ul style="list-style-type: none"> Three Waters Review: Release of second stage evidence base. DIA briefing to Government (20 May 2021)
<ul style="list-style-type: none"> Report of the Havelock North Drinking Water Inquiry: Stage 2 (2017)
<ul style="list-style-type: none"> Three waters reform. Review of methodology and assumptions underpinning economic analysis of aggregation. farrierswier (May 2021)
<ul style="list-style-type: none"> Water Industry for Scotland, Economic analysis of water services aggregation (May 2021)
<ul style="list-style-type: none"> Wellington Water Limited: capital programme estimating and budget systems. Roy Baker and Kevin Jenkins (2024)
<ul style="list-style-type: none"> Contract Optimisation review conducted by FieldForce4. (2023)
<ul style="list-style-type: none"> Inquiry into the cessation of water fluoridation by Wellington Water. MartinJenkins (2022)

Appendix D: Council profiles

See separate document – Appendix D¹

¹ At time of writing, no information for the profile had been received from Carterton District Council.

Appendix E: Network condition information

Overall network asset condition assessment

Information below uses the calculations as follows:

1. Each of the asset measurements is normalised (total set to 100%) from raw data as wastewater adds to 99%, and stormwater has 11% of the network as "not assessed".
2. Weight average asset conditions are calculated weighted by pipe length.
3. Pipe condition was extrapolated to include other asset classes (only treatment plants are material) as there are no individual condition assessment of other asset types, and pipes make up 80-90% of asset replacement value (dependent on council district) and so is likely materially accurate.

Note: This approach is less than ideal but is the only reasonable approach given the scarcity of good asset condition assessment.

Table 5: Overall network asset condition assessment

Asset	Condition	As reported	Normalised
Water supply			
	Excellent	37%	37%
	Good	30%	30%
	Medium	16%	16%
	Poor	11%	11%
	Very Poor	6%	6%
	Not assessed	0%	
Total		100%	100%
Wastewater			
	Excellent	24%	24%
	Good	20%	20%
	Medium	22%	22%
	Poor	12%	12%
	Very Poor	21%	21%
	Not assessed	0%	
Total		99%	99%
Stormwater			
	Excellent	33%	38%
	Good	25%	28%
	Medium	17%	19%
	Poor	6%	7%
	Very Poor	7%	8%
	Not assessed	11%	
Total		99%	100%

Reticulation (km)			
	Water supply	3,310	
	Wastewater	3,090	
	Stormwater	1,930	
Total		8,330	
Weighted Average Condition			
	Excellent		26%
	Good		28%
	Medium		24%
	Poor		10%
	Very Poor		11%
Total			99%

Source: Base information is AECOM Asset Management Plan V2.0 figure 11, page 34.

Original information was taken from AECOM Asset Management Plan V1.1 figure 11, which did not contain asset class values or regional breakdowns.

This asset condition information has been checked by councils and WWL and further updates on asset condition information have been received from councils.

Note: There appears to be an arithmetic error in AECOM Asset Management Plan V2.0 page 35 which incorrectly states:

"Around 15% of the pipe network has been assessed as in poor or very poor condition, representing more than 1,200 km of pipe that will be requiring increasing maintenance and renewal in the short term. This is described further in Section 9 - Asset Renewals Needs"

The 15% appears to be calculated incorrectly but only in this version of the report. The raw figures provided are the same as per version 1.1 and correctly add to 22% as per version 1.1 and calculations as per Table 6 and Table 7 below which have also been adjusted with further updates from councils.

Combining the 10% Poor and 11% Very Poor results in **21%** of the network past the end of service life (EoS).

Asset condition assessment by council

Table 6: Summary of asset condition assessment by council

Weighted Average Condition	Greater Wellington Regional Council	Carterton District Council	Horowhenua District Council	Hutt City Council	Kāpiti Coast District Council*	Masterton District Council	Porirua City Council	South Wairarapa District Council	Upper Hutt City Council	Wellington City Council	Weighted
Network Length (km)	187	159	961	1845	1065	444	1065	209	662	2,728	~9,325
Reticulation											
Excellent	16%	12%	22%	26%	22%	38%	38%	6%	54%	35%	31%
Good	39%	23%	51%	39%	33%	14%	20%	18%	20%	24%	30%
Medium	39%	36%	10%	16%	10%	14%	10%	46%	11%	15%	15%
Poor	5%	22%	3%	10%	11%	14%	11%	11%	9%	10%	10%
Very Poor	0%	7%	5%	8%	23%	19%	20%	17%	7%	16%	14%
Not Assessed	1%		9%	1%	1%	1%	1%	2%			
Total	100%	100%	100%	100%	100%	100%	100%	100%	101%	100%	100%
Beyond EoSL	5%	29%	20%	24%	2%	34%	23%	14%	15%	26%	21%

Table 7: Detailed asset condition assessment by Council

			Greater Wellington Regional Council	Carterton District Council	Horowhenua District Council	Hutt City Council	Kāpiti Coast District Council	Masterton District Council	Porirua City Council	South Wairarapa District Council	Upper Hutt City Council	Wellington City Council	
Asset Condition													
	Water supply												
		Excellent	16%	10%	25%	38%	6%	31%	7%	8%	50%	43%	
		Good	39%	23%	53%	32%	42%	17%	16%	25%	25%	38%	
		Medium	39%	36%	10%	3%	50%	13%	33%	53%	10%	9%	
		Poor	5%	26%	2%	7%	2%	16%	16%	10%	11%	7%	
		Very Poor	0%	5%	2%	20%	1%	8%	18%	2%	4%	4%	
		Not assessed	1%	0%	8%	0%	0%	16%	10%	2%	0%	0%	
			100%	100%	100%	100%	100%	100%	99%	100%	100%	101%	
	Wastewater												
		Excellent		13%	5%	11%	0%	47%	10%	3%	53%	29%	
		Good		23%	69%	37%	23%	6%	15%	12%	17%	16%	
		Medium		32%	6%	23%	77%	10%	46%	45%	13%	12%	
		Poor		22%	5%	12%	0%	12%	23%	15%	8%	17%	
		Very Poor		11%	1%	17%	0%	10%	4%	23%	9%	26%	
		Not assessed			14%	0%	0%	14%	1%	2%	0%	0%	
				101%	100%	100%	100%	100%	100%	100%	100%	100%	
	Stormwater												
		Excellent		18%	49%	23%	5%	9%	10%	0%	61%	35%	
		Good		25%	11%	47%	1%	10%	18%	0%	16%	18%	
		Medium		53%	16%	17%	1%	13%	70%	0%	8%	27%	
		Poor		3%	2%	12%	2%	8%	1%	0%	5%	4%	
		Very Poor		1%	22%	1%	2%	2%	1%	100%	9%	15%	
		Not assessed					90%	58%					
				100%	100%	100%	100%	100%	100%	100%	99%	99%	

			Greater Wellington Regional Council	Carterton District Council	Horowhenua District Council	Hutt City Council	Kāpiti Coast District Council	Masterton District Council	Porirua City Council	South Wairarapa District Council	Upper Hutt City Council	Wellington City Council	Weighted
Asset Sizing													
	Reticulation (km)												
		Water supply	187	75	428	711	478	218	344	118	281	922	
		Wastewater		66	351	680	354	214	427	75	226	1077	
		Stormwater		18	182	454	233	55	294	16	155	729	
		Total	187	159	961	1,845	1,065	487	1,065	209	662	2,728	~9,325
	Treatment Plants												
		Water supply	4	2	5	0	5	2		4			
		Wastewater		1	6	1	2	4	1	4		2	
		Stormwater		0	1	5	0	3					
	Pump Stations												
		Water supply	15	1	1	13	9	1	15		9	34	
		Wastewater		17	53	48	153	13	67	11	17	69	
		Stormwater			19	12	18				7	2	
	Replacement Value (\$m)												
		Reticulation	507	38	234	314	553	128	181	70	200	1,904	4,129
		Treatment Plants	429	36	321	688	390	211	400	43	222	2,973	5,713
		Pump Stations	364	11	80	531	189	57	323	9	232	2,309	4,105
		Total	1,300	85	635	1,533	1,132	396	904	122	654	7,186	13,947

Source: Base information is AECOM Asset Management Plan V2.0 Appendix 2. This asset condition information has been checked by councils and WWL and further updates on asset condition information has been received from councils including KCDC, PCC, MDC and HCC.

Calculations are as follows:

- Each of the asset measurements is not normalised (total set to 100%) because of the risk of high uncertainty when raw data is inflated by high proportions of unassessed network, in particular stormwater for:
 - Horowhenua District Council 22%,
 - Kāpiti Coast District Council 90%,
 - South Wairarapa District Council 100%
- Weighted average asset conditions are calculated weighted by asset class value, as this metric was provided in V2.0 for regions.
- It is likely the pipe condition asset assessment (V1.1) has been used to calculate asset class condition (V2.0) as the figures line up well. This is likely the same approximation that was made for the whole network condition assessment above, but this is not explicit in the V2.0 report.

Appendix F: Key compliance issues

Disclaimer: Compliance information changes from month to month and the material in the table below is based on best available information at the time of this report. For the facilities managed by Wellington Water this information has been taken from the Wellington Water Operations Report to the Wellington Water Committee dated 12 September 2024. For other councils, the information is as supplied in response to the draft of this report in September 2024.

Table 8: Drinking water compliance status

Area / Plant	Compliance	Comment
Waterloo	x Non-compliant	Due to changes in the assurance rules, the capability of the existing Waterloo treatment plant facilities, and the layout of the network, a significant treatment plant upgrade and/or additional network infrastructure is needed to achieve compliance with the rules as written.
Wainuiomata	✓ Compliant	Wainuiomata water treatment plant is compliant with the Water Services Authority bacterial and protozoal compliance rules.
Te Marua	✓ Compliant	Te Marua water treatment plant is compliant with the Water Services Authority bacterial and protozoal compliance rules.
Gear Island	✓ Compliant	Gear Island water treatment plant is compliant with the Water Services Authority bacterial and protozoal compliance rules.
Waiohine	✓ Compliant	The Waiohine water treatment plant is compliant against new bacterial and protozoal Rules. However further work is required to meet process assurance rules e.g. development of standard operating procedures, operators completing qualification requirements, and implementation of an asset maintenance recording system.
Memorial Park	✓ Compliant	The Memorial Park water treatment plant is compliant against new bacterial and protozoal Rules. However further work is required to meet process assurance rules e.g. development of standard operating procedures, operators completing qualification requirements, and implementation of an asset maintenance recording system.
Martinborough	✓ Compliant	The Martinborough water treatment plant is compliant against new bacterial and protozoal Rules. However further work is required to meet process assurance rules e.g. development of standard operating procedures, operators completing qualification requirements, and implementation of an asset maintenance recording system.
Pirinoa	✓ Compliant	Pirinoa is compliant against new bacterial and protozoal rules. However further work is required to meet process assurance rules, such as development of standard operating procedures, and implementation of an asset maintenance recording system.
Ōtaki (KCDC)	✓ Compliant	
Hautere/Te Horo (KCDC)	✓ Compliant	

Waikanae Paraparaumu Raumati (KCDC)	✓ Compliant	
Paekākāriki (KCDC)	✓ Compliant	
Horowhenua District Council	No information supplied	
Masterton District Council	✓ Compliant	Masterton District Council have two drinking water treatment plants, both of which are compliant.
Carterton District Council	No information supplied	

Table 9: Wastewater treatment compliance status

Area / Plant	Compliance	Comment
Moa Point	x Non-compliant	The plant remains non-compliant for suspended solids and faecal coliforms. Steps to fix this are being undertaken. However, breakdowns and planned maintenance work have delayed a return to compliance.
Porirua	✓ Compliant (with noted issues)	The plant is compliant for effluent quality. The treatment plant has higher levels of solids in the process than normal. This can cause partially treated discharges especially during heavy rain. Steps are being taken to address this. There are UV performance issues. Changes made to date have improved UV performance during high volume flows, but occasional faults are still occurring. The system will continue to be closely monitored.
Seaview	x Non-compliant	The plant remains non-compliant for faecal coliforms. Improvements have been observed in the biological process.
Western	✓ Compliant	The plant is compliant for effluent quality.
Greytown	x Non-compliant	<p>Current plant design and processes are inadequate for the connected population, resulting in non-compliance (specifically related to ammonia concentration in the effluent) which is affected by seasonal weather patterns.</p> <p>In 2023, Greater Wellington Regional Council (GWRC) requested explanations of non-compliance. Wellington Water is implementing the required corrective actions where possible within plant and resource constraints. Major investment is required, and current approved funding levels do not meet this.</p> <p>A compliance upgrade project is underway (excluding growth). The plant is already operating beyond its design loading capacity and so new connections have been paused.</p> <p>Funding has been approved to complete a Growth-Capacity Study in conjunction with Martinborough's study.</p> <p>The degree of desludging that will be achieved at Greytown is</p>

		not yet determined.
Featherston	x Non-compliant	<p>Major investment is required to achieve a new consent. Renewal of the consent is being managed as a major project and plant is currently operating on an extension of the old consent. The consent approval process will better inform the required capacity of the plant to cater for growth in Featherston beyond 2032.</p> <p>A significant effluent non-compliance occurred in May-June. This was due to the high volume of septic tank discharges (from Lake Ferry wastewater treatment plant) being pumped into the pond via a nearby manhole. Operational mitigation of this event continues; other septic tank discharges have been stopped until the plant recovers adequately.</p> <p>Plant continues to require ongoing management of resources, focused on effluent quality, to achieve compliance with consent requirements.</p>
Lake Ferry	✓/x Partially compliant	<p>Further investment is required to achieve a management plan and consent compliance into the future. Stantec has been commissioned to prepare and develop a new resource consent application by 30 March 2025. Early conversations suggest that the current scheme will require capital works because of consenting requirements. More funding is required for the consent 2024-25 renewal project than currently allocated. The extra funding is required to prepare an adequate application and undertake community consultation.</p> <p>The source of current high inflow and infiltration is still not funded for investigation. Peak loads are near the plant's hydraulic capacity. Septic tank cleanouts and filter cleaning has been completed. The effect on effluent compliance will be assessed in coming months. The treatment process is being tested and assessed for optimised operation. Plant valving automation is required to better comply with consent discharge requirements; however, this is not funded.</p> <p>Projects underway include sodium bicarbonate dosing improvements and optioneering dripline leaks – some repaired, more require repair.</p>
Martinborough	x Non-compliant	<p>In June 2024, a new 'To Do Abatement Notice' was issued for Martinborough wastewater treatment plant with a deadline of May 2025 to complete desludging. This superseded the May 2024 and August 2023 'To Do Abatement Notices', which in turn replaced the Abatement Notice issued in 2022, although the WWTP still remains non-compliant.</p> <p>WWL and SWDC are working together to address the items raised in the new Notice, as part of the compliance upgrade project underway. Major investment is required, and current approved funding levels do not meet this requirement.</p> <p>Current plant design is insufficient to avoid non-compliance. Effluent discharge rate and quality to land continues to exceed current consent limits. Effluent volume discharged to river continues to exceed the annual average consent limit. GWRC has issued an updated To Do Abatement notice, with a deadline of May 2025 to complete desludging. Progress is being made on the desludging geobag laydown area consenting and tendering process, as well as UV optimisation.</p>

Paraparaumu Wastewater Treatment Plant (KCDC)	✓ Compliant	Operating on expired consent conditions. Securing new consent for the Paraparaumu Wastewater Treatment Plant.
Ōtaki Wastewater Treatment Plant (KCDC)	✓ Substantively compliant	Increasing nitrogen levels in the discharge from the Otaki Wastewater Treatment Plant.
Tokomaru Wastewater Working Party (HDC)	x Non-compliant	An abatement notice has been issued regarding the Tokomaru Wastewater Working Party. Capacity to meet consenting conditions is limited.
Masterton District Council	✓/x Partially compliant	Masterton District Council have four wastewater treatment plants, and all have a high level of compliance and environmental sampling does not show any adverse effects on the environment.
Carterton District Council	No information supplied	

Appendix G: Types of entity model options

NOTE: This report focuses on the assessment of regional models and is intended to support councils to undertake an assessment of other options, including those focusing on council alone or provincial options. There will be many sub-variants that councils could identify. A range of these sub-variants has been identified in the table below, but there are others, such as:

- whether joint arrangements cover 2 or 3 waters,
- number of councils or mix of councils in joint options e.g. 3 or 4 councils,
- staging and timing,
- asset and debt transfer arrangements, noting the detail of which would need to be considered as part of the WSDP (Phase 2); and,
- transition – there are a range of options for transition that need to be considered through Phase 2 and 3.

Table 10: Delivery models considered

Option	Description	Comments
1. Council alone, in-house delivery	<p>Delivery of water services in house, e.g., as per the current Masterton, Carterton, Kāpiti Coast, and Horowhenua models.</p> <p>No joint WSDP or arrangements.</p> <p>Sub-variants include:</p> <ul style="list-style-type: none"> • Resourcing, procurement and contracting models • Deliver in house in a financially ring-fenced Business Unit • Deliver in house as a single council CCO 	<p>NOT RECOMMENDED AS BEST FOR REGION</p> <p><i>Councils will each evaluate an in-house option as an alternative option to a regional model.</i></p>
2. Joint CCO – service delivery only	<p>Joint WSDP and arrangements.</p> <p>Multiple council-owned CCO.</p> <p>CCO role:</p> <ul style="list-style-type: none"> • Plans, designs, operates and maintains as per the current WWL model. • Assets, liabilities and debt remain on council balance sheets. 	<p>NOT RECOMMENDED AS BEST FOR REGION</p> <p><i>The current WWL model has struggled with a number of structural challenges which inhibit its effectiveness. Therefore, a narrow CCO option is not considered to meet regional requirements.</i></p>
3. Joint CCO – full breadth	<p>Joint WSDP and arrangements.</p> <p>Multiple council-owned CCO.</p> <p>CCO role:</p> <ul style="list-style-type: none"> • Full-breadth water utility vested with ownership of all water assets, revenues & liabilities. • Debt is transferred from councils. • Owned by local councils through shares. • Bills users directly for charges. • Must enable sufficient borrowing. 	<p>RECOMMENDED FOR CONSIDERATION</p> <p><i>This option is likely to be a modified form of a CCO which should achieve balance sheet separation. (Note: Bill 3 will clarify the nature of the powers of this new type of entity).</i></p>

4. Joint council-owned company (COC)	<p>Joint WSDP and arrangements.</p> <p>Multiple council-owned COC</p> <p>COC role:</p> <ul style="list-style-type: none"> • Full breadth water utility vested with ownership of all water assets, revenues and liabilities. • Similar structure to a Council Controlled Organisation but with reduced Council oversight provisions thereby enabling the company to have greater control and certainty over its investment plans. 	<p>RECOMMENDED FOR CONSIDERATION</p> <p><i>This option is likely to be a modified form of a CCO which should achieve balance sheet separation. (Note: Bill 3 will clarify the nature of the powers of this new type of entity). This is the option underlying the design set out in this report. It mirrors the structure now referred to as a joint water services council-controlled organisation (WSCCO) in the Local Government (Water Services Preliminary Arrangements) Act 2024.</i></p>
5. Consumer trust	<p>Trust role:</p> <ul style="list-style-type: none"> • Full breadth water utility but owned by a trust. • Overseen by independent trustees appointed by consumers. <p>See detail below on variants and issues.</p> <p>Variants:</p> <ul style="list-style-type: none"> • Council alone or joint model. • Council alone or joint WSDP and arrangements. 	<p>NOT RECOMMENDED AS BEST FOR REGION</p> <p><i>This would require councils to transfer their water assets to a consumer-owned trust. The trust would also have challenges accessing the necessary funding. In particular, it would not be able to access LGFA funding as the LGFA's current constitution limits lending to councils and CCOs only.</i></p>
6. Private sector	<p>Transfer or sale of assets, liabilities and revenue to private sector investor.</p> <p>Variants:</p> <ul style="list-style-type: none"> • Transfer in whole. • Transfer in part e.g. JV type model. 	<p>NOT RECOMMENDED AS BEST FOR REGION</p> <p><i>This was not explored. The councils held strong views that this was not an acceptable option.</i></p>

Other possible model options

Below is a summary of other technically possible model options which were not considered to be practical options for further development.

Trust (Potential CCO)

This would be an independent legal entity, established through its trust deed. The trust would have the power to hold and operate the relevant assets, which would be owned by the trust. Some or all trustees could be appointed by the councils. If the councils had the right to appoint 50% or more of the trustees, the trust would be a CCO (meaning LGA accountability measures like the statement of expectations and statement of intent would apply). The trust deed would set out the basis on which the trust would operate, and the powers of its trustees. This model would allow some council control over the entity if the trust were a CCO. However, the model is unlikely to be suitable because councils would have to transfer their water assets to a trust, which is not owned by the councils. Also, for international capital and insurance markets a corporate structure is a more “vanilla” structure.

Non-CCTO Charitable Trust

Another option is a charitable trust (with an incorporated board of trustees or a company trustee), which should be tax-exempt provided that the trust is not a council-controlled trading organisation (CCTO) under the Local Government Act 2002 and is registered under the Charities Act 2005 (such registration being a

prerequisite for income tax exemptions for charities). A not-for-profit public water services trust (reinvesting funds in its assets/services) should be able to be structured as a charity and non-CCTO.

While this option is theoretically possible, charitable status would place significant governance restrictions on the new entity, would involve ongoing regulatory oversight by DIA Charities Services and mean that the assets would be locked up for exclusively charitable purposes in perpetuity. In addition, a non-corporate trust model, even with a corporate trustee, would not enable council ownership of the entity. This option is therefore not recommended, especially if income tax exemption for the new entity can be achieved via legislation (see above).

Limited Partnership

Limited partnerships are legal entities governed by a limited partnership agreement (which the entity must have) and the Limited Partnerships Act 2008. Councils could be the limited partners in a limited partnership; the Limited Partnerships Act requires them to not be involved in management of the limited partnership, in order to maintain the limited liability protection that this model provides. A limited partnership is managed by a general partner. In this instance it would need to be a company that has responsibility for managing the limited partnership. The councils could be shareholders in the company that is the general partner. Another possible option would be for the councils to contribute the assets to, and be limited partners in, a limited partnership that is not a CCTO (as above), which would not be taxed in its own right as its income would be attributed to its limited partners (the councils) and tax-exempt at council level.

While theoretically possible, a limited partnership structure is likely to be unsuitable. It may not achieve the desired balance sheet separation from councils, while from a governance and management perspective it would be desirable for the general partner to not be controlled by the councils. While this model does enable council ownership of water services assets, it is complex and does not result in any material benefits as against using a CCO or COC.

Port company/energy company model

The current definition of “council-controlled organisation” in s6 of the Local Government Act 2002 excludes a port company within the meaning of the Port Companies Act 1988, and an energy company within the meaning of the Energy Companies Act 1992. In both the cases, the apparent policy rationale for these companies not being CCOs, and (notwithstanding that a port company or energy company might otherwise qualify as a CCO, if a local authority owns shares carrying 50% or more of voting rights) is that they are subject to their own regulatory regimes, which require accountability documents such as a statement of corporate intent. Those regimes are inconsistent with, and would to some extent duplicate, the regime for CCOs in the Local Government Act 2002. It is possible that when the Government prepares legislation providing for a new type of COC/CCO (i.e. Bill 3 expected late-2024), it takes guidance from the Port Companies Act 1988 and Energy Companies Act 1992. Accordingly, there may be some similarities between a new COC model and the existing Port and Energy Company models.

Appendix H: Network economics approach

Purpose

The purpose of network economic analysis is to provide transparency to the cause/effect relationships that exist in both technical and economic views of networks. This technique is useful to examine the trade-offs between decisions that include pricing, growth support, network reliability and risk, capital allocation, debt, compliance, network remediation pace, fault rates and costs, and debt requirements. It is a high-level view of making the primary cost structures, constraints, and decision levers visible to governance and other decision makers. It is primarily used for choosing scenarios and focusses on differing effects of capital investment distribution.

This helps to provide simple and clear answers to the following critical questions:

1. What is the **problem**? How big is the **gap**?
2. What is the **best investment strategy**? What is the **risk** of severe network failures? How **quickly** do we need to do it? What will it **cost**?
3. How much can be funded from **price**?
4. What is the residual that will need to fund from **debt**?
5. Where will the **debt** come from? What **credit support** is required?

The network model enabled analysis to:

- assess the cost of remediation and ongoing investment for maintenance and renewal,
- support analysis of different scenarios and remediation pathways,
- consider remediation investment, time, efficiency, price, and debt,
- consider decision drivers of risk and cost,
- model a range of investment scenarios, including price, debt and risk, and
- recommend a practical scenario to support strategic understanding of:
 - high-level capital requirements and associated timing, and
 - the impact on price, debt, risk, and cost and timing.

It is common practice that once these scenarios including capital distribution are chosen, then an investment grade cash-flow analysis is provided using the key decision metrics of the economic analysis.

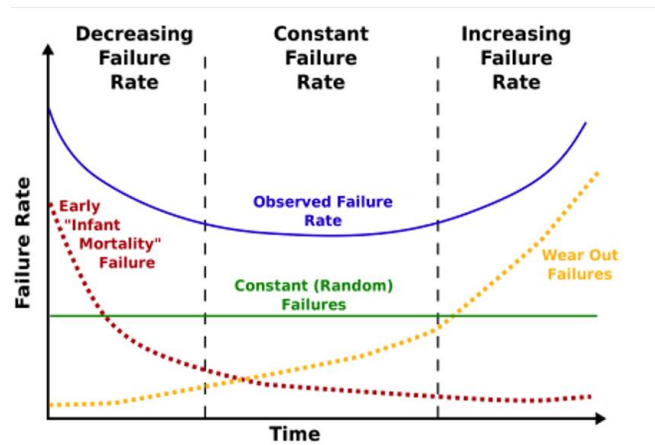
There are two frameworks commonly used for the network economic analysis of capital efficiency. These are:

- “Bathtub Failure Rate Curve” (an engineering concept at the heart of reliability estimation), and
- “Sustainable Replacement Cost” (a microeconomic concept used extensively in asset management).

The modelling used these two frameworks individually to cost the minimum continual investment in the network to maintain its current state (sustaining “keep-up” investment). These were then used together to cost some of the consequential failures generated by worn-out assets, including estimating the cost of network leaks.

Concept 1 – Asset failure rate (“Bathtub”) curve

Figure 1: The asset failure rate (“Bathtub”) curve



Key points of the asset failure rate curve:

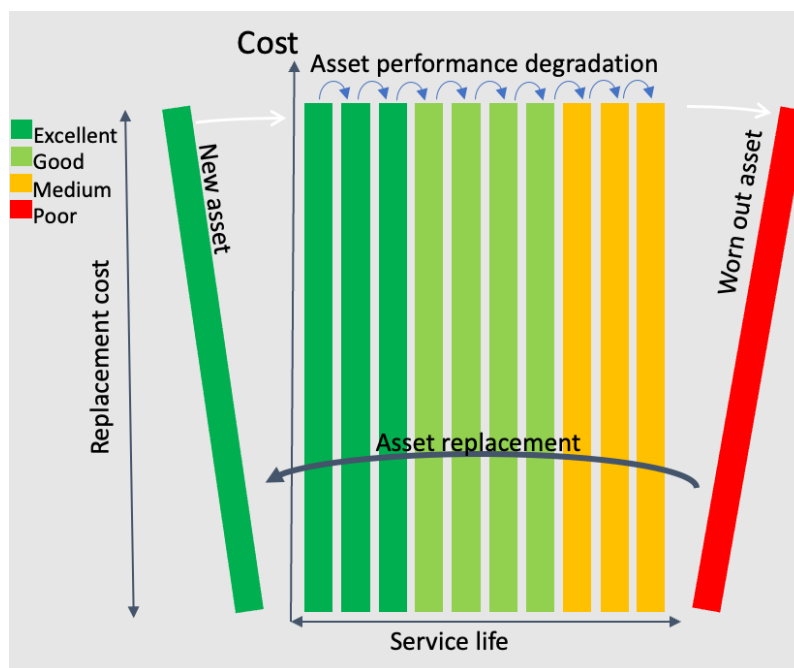
- The ability of all assets to meet their service function declines with use or age.
- Ageing assets start to generate faults due to their reduced condition. In a network, these faults may occur with an asset itself, but also may occur elsewhere in the network due to the interaction between connected assets. This is known as the ‘Network Effect’.
- The more worn-out an asset is, the more faults it generates, and the rate of fault generation often increases exponential as an asset’s condition reduces (ages).
- There is a natural point at which the expected network fault costs caused by asset deterioration exceed the cost of replacing the asset. This point of asset deterioration is known as the End of Service Life (EoSL) of the asset and is often described in ‘years in service’, although the actual measurement to determine this metric is measurement of the asset condition. When an asset condition reaches the end of its service life, it is economically sensible to replace it.
- This means that for every asset in a network there is an optimum service life; so, the whole network also has an optimum service life. In practice, this is calculated from assessing the condition of costly and critical assets in the network.
- This means that the optimal use of capital to maintain a network of assets occurs at the maximum average age of the assets. If the assets in a network are used beyond their EoSL, then the cost of the network increases, due to the increased cost of faults from assets that fail. Conversely, if assets are replaced too quickly, then the network also costs more to support because the capital involved is unnecessarily high.
- There is a ‘sweet spot’ for the efficient use of capital in any network. How far off the actual condition of the network assets are from this sweet spot allows assessment of how much additional cost is being generated by the network.

When the network starts to fail, costs increase exponentially. Fixing faults does not fix the network unless you replace the assets.

Concept 2 - Sustainable network renewal costs

Once a network is operating in its economic sweet spot, it is relatively simple to determine its sustainable capital replacement cost.

Figure 2: Determining sustainable capital replacement cost



Worn-out assets should be replaced with new ones at the same rate as the old ones are wearing out. This annual cost is known as the sustainable (capital) cost of the network ('keep up' investment). It is worth noting that replacing assets at this rate does not improve the condition of the network overall – it simply keeps it at the same condition it is already at.

Replacing assets more slowly than this rate degrades the network and generates an additional cost burden from faults. Conversely replacing assets faster than the sustainable rate improves this condition of the network and lowers consequential costs until the network is back to its economic sweet spot.

It is useful to distinguish between network replacement costs and network fault costs. Network replacement costs are an inherent part of maintaining the network and are not discretionary if network efficiency is to be maintained.

Faults costs (including leaks) are generated mainly by worn-out assets and are one of the consequential costs of network failure. Investing in mitigating consequential costs is not the same as investing in the network itself and, in practice, often diverts investment in network maintenance which further accelerates network degradation.

In the absence of intervention, the increasing and continuous cost of fixing leaks diverts investment from replacing the worn-out pipes that are the root cause of most of the leaks and so the network generates more leaks. This is a network cost 'runaway' situation – and this is the situation potentially facing much of Wellington's regional water networks.

Network risk analysis is often a major component of network economic analysis and is performed using the trend information on faults, condition assessments and a view of the current fault/expected baseline

Asset Life

The 'End of Service Life' (EoS) for an asset means that its condition has deteriorated sufficiently and that it is economically sensible to replace it with a new one. While the asset age is measured in years of life, it is not its age that determines when it should be replaced – it is its condition.

fault information. Probability of critical major network failures can be determined if a base probability of failure from a good condition network is provided.

The condition of much of the Wellington regional water networks with its current high rate of leaks and other asset failures means that the chance of a critical network failure event is currently high (estimated as 10 times that of a remediated network). The long timeframes involved in remediating the network (18-30 years) mean that this high risk of critical network failure remains for some time and any extension to the remediation process increases this risk of network failure.

Appendix I: Investment, price and debt scenarios

The network economic modelling is multi-dimensional and can be used to test a wide range of alternative investment, price, debt and risk scenarios. These scenarios are not intended to represent planned investment, but to help understand tradeoffs.

Apart from the rate of catch-up investment, the total investment required was taken as an assumed fixed quantum on the basis that it is the essential investment required to turn the network around and to meet growth and compliance standards. It is noted that this is an *estimate* only of the level of investment required and will require significant further refinement through the development of the WSDP.

Notes:

- Further analysis of financing arrangements, including how the WSCCO can utilise and structure borrowing to manage and smooth the rate of cost increases will need to be fully explored in subsequent phases of work.
- The versions of modelling scenarios have been based on the information, assumptions and limitations as noted in Appendix C.

Table 11: Scenario Modelling

Scenario Name	Scenario Purpose	Comments and key Insights
Main price and debt scenarios		
Optimised base scenario	Based on consideration and testing of a range of variables, including price, debt, cost and risk, this outlines an overall optimised scenario to remediate the network in 21 years and deliver substantial compliance in 23 years. The scenario can then be used to compare and contrast other scenarios.	There is further optimisation that can be achieved through further refinement of this scenario, but it gives an indication of an optimal and affordable investment pathway based on assumed average of 9% increase in prices.
1. Higher early price of 25% and then 9%	This scenario is based on the impact of a higher Year 4 price increase in order to reduce total debt and interest costs and achieve an investment-grade FFO:Debt Ratio >9% earlier.	A higher price increase may be considered unaffordable to water consumers. However, this results in lower peak debt and therefore lower costs to service debt and peak prices than the base scenario.
2. Lower and longer price rise - 5% pa	This scenario takes the investment required to turn around the network as a given and models a lower price rise. It calculates debt as the balancing variable.	This scenario results in a lower average peak price but would result in the network remediation taking 5 years longer. The scenario may also result in the WSCCO exceeding FFO debt limits in early years.
Main speed of catch up (Backlog Renewal Scenarios)		
3. Go slower – 30-year remediation period with 9% price rise	This scenario looks at remediating the renewal backlog and compliance issues over a longer period. This spreads the capital remediation impact.	This scenario results in a lower average peak price. However, it would also have higher risk of network faults due to the extended period the network continues to be held in its current poor condition.
Alternative investment scenarios		

Scenario Name	Scenario Purpose	Comments and key Insights
4. Investment if 20% increase in construction costs	This scenario models a 20% increase in construction/capex costs and allows for demand inflation due to many national water networks needing to be remediated at the same time.	Results in higher prices to customers – peak and long term and longer term to fix network.
5. Investment if 20% decrease in construction costs	This scenario models a 20% decrease in construction/capex costs, recognising that high interest rates and a downturn in the economy have led to some reduced construction costs.	Results in lower prices to customers – peak and long term and shorter term to fix network.
6. Faults cost increase	This scenario models \$120 million of faults costs pa.	Results in higher prices to customers – peak and long term and longer term to fix network.
7. Increased opening debt	This scenario models if the WSCCO has an opening debt of an additional \$500m or total of \$2.8b. This helps to understand potential impacts of additional financing arrangements.	Results in a potential credit shortfall in 2028 which could be managed based on actual year of borrowing. Results in higher peak and sustainable price.
8. Investment level set at LTP levels	This scenario models what the faults costs, risk, price and debt impacts are if the investment level is set at the aggregate of the 10 councils' LTP capital spends for the next 10 years.	<p>This level of investment continues to degrade the network, increases costs to the consumer and results in a continually increasing consequential cost from network failure.</p> <p>This level of investment makes the eventual remediation of the network more expensive and costs to the consumer rise.</p>

Table 12: Financial modelling and analysis – refer also to the diagrams below that explain the linkage from economic modelling to financial modelling.

Aspect	Economic model is:	Economic model is not:
Purpose	To enable rapid exploration of different strategic options and scenarios to support strategic decision making (this aims to enable councils to evaluate the merits of a strategic, “regional water delivery entity” option).	Designed to support more detailed tactical decisions. For example, detailed, accurate pricing of specific services or detailed investment plan (this level of modelling detail would be undertaken in the establishment phase of a WSCCO).
Level	Strategic, macro model.	Tactical, micro model.
Timeframe	30+ years.	Short-term financial model (noting that a financial accounting perspective of the first 10-year horizon is included in Appendix J.)
Inflation	Using real numbers. This makes comparisons clearer and underlying trends more transparent.	Using nominal, inflated numbers (but the report provides a set of 10-year financial projections which incorporate inflation in Appendix J.)
Accuracy	Targeting +/-20% around revenue, investment, debt etc over the 30-year period, i.e. a sufficient level of accuracy for strategy decision-making purposes (note modelling used the “best available data and assumptions”. Some of these,	Not intended as the basis for investment decisions but is intended to inform scenarios that investment planning can be based upon.

	such as the available asset condition metrics, are known to be weak ²).	
Investment	Calculating top-down investment “envelope” required by main category (sustaining, catch up, growth, compliance).	Bottom-up project by project build-up of a detailed Investment or Asset Management Plan.
Price	Calculating aggregate “Revenue Requirement” and revenue path (rather than price for a specific service).	Designed to calculate prices for specific services, specific regions etc.
Averaging	Averaging costs over long-term timeframes, e.g. 20 - 30 years for sustaining or catch-up period.	Designed to provide finely phased figures that factor in ramp-up periods and inconsistent levels of investment for major projects.

² Refer to Appendix C for assumptions

Economic & Financial Modelling - Approach

ECONOMIC MODEL (30 Year)

Purpose: Enable strategic analysis to:

1. Explore options for turning the network performance around
2. Land a preferred option

Model uses:

1. Macro assumptions.
2. Real, not inflated figures.

1. Build Model

2. Populate & Calibrate Model

3. QA Model

4. Analyse

5. Report

Sanity check providing similar results

- a) Opening revenue
- b) Expenses
- c) Funds from operation
- d) Opening debt

- a) Year 4 onwards real Capex
- b) Year 4 onwards real price path

1. Turnaround Strategy (clear, compelling, optimised)
2. Investment required
3. Price path & revenue funding
4. Residual debt required

FINANCIAL MODEL (10 Year)

Purpose: Fine tune preferred option to produce

1. Robust Year 1-10 financial projections (inc price, FFO, capex & debt)

Model uses:

1. Micro assumptions (LTP etc).
2. Nominal figures (ie factors in inflation)

1. Build Model

2. Populate & Calibrate Model

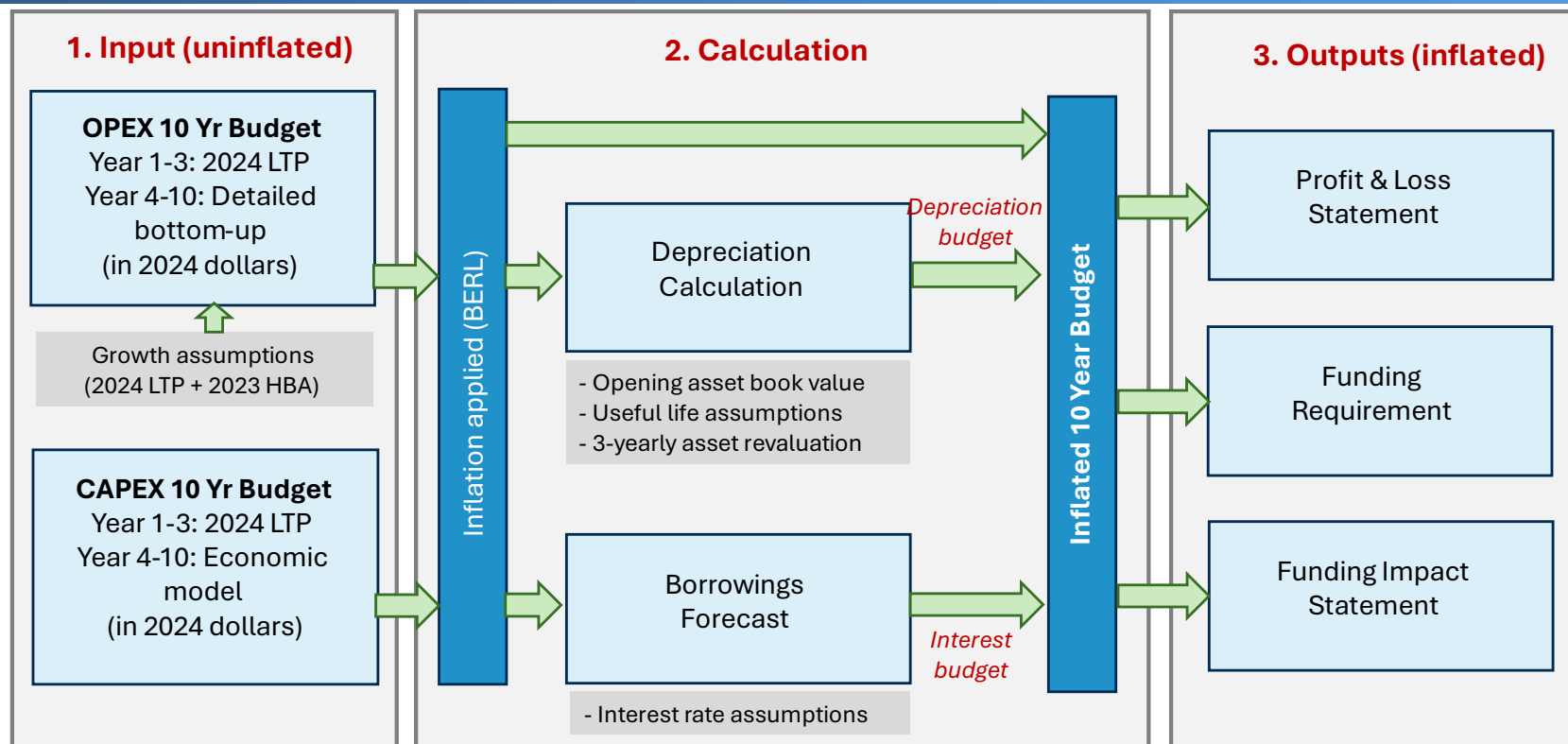
3. QA Model

4. Analyse

5. Report

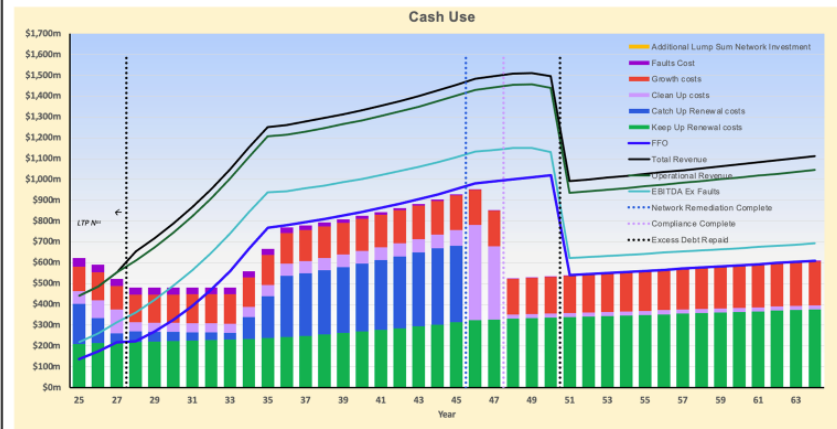
1. 10 Year Financials
2. Info to populate business plan section
3. 10 year nominal price path
4. 10 year nominal debt profile
5. 10 year credit rating metrics

Model Overview – 10 Year Financial Projection Model



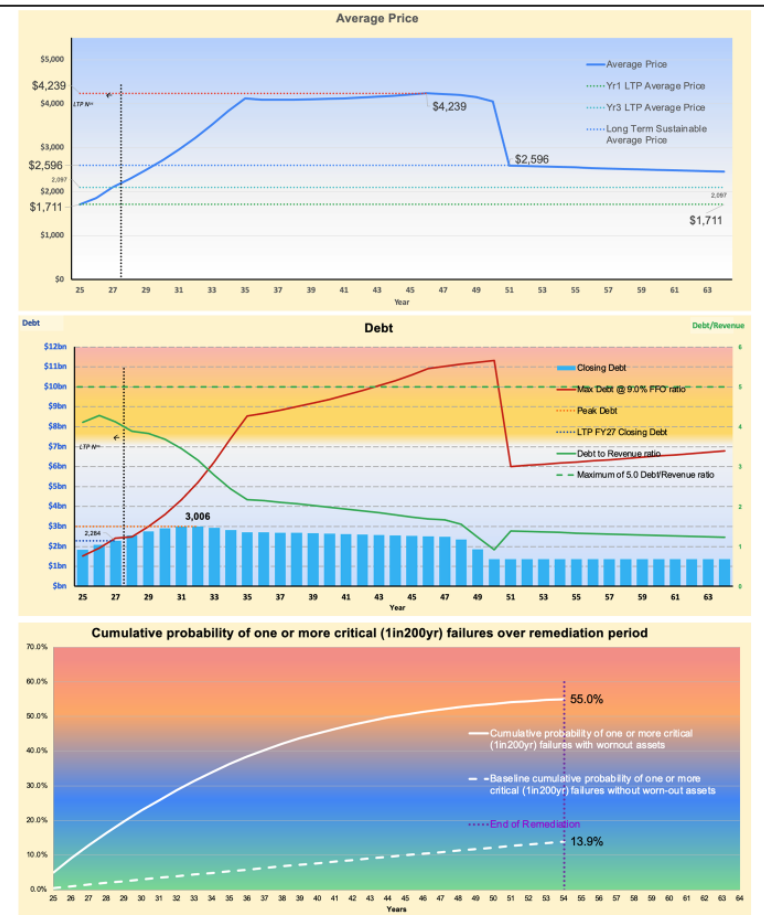
Scenario Baseline: 9% pa (all values are in \$FY24)

Headline Metrics



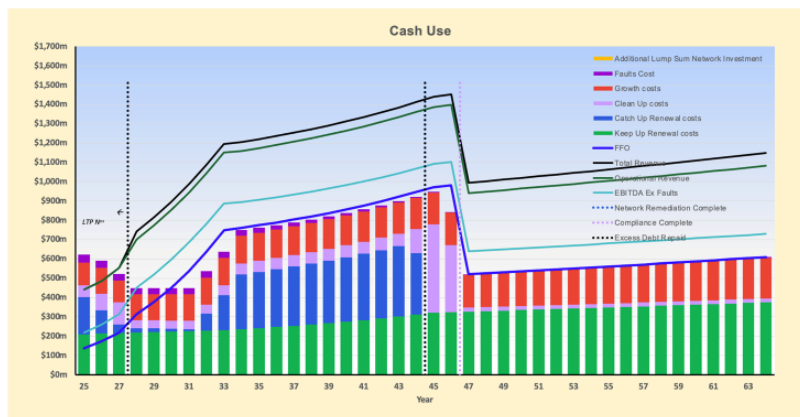
Long-term average sustainable price	\$2,596	in 2051
Peak average price	\$4,239	~2035-2050
Peak debt	\$3.0bn	2032
Peak credit limit shortfall	\$0.0bn	

Network fixed	2045
Network self funding	2033
Debt repaid	2050
Network investment costs	74%
Interest costs	23%
Faults costs	3%
Network critical failure risk increase	55% vs 13.9%



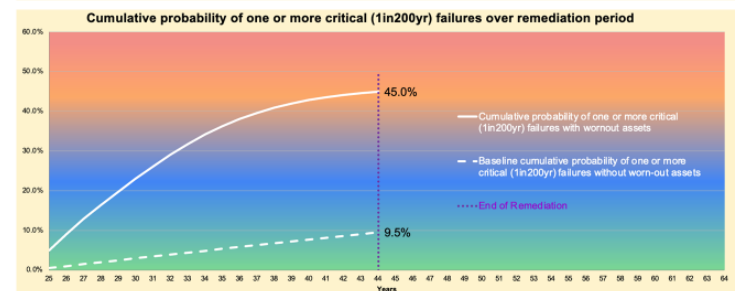
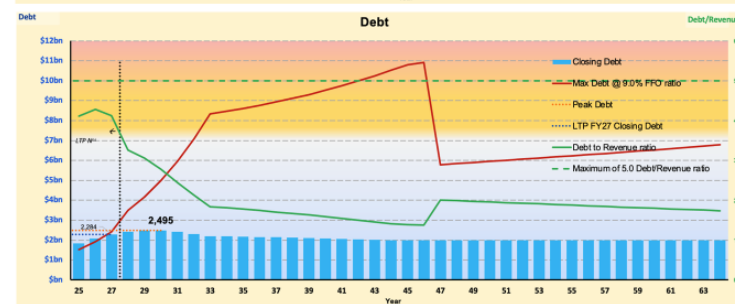
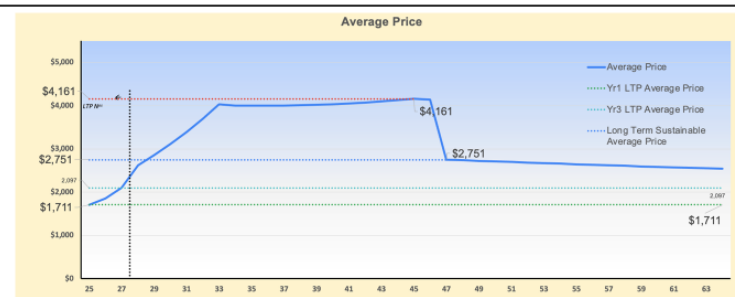
Scenario 1: 25% yr4 price rise, then 9% pa (all values are in \$FY24)

Headline Metrics



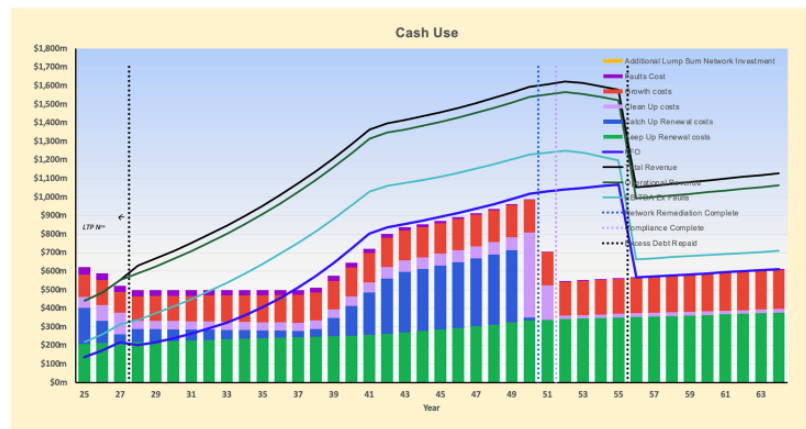
Long-term average sustainable price	\$2,751	in 2047
Peak average price	\$4,161	~2033-2046
Peak debt	\$2.5bn	2030
Peak credit limit shortfall	\$0.0bn	

Network fixed	2044
Network self funding	2030
Debt repaid	2043
Network investment costs	81%
Interest costs	16%
Faults costs	3%
Network critical failure risk increase	45% vs 9.5%



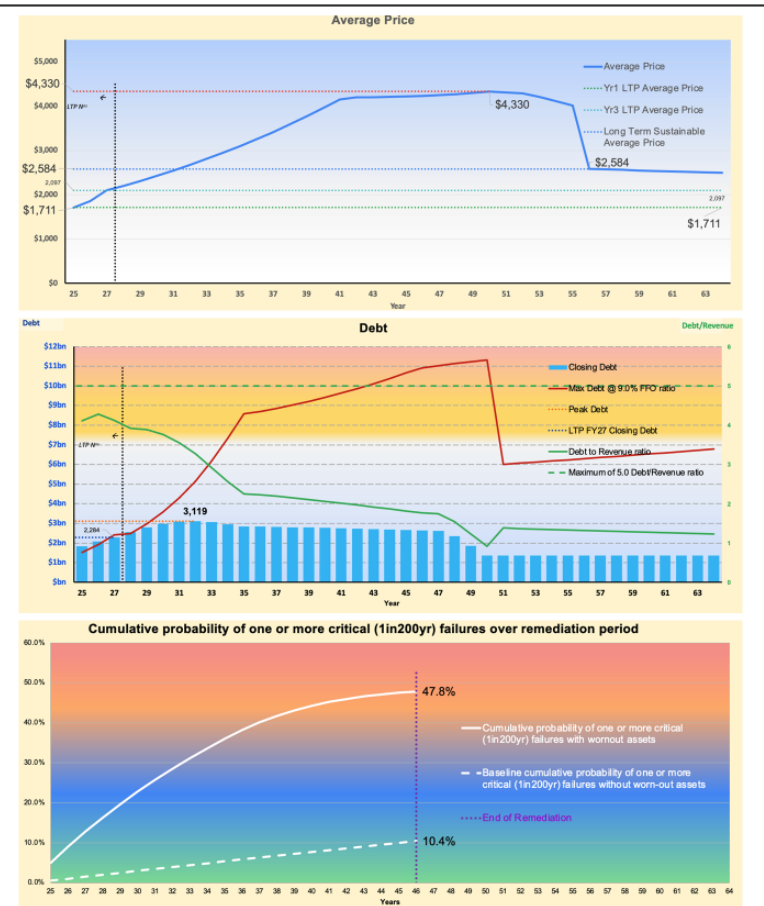
Scenario 2: 5% pa price rise (all values are in \$FY24)

Headline Metrics



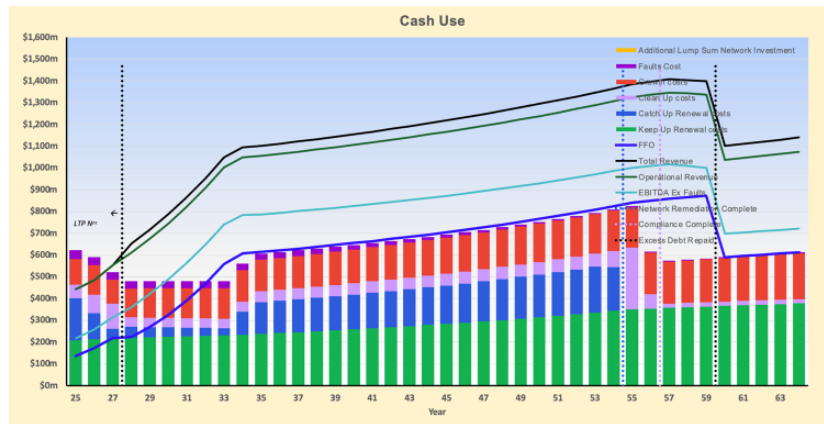
Long-term average sustainable price	\$2,584	in 2056
Peak average price	\$4,330	~2041-2055
Peak debt	\$3.1bn	2032
Peak credit limit shortfall	\$0.5bn	2030

Network fixed	2050
Network self funding	2037
Debt repaid	2055
Network investment costs	70%
Interest costs	27%
Faults costs	3%
Network critical failure risk increase	47.8% vs 10.4%



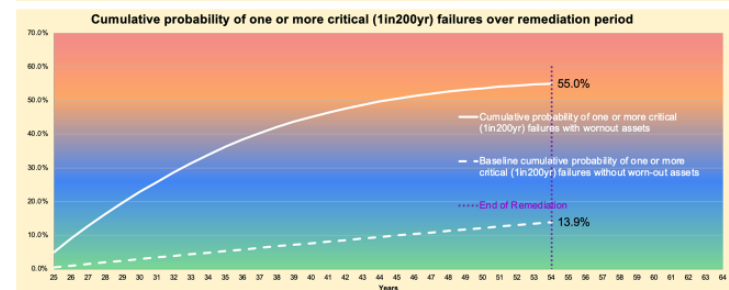
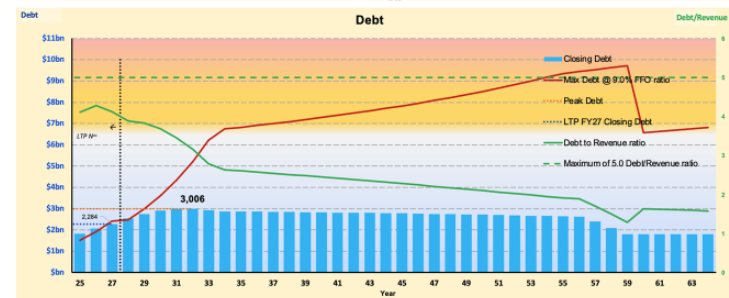
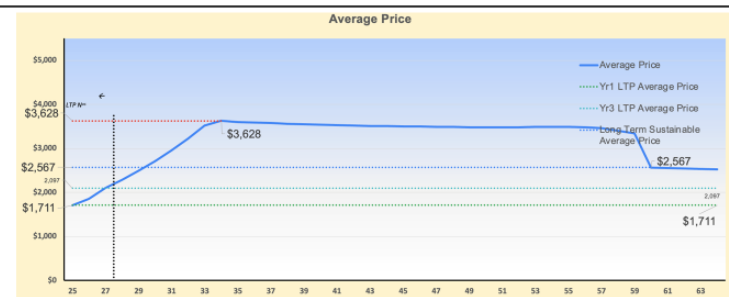
Scenario 3: 30yr network recovery, 9% pa price rise, reduced peak funds (85%) to lengthen remediation period (all values are in \$FY24)

Headline Metrics



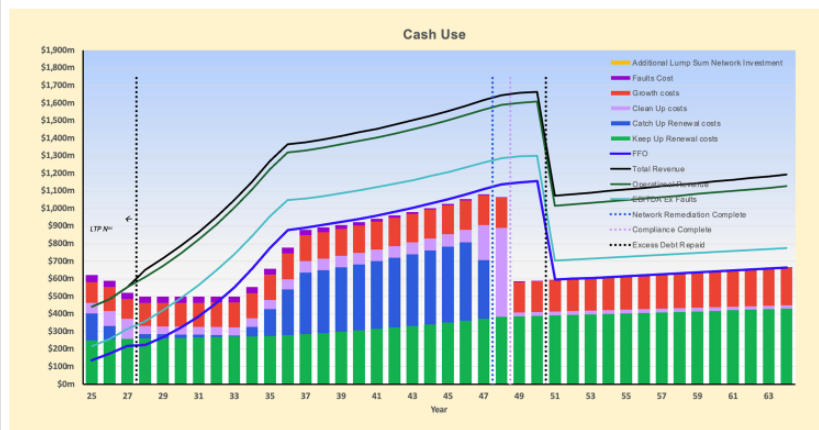
Long-term average sustainable price	\$2,567	in 2060
Peak average price	\$3,628	~2034-2059
Peak debt	\$3bn	2032
Peak credit limit shortfall	\$0.0bn	

Network fixed	2054
Network self funding	2033
Debt repaid	2059
Network investment costs	73%
Interest costs	24%
Faults costs	3%
Network critical failure risk increase	55% vs 13.9%



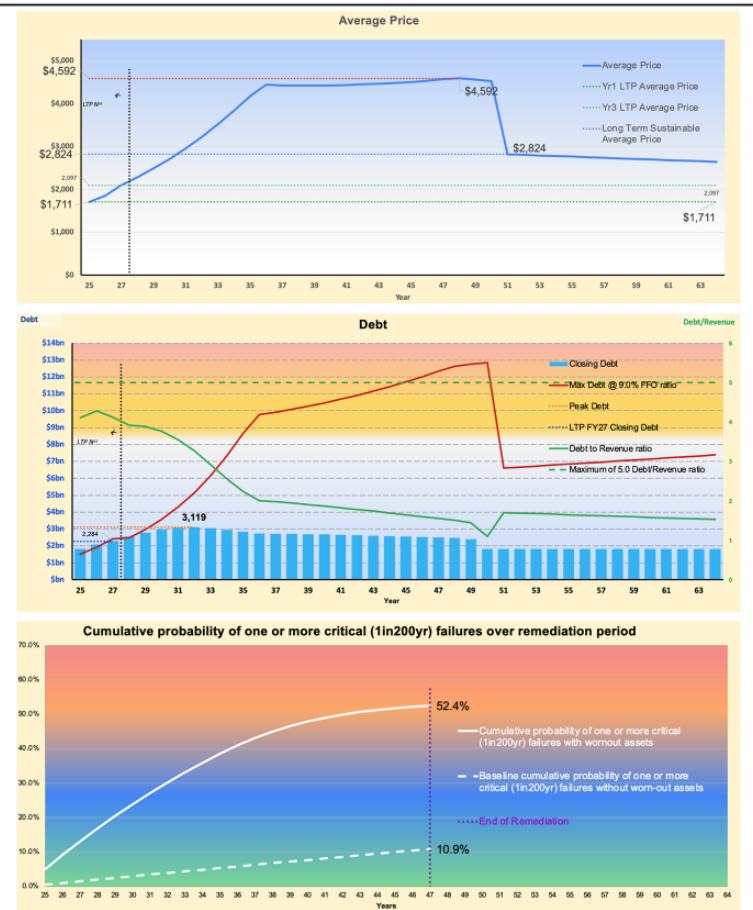
Scenario 4: 20% increase in cost, +9% pa price rise (all values are in \$FY24)

Headline Metrics



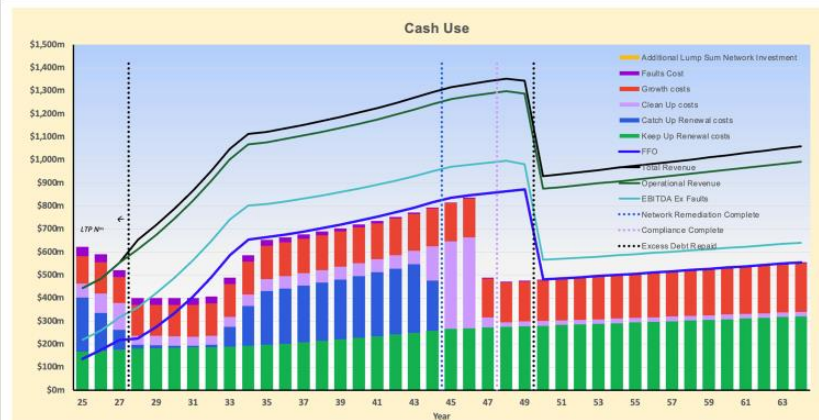
Long-term average sustainable price	\$2,824	in 2051
Peak average price	\$4,592	~2036-2050
Peak debt	\$3.1bn	2032
Peak credit limit shortfall	\$0.0bn	

Network fixed	2047
Network self funding	2033
Debt repaid	2050
Network investment costs	77%
Interest costs	20%
Faults costs	3%
Network critical failure risk increase	52.4% vs 10.9%



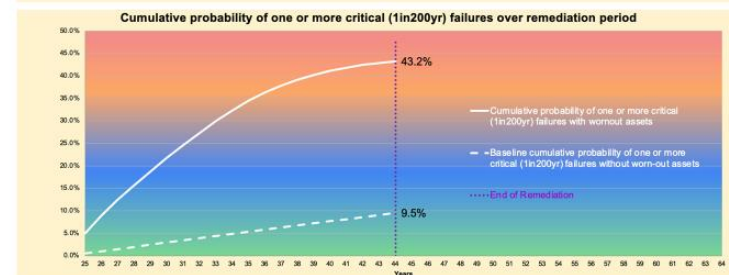
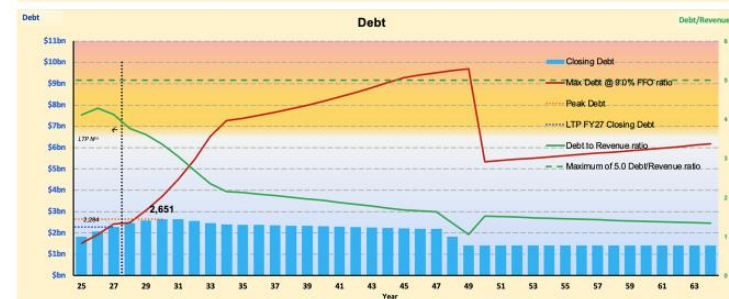
Scenario 5: 20% decrease in cost, +9% pa price rise (all values are in \$FY24)

Headline Metrics



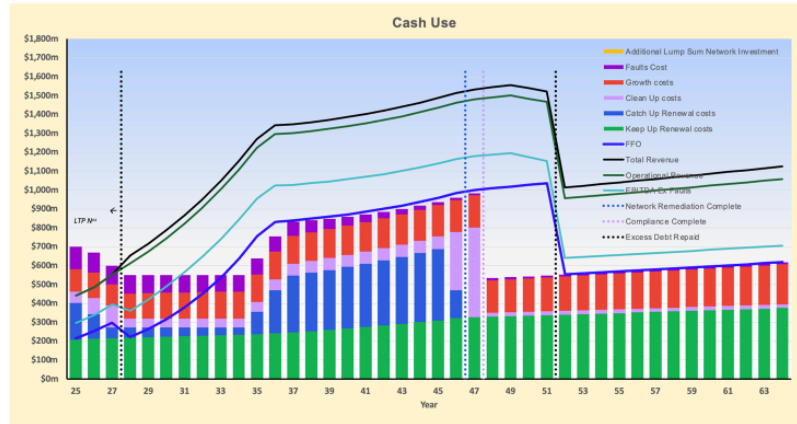
Long-term average sustainable price	\$2,461	in 2050
Peak average price	\$3,796	~2034-2049
Peak debt	\$2.7bn	2030
Peak credit limit Shortfall	\$0.0bn	

Network fixed	2044
Network self funding	2031
Debt repaid	2049
Network investment costs	74%
Interest costs	23%
Faults costs	3%
Network critical failure risk increase	43.2% vs 9.5%



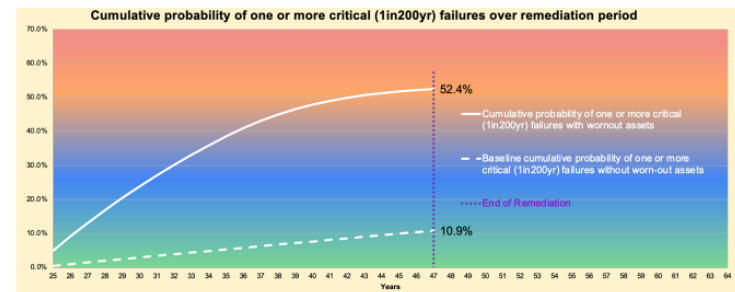
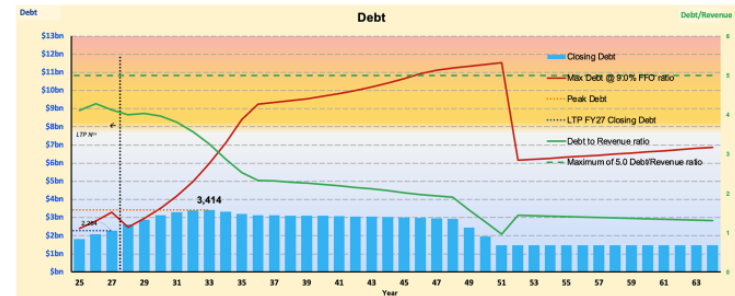
Scenario 6: \$120m fault cost, 9% pa price rise (all values are in \$FY24)

Headline Metrics



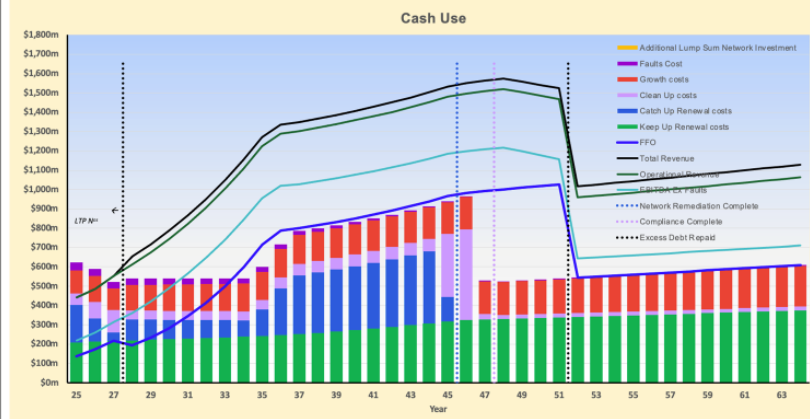
Long-term average sustainable price	\$2,623	in 2052
Peak average price	\$4,368	~2036-2051
Peak debt	\$3.4bn	2033
Peak credit limit shortfall	\$0.1bn	2028

Network fixed	2046
Network self funding	2034
Debt repaid	2051
Network investment costs	69%
Interest costs	23%
Faults costs	8%
Network critical failure risk increase	52.4% vs 10.9%



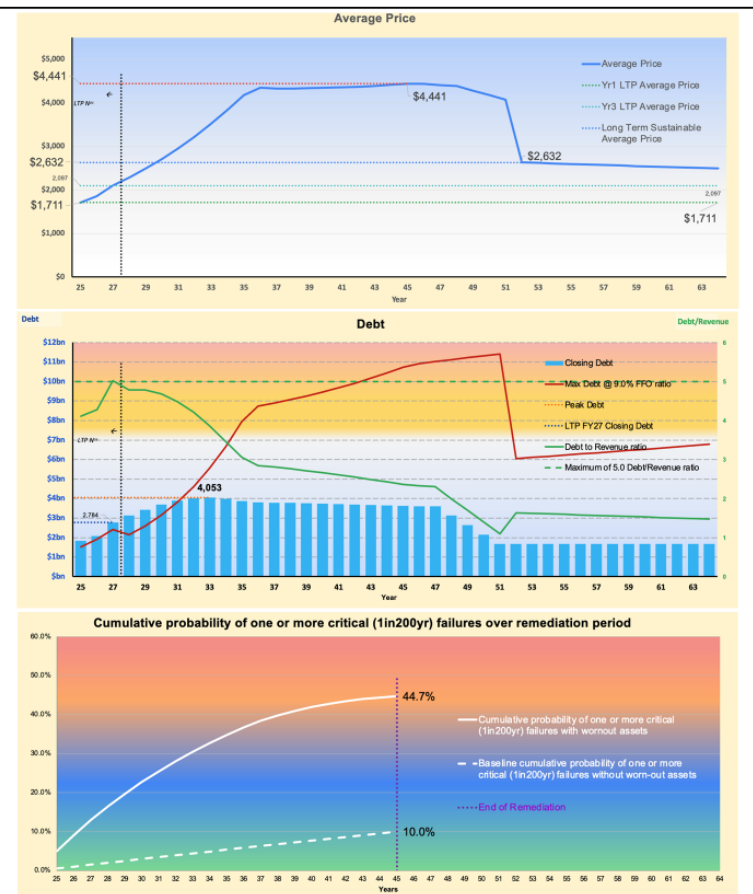
Scenario 7: Increased opening Debt (+\$500M), 9% pa price rise (all values are in \$FY24)

Headline Metrics



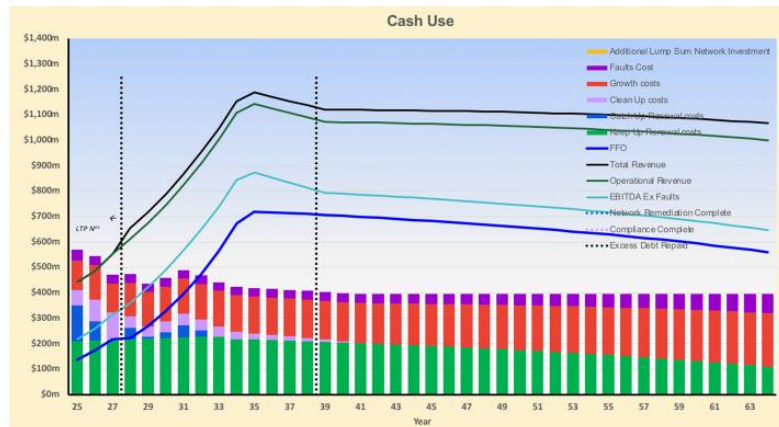
Long-term average sustainable price	\$2,632	in 2052
Peak average price	\$4,441	~2036-2051
Peak debt	\$4.0bn	2033
Peak credit limit shortfall	\$1.0bn	2028

Network fixed	2045
Network self funding	2034
Debt repaid	2051
Network investment costs	70%
Interest costs	28%
Faults costs	2%
Network critical failure risk increase	44.7% vs 10%

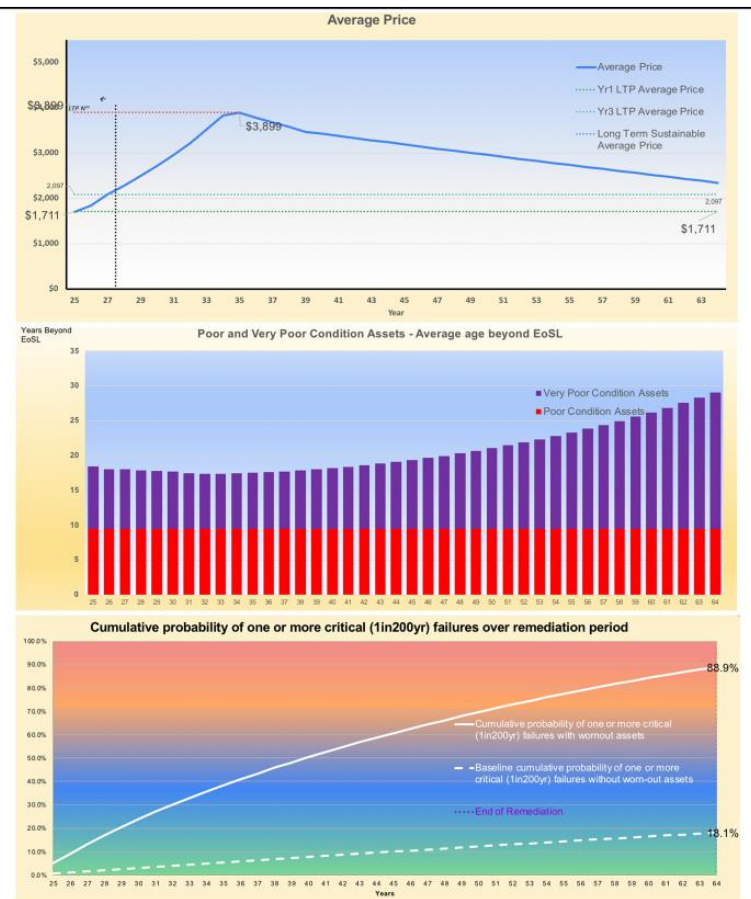


Scenario 8: Consolidated Council LTPs: 9% price rise (all values are in \$FY24)

Headline Metrics



Long-term average sustainable price	is not able to be achieved
Peak average price	\$3,899 ~2035 onwards
Peak debt	\$3.0bn 2031
Peak credit limit shortfall	\$0.0bn
Network fixed	never
Network self funding	2031
Debt repaid	2038
Network investment costs: - are increasingly used to meet increasing faults and growth costs, removing the ability to fund Network Renewal with continued decline in asset condition	
Network critical failure risk increase:	88.9% vs 18.1%



Appendix J: Financial projections

This section outlines the 10-Year financial projections. The financial projections assume that the new entity comes into operation on 1 July 2027 (start of Year 4). As noted in the body of the report, this may in fact be earlier, from early 2026 with a staged implementation approach.

The first three years of the financial projections are taken from councils' final adopted 2024 Long-term Plans (LTPs). The following seven-year figures are the financial projections for the new entity based on the 9% pa price scenario set out in the Financial Sustainability section.

Forecast Profit & Loss Account (P&L)

Table 8 sets out the forecast 10-Year Profit & Loss account. This is based on the Key Financial Assumptions detailed in below. The salient points to note are:

1. **Nominal** - the figures in the Profit & Loss account are shown in nominal (inflated) dollars.
2. **Revenue** – is based on the revenue levels set in the final adopted 2024 LTP for the first three years and an average annual price increase of 9% is applied from Year 4 (2027/28) onwards (after adjusting for growth and inflation).
3. **Expenses** – we have not factored in any efficiency savings. Rather, the assumptions are that (i) any efficiency savings will be sufficient to fund the continuous improvement projects one would expect a business to invest in each year and (ii) any efficiency savings above that will be used to accelerate the speed of rectifying the renewals backlog.
4. **Funds from operation (FFO) and surplus** – as discussed in the Financial Sustainability section, with the 9% pa steady price rise it takes until 2033 for FFO to be sufficient to cover the c\$550 million pa capital investment (\$ quoted in real terms here). The surplus reflects this situation.
5. **Explanation for dynamic** – the shortfall is the result of the inherited revenue streams being significantly short of the amount required to fund the required level of investment. Hence, the rise in revenue needs to be sufficient to close the gap and to fund the rapidly increasing interest burden arising from the debt used to fund the gap until the price path catches up.
6. **Establishment costs** – at this stage, we have not factored in any of the operational or capital investment required to establish a new entity. The Transition section below provides a rough indication of potential establishment costs.

Table 13 – Profit and Loss Account, 3- and 10-Year Summary

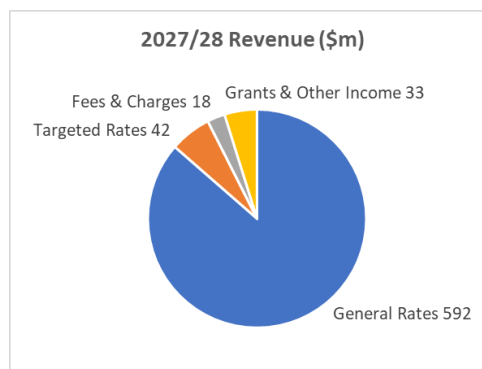
Profit and Loss Account, 3- and 10-Year Summary (\$m)										
	<u>24/25</u>	<u>25/26</u>	<u>26/27</u>	<u>27/28</u>	<u>28/29</u>	<u>29/30</u>	<u>30/31</u>	<u>31/32</u>	<u>32/33</u>	<u>33/34</u>
Revenue³	460	518	620	697	782	875	982	1,098	1,227	1,372
Expenses	364	378	426	465	488	507	521	560	561	559
Staff ⁴	-	-	-	109	112	114	117	120	122	125
less Capitalised labour	-	-	-	(45)	(46)	(47)	(48)	(49)	(50)	(51)
Maintenance	-	-	-	71	73	75	77	78	79	81
Operations	241	246	272	80	82	84	86	88	87	89
Monitoring & Investigations	-	-	-	41	42	44	46	48	49	50
Other – digital, insurance, property, admin etc	38	42	50	78	82	84	86	88	90	92
Integration & Efficiency Initiatives	-	-	-	-	-	-	-	-	-	-
Interest	85	90	105	131	143	153	158	188	183	174
Funds from Operations	96	140	194	232	293	369	461	538	666	813
Depreciation	241	249	270	277	288	313	324	336	363	371
Net Surplus/(Deficit)	(145)	(109)	(76)	(45)	6	56	137	202	303	442

An explanation of each of the line items follows below. The explanations focus on the composition of the Year 4 figures, being the first year of the new regional entity's operation. Given the stable nature of the business, the composition of the subsequent years figures is very similar with inflation being the main reason for the year-on-year change.

Revenue (\$685 million): The revenue figures comprise a blend of rate and service fees (refer to the chart below). The water rating revenues equate to a cost of approximately \$2,003 per residential household and \$5,025 per business (excluding GST) based on current council rating differentials. The core targeted rates, general rates and fee revenues streams are relatively stable. Grants are more volatile.

Underlying the revenue streams are a very diverse and fragmented range of service and pricing structures inherited from the 10 legacy councils. A key task for the new entity will be to simplify and rationalise the service, pricing & tariff structures. This will be an essential foundation for enabling customer transparency and rebalancing revenues to sustainable levels which reflect the cost to serve.

Staff expenses (\$109 million): The staff expenses are based on the detailed organisation structure which was designed for the regional entity during the Three Waters programme (Entity G). The design has been adjusted to back out roles no longer required under the new legislation and to add in roles from Horowhenua District Council. The total headcount of the new organisation design is 727. This is an increase of 143 (11%) new roles on the roles transferring in from councils and WWL. The main drivers behind the increase are roles to furnish new capabilities for: (i) the new regulatory regime; (ii) retail customer billing/support; and (iii) additional corporate support capacity. The additional corporate



³ Revenue excludes capital contributions (e.g. development contributions). These are accounted for and discussed in the Capital and Funding sections below.

⁴ Staff costs of temporary people (\$0.8m) employed to work on initiatives are included in the initiative costs line, not the staff cost line.

support capacity is required because, while significant operational staff would transfer from councils, hardly any corporate/customer staff would transfer.

Some parts of the organisational structure are driven by the need for some extra support in the “frenetic” early years. Accordingly, there will be opportunities to streamline some areas of the organisation structure as the organisation matures and staff turnover.

Maintenance expenses (\$71 million): The main components are planned maintenance (\$22m), reactive maintenance (\$46m) and general maintenance such as plant & equipment maintenance (\$3m). The high level of reactive maintenance reflects the ageing network. This is a significant opportunity to improve efficiency as the entity ramps up sustaining maintenance and remediates backlog renewals.

Operations expenses (\$80 million): The major components of these expenses are general operations costs (\$55m); consisting of work such as leak detection, backflow prevention, land disposal, costs associated with the new sludge minimisation facility operations, power (\$17m), compliance costs, chemicals (\$6m) and operating technology (\$2m).

Monitoring and investigation expenses (\$41 million): The main components here are: investigations (\$11m), asset management improvements (\$9m), strategic planning (\$2m), sampling and monitoring (\$5m) and other general operational planning and investigation work (\$14m) such as carbon management, hydraulic modelling, universal water meters business case, growth planning and modelling, seismic and resilience assessments, water conservation, and facility management plans.

Efficiency: The cost base included in the P&L is high compared with comparative water businesses (refer Appendix J). There are a number of areas which should be targeted for efficiency improvement as the organisation stabilises. As noted above, we have not factored in any efficiency costs at this stage. Rather, we assume that any efficiency savings will be reinvested in continuous improvement initiatives and to accelerate the remediation of the renewals backlog.

Other expenses (\$78 million): The main components of other expenses are professional services (\$12m), insurance (\$15m), rates expense (\$15m), digital services (\$19m), telecommunications (\$1m), other operating costs such as rent, doubtful debts, security, vehicle costs, community engagement (\$10m), and administration costs (\$6m), including Commerce Commission and Taumata Arowai levies.

Interest expense (\$131 million): The interest expense rises steeply as a result of higher interest rates and high debt driven by:

- \$2,273 million inherited from Councils on 1 July 2027
- \$536 million pa debt required to fund average capital expenditure in first three years of the new entity.

Note: Watercare does not capitalise interest and it is assumed that the WSCCO would also adopt this stance.

Operating cashflow (\$240 million): The funds from operations improve significantly driven by the increase in revenue.

Depreciation expense (\$232 million): Depreciation is currently based on assumed asset lives and the latest council revaluations. A full revaluation will be undertaken on acquisition. The actual asset lives will also be available on acquisition. Both of these actions will result in some change to the asset and depreciation figures.

Net surplus/deficit (\$45 million): The deficit primarily reflects the revenue shortfall as previously discussed, along with the “full” costs resulting from the entity being a standalone, fully-fledged utility (for example, having its own billing systems, finance systems, paying regulator fees, paying rates etc).

Sensitivity and risks: There is still a relatively high level of uncertainty surrounding a number of the assumptions and figures. The main uncertainties are summarised in Table 14 below. The key assumptions are set out in Appendix C.

Table 14 – Risks and sensitivities

Risks and sensitivities (\$m)		
Item	Level of Uncertainty	Comment on major risks
Revenue		
Operating Income	High (>\$10m)	May be a rationale for choosing a different % price increase than the 9% placeholder.
Capital Income	Med (<\$10m)	Forecast prices for DCs may change depending on final capex profile and population growth forecasts.
Expenses		
Staff	Low (<\$4m)	The forecast assumes that all roles are full-time equivalents. Potentially, some roles may be part-time. The cost would reduce accordingly.
Maintenance	Low (<\$4m)	The forecast is based on WWL's forecast budget for Year 1 of the 2024 LTP for WWL shareholding councils with a 15% uplift for Carterton, Kāpiti Coast, Masterton and Horowhenua based on historical portion of spend between the councils. The final costs may be less than forecast.
Operations	Med (<\$10m)	The forecast is based on WWL's forecast budget for Year 1 of the 2024 LTP for WWL shareholding councils with a 15% uplift for Carterton, Kāpiti Coast, Masterton and Horowhenua based on historical portion of spend between the councils, plus provision for power costs of \$16 million that are currently paid by councils (not included in WWL forecasts). The final costs may be less than forecasted. The only consequential opex costs factored in are for the new Sludge Minimisation Facility.
Planning & Investigations	Med (<\$10m)	The forecast is based on WWL's forecast budget for Year 1 of the 2024 LTP for WWL shareholding councils with a 15% uplift for Carterton, Kāpiti Coast, Masterton and Horowhenua based on historical portion of spend between the councils. The final costs may be less than forecasted.
Other	Med (<\$10m)	Uncertainty about \$15 million rates expense forecast. Have budgeted based on the CV-forecast from the Three Waters programme. It assumes that only 70% of land will transfer (Watercare %), but actual costs may be higher or lower.
Interest	Med (<\$10m)	Uncertainty is low for interest rate, but medium for quantum of debt. Approx \$5.47 million interest per \$100 million of capex/debt.
Depreciation	Med (<\$10m)	Dependent on capex profile and still based on estimated useful lives for assets rather than actual.

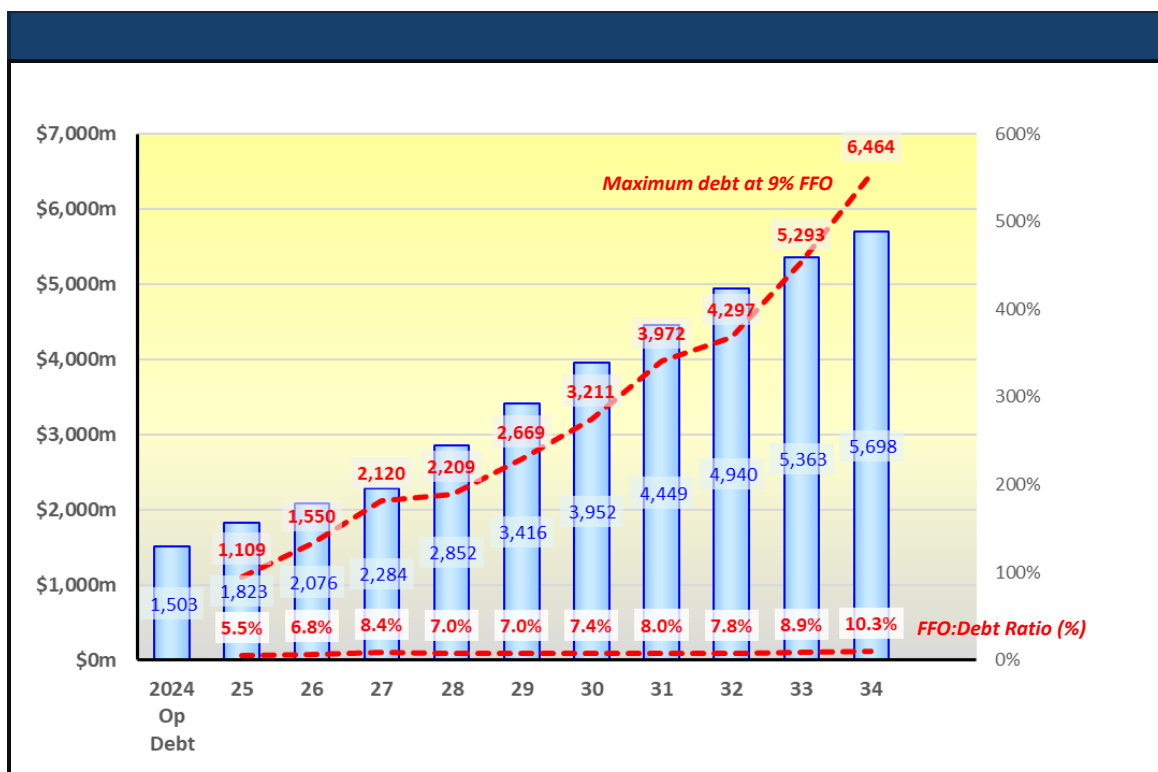
Forecast 10-Year capital investment and funding requirements

The forecast 10-Year capital investment, funding requirements and associated funding metrics are shown in Table 15 & Figure 3 below. They reflect the proposed investment and funding strategy set out in the Financial Sustainability section. As noted earlier, they (1) are based on nominal, inflated figures; and (2) exclude the capital investment costs required to establish a new entity.

Table 15 – Summary 3- and 10-Year Investment Plan and Funding Requirement

Summary 3- & 10-year investment plan and funding requirement (\$m)										
	25	26	27	28	29	30	31	32	33	34
Current Infrastructure Projects										
Renewals	201	220	222	-	-	-	-	-	-	-
Keep up				246	255	264	274	283	292	302
Catch up				77	75	73	70	67	63	139
Clean up				30	31	32	32	33	34	39
Levels of Service	268	242	161	-	-	-	-	-	-	-
Digital	-	-	-	18	19	19	20	20	21	21
Sundry (e.g. property)	-	-	-	2	2	2	2	2	2	2
Total Current	469	462	383	374	382	390	398	405	412	503
Growth Projects	121	117	136	148	154	160	165	171	177	183
Total Capital Spend	590	579	518	522	536	549	563	576	589	686
Funded By:										
Capital income	166	208	105	56	31	40	50	47	59	31
Funds from Operations	96	140	194	232	293	369	461	538	666	813
Debt	328	231	220	234	211	140	52	(8)	(136)	(158)
	590	579	518	522	536	549	563	576	589	686

Figure 3 – Summary of debt level vs investment vs price



Water service delivery overview – Hutt City Council



Council overview

- Hutt City is located approximately 15kms north-east of Wellington CBD. It is also adjacent to Wellington, Porirua, Upper Hutt and the South Wairarapa District. The city stretches from Petone in the west, Stokes Valley in the north, and down to Cape Palliser in the south.
- The floor of the Hutt Valley is the most densely populated flood plain in New Zealand and the central area of Hutt City serves as the main urban centre of the Hutt Valley.
- Hutt City encompasses an area of **37,600 hectares**.
- **3 major waterways** (Orongorongo River, Hutt River and Wainuiomata River).



POPULATION
114,006 (2024).

- Projected population of **150,237** for **2054**.



Water asset information (current state)



RETICULATION

711km of water supply mains
680km of wastewater pipes
454km of stormwater pipes



TREATMENT ASSETS

13 water supply stations
48 wastewater stations
12 stormwater pump stations



STATIONS

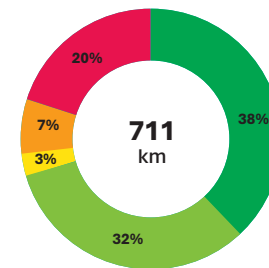
1 wastewater treatment plant
5 stormwater detention dams
Water is supplied via a bulk water main from treatment facilities owned by the Greater Wellington Regional Council.



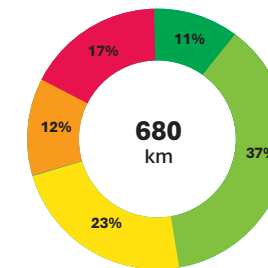
REPLACEMENT VALUE

Combined replacement value **\$6-7b**

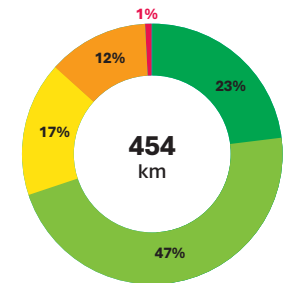
Water asset condition (current state)



WATER SUPPLY



WASTEWATER



STORMWATER

Excellent Good Average Poor Very Poor Not assessed

Water service delivery overview – Hutt City Council



Water challenges and projects

Type	Key water risks, issues and challenges for the next ten years	Top priority projects / key planned investments in water for the next ten years
3W general	<p>In summary, despite the increasing investment Council has and will make in water network renewal, current water storage constraints as well as capacity constraints in the regional water infrastructure workforce will impact the level of increased system and network capacity that can be achieved in the short to medium term. In combination with the need for Council to operate with fiscal prudence, this means there are two potentially unavoidable future risks:</p> <ul style="list-style-type: none"> The likelihood of ongoing and potentially increasing water shortages across the Wellington Region. Council will be unable to provide infrastructure support in all areas of housing development or renew ageing water infrastructure on a lifecycle basis in Te Awa Kairangi ki Tai. <p>Our greatest water infrastructure challenge is a rapidly ageing water network. Council's strategic approach to investing in water infrastructure, namely:</p> <ul style="list-style-type: none"> Keeping the water in the pipes by investing in finding and fixing leaks, managing water loss, and replacing ageing infrastructure. Minimising the future cost of water infrastructure by exploring ways of reducing the demand for water and influencing water use behaviour. Building additional water storage capacity. 	<p>1. Address ageing water infrastructure:</p> <ul style="list-style-type: none"> Three waters network renewals. Seaview Wastewater Treatment Plant renewals. Petone Stormwater improvements. Petone Collecting Sewer renewal. <p>2. Meeting growth demand</p> <ul style="list-style-type: none"> Eastern Hills Reservoir and outlet main. Implementing universal smart meters. <p>3. Building network resilience</p> <ul style="list-style-type: none"> Black creek stormwater improvements.
Water services	<ul style="list-style-type: none"> Water supply reliability over summer is at risk and a new water supply is needed. Reservoirs condition means they are vulnerable to contamination. Water demand for Hutt City is outstripping supply due to water loss in the network and growth. Current 10-year LTP investment is well short of what is required to renew ageing parts of the network (estimated that only 50% of what is required). 109kms of galvanized water pipe that is failing and requires urgent replacement along with significant amount of AC pipe that is failing earlier than expected. 	<ul style="list-style-type: none"> Approximately 60km of pipe renewal has been planned for the next 10 years in the LTP. New water reservoir on Eastern Hills planned to meet growth and improve resilience.
Wastewater	<ul style="list-style-type: none"> Current 10-year LTP investment is well short of what is required to renew ageing parts of the network (estimated that only 10% of what is required). Main outfall pipe working at around 50% capacity needs renewing or upgrading with no budget provision for physical works expected to be around \$700m. Erosion occurring on the Hutt River potentially undermining 825mm bulk wastewater pipeline adjacent Taita rock. Sludge dryer at Seaview WWTP is nearing end of life. The redundancy of Seaview WWTP is inadequate for major maintenance while ensuring compliance can be met. 	<ul style="list-style-type: none"> Investment of over \$200m is earmarked for renewing much of the working plant and equipment at the Seaview Wastewater Treatment Plant over the next 1-5 years. The sludge dryer is the most significant of these expected to cost \$85m.
Stormwater	<ul style="list-style-type: none"> Streams, rivers and harbours contain coliforms. Coastal stormwater outfalls experiencing sea level rise resulting in increased sedimentation and need for more frequent clearing. Growth Study notes that approximately \$800m of investment is required to upgrade stormwater across the City to meet growth and achieve target standards. This is not currently funded. 	<ul style="list-style-type: none"> Approximately 10km of pipe renewal has been planned for the next 10 years in the LTP.

Compliance issues



DRINKING WATER STANDARDS

The Waterloo Water Treatment Plant is non-compliant with bacterial compliance rules around chlorine contact time, which affects around 700 households. While this issue does not affect drinking water safety, work is currently underway to achieve compliance by reconfiguring the network.



WASTEWATER STANDARDS

The Seaview Wastewater Treatment Plant has had recent issues with a failure to comply with both water effluent and air quality consent requirements, largely due to ageing plant and equipment. A major capital renewals programme over the next three years has been included in the LTP to overcome these issues.



STORMWATER STANDARDS



Planned pipe replacement

Renew approximately **175kms** of pipe network over the next 10 years



Extract of LGFA Council Update

September 2024



New Zealand Local
Government Funding Agency
Te Pūtea Kāwanatanga ā-rohe

CCO LENDING

LGFA Shareholder approved lending to CCOs and CCTOs at November 2019 AGM

Why?

- Waikato Water and possibility that Three Water entities could be CCOs
- Dunedin City Council
- Reduce administration for councils if frequent and large amount of on-lending to CCOs (CCHL)

No additional risk to LGFA

- Uncalled capital or guarantee
- Council or Central Government shareholders of CCOs
- Council shareholders in CCO required to be LGFA guarantors
- LGFA board approval
- Bespoke financial covenants
- No other lender can have preferred treatment

Parent council approval required

Loan pricing the same as parent council

CCOs can access LGFA product suite

Estimated minimum size of approx. \$15 million debt

- Additional legal costs associated with documentation
- CCOs tend to be bespoke

More difficult to onboard the longer the CCO has been in existence

Five CCOs onboarded and two CCOs negotiating legal documentation

WATER SECTOR REFORMS – 8 AUGUST ANNOUNCEMENT



- ❑ Minister of Local Government and LGFA announced
 - LGFA's existing CCO lending framework will be extended to new water organisations that are CCOs and financially supported by their parent council or councils.
 - Financially supported = guarantee or uncalled capital.
 - Lend to both singled owned or multiply-owned water organisations, who are supported by the parent council(s).
 - Leverage for water organisations up to a level equivalent to 500 percent of operating revenues, subject to water organisations meeting prudent credit criteria.
 - Borrowing by water organisations will be treated as separate from borrowing by parent council or councils.
 - Water organisations will have access to existing suite of financial products that are currently made available to councils and CCOs. These include green and sustainable loans and climate action loans, short and long-term loans and standby facilities.
 - 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.
 - Financially independent water organisations will not meet the qualifying criteria.
 - LGFA will work with Central government to review whether it can lend to water organisations on an unsupported basis.
- ❑ Average term of council long term loans from LGFA is 3.94 years (April 2028) at 31 May 2024.
- ❑ Council borrowing forecast and LGFA bond issuance forecast outlined in LGFA's Statement of Intent published on 25 June 2024 based upon councils Long Term Plans but assumes no lending to Watercare.

WATER SECTOR REFORMS – FINANCING



LGFA can immediately start lending to water CCOs, at a level needed to fund the investment we need to make in water infrastructure.

- The benefit for ratepayers in this is that using more long-term borrowing to fund investment in long term infrastructure spreads the cost of this investment over the life of the assets.
- That in turn reduces the need to fund investment directly from rates and will reduce the upward pressure on rates that we've seen reflected in rates increases in recent months.
- In addition, LGFA is the lowest cost provider of finance to the local government sector, lower than commercial lenders or markets which is where the previous government's water services entities would have had to borrow.
- It's important to note that at this time, LGFA will only lend to water CCOs that are financially supported by their parent council and councils.
- Financially supported means either a guarantee or uncalled capital to match the liabilities of the water CCO (consistent with legislation).
- Where a delivery model is pursued that is not financially supported by the parent council(s), for example a consumer trust, the new water organisation will need to seek a credit rating and source financing directly from capital markets.

WATER SECTOR REFORMS – FINANCING CRITERIA



LGFA will require a Water CCO to have the following in place:

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

Other credit considerations:

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

WATER SECTOR REFORMS – PROCESS



- Lending to a CCO can be approved by LGFA Board and typically takes 3 months.
- A water CCO will have access to the full range of lending products
 - Short term lending (out to 365 days)
 - Long term lending (1 year to 13 years currently)
 - Fixed rate
 - Floating rate
 - Standby facilities
 - Sustainable loans at a discounted loan margin
- Debt transfer mechanism from council to CCO facilitated by LGFA over a period of time. Note that the debt cannot be legally novated.
- The additional water CCO borrowing margin that LGFA will apply to a water CCO versus the parent council borrowing margin will be between 0 and 10 basis points.
- Based on LGFAs AAA rating this means borrowing costs will be much lower than commercial lenders or markets lending to a financially independent water organisation.
- Once a member, a water CCO will have certainty of financing.
- If a water CCO joins LGFA , it is not required to borrow from LGFA.

03 September 2024**Report no: HCC2024/4/276**

Draft Meeting Schedule for 2025

Purpose of Report

1. The report seeks adoption of the meeting schedule for 2025 (the meeting schedule). The meeting schedule is for Council and its committees, subcommittees, and community boards provided for in accordance with Clause 19(6)(a) of Schedule 7 of the Local Government Act 2002 (LGA).

Recommendations

It is recommended that Council:

- (1) receives and notes the report;
- (2) adopts the meeting schedule until 10 October 2025 attached as Appendix 1 to the report, subject to approval by the Community Boards in respect of its meeting dates;
- (3) agrees that the venues for the meetings of Council, its committee and subcommittees, other than Community Boards, be the Hutt City Council Chambers, 30 Laings Road, Lower Hutt;
- (4) agrees to a commencement time of 2pm for Council, committees and subcommittee meetings;
- (5) notes that under Standing Order 9.12, the Chair of a scheduled meeting may cancel the meeting in consultation with Chief Executive; and
- (6) notes that the meeting times will be publicly notified by the Democratic Services business unit.

For the reason that the Local Government Act 2002 requires that a local authority must hold meetings that are necessary for the good government of its district.

Background

2. The LGA requires that a local authority must hold meetings that are necessary for the good governance of its district, at the times and places that it appoints.
3. The LGA stipulates that each member must receive written notice of the time and location of a meeting at least 14 days before the meeting. If the local authority has established a schedule of meetings, the notice must be given not less than 14 days before the first meeting on the schedule.

4. At its meeting held on 30 October 2023, Council adopted the interim meeting schedule for 2025. The meeting schedule, attached as Appendix 1 to the report, is based on the adopted interim meeting schedule with proposed amendments outlined in paragraph 17 below.
5. The meeting schedule takes account of the local elections to be held on Saturday, 11 October 2025.
6. The meeting schedule is based on the governance structure presented by the Mayor at Council's inaugural meeting on 26 October 2022.

Discussion

7. Adopting the meeting schedule will ensure transparency, democracy, and effective planning of upcoming decisions. It will also help members plan their commitments for the rest of the triennium.
8. The meeting schedule was prepared considering various factors, such as availability, the importance of the decisions to be made, and other logistical considerations.
9. When preparing the meeting schedule, several factors were carefully considered to ensure everything aligned with key processes. This includes:
 - (a) aligning meetings with the Annual Plan process and the Annual Report process.
 - (b) considering the Council Controlled Organisation's Statements of Intent.
 - (c) aligning the agreed bylaw work plan with the meeting schedule.
 - (d) observing statutory holidays.
 - (e) designated breaks in January and July 2025.
 - (f) considering the draft schedule of Council's consultations and deliberations leading to the 2025/26 Annual Plan.
 - (g) allowing time for briefings before meetings.
10. The eight-weekly cycle is based on:
 - (a) Week 1: Forward Programme process involving the Directors and Heads of Business Units reviewing the list of items on Council's forward programme that will be reported during the upcoming meeting cycle.
 - (b) Week 2: Community Board meetings and agenda preparation for Week 3 meetings.
 - (c) Week 3 to 5: Meetings and agenda preparation for the following week's meetings.
 - (d) Week 6: Meetings.
 - (e) Week 7: Agenda preparation for Council meeting.
 - (f) Week 8: Council meeting.

11. Carefully planning work schedules aims to reduce the need for extra or rescheduled meetings. However, Council's extensive workload may necessitate additional or extraordinary meetings.
12. It is the responsibility of Council to determine the starting times for Council, committee and subcommittee meetings.
13. Working, steering, and advisory groups have not been included in the meeting schedule. These groups do not make decisions and are not required to comply with the Local Government Official Information and Meetings Act 1987 for public notifications.
14. When additional meetings of Council, committees, and subcommittees are required, members should ideally receive a 14-day prior notice. If it is not possible to provide a 14-day notice, such meetings will be considered extraordinary meetings, following the requirements set by LGA.
15. Occasionally, situations may arise where a meeting's date, time or location requires alterations, or the meeting may need to be cancelled. It is recommended that Council, in a collaborative effort, delegates authority to the Chief Executive to make those necessary adjustments, after consulting with the Mayor or the Chair of the relevant committee or subcommittee.

Options

Options	Advantages	Disadvantages
Option A (recommended) Adopt the draft meeting schedule for 2025 attached as Appendix 1 to the report.	Will ensure a transparent and democratic process and enable effective planning of the upcoming decisions. It also helps the members to plan their commitments for the rest of the year.	None identified.
Option B (not recommended) Asks officers to draft an alternative meeting schedule for its consideration.	None identified.	Will delay the planning of upcoming decisions and notification of the 2025 meeting schedule.
Option C (not recommended) Agrees not to adopt a meeting schedule.	None identified.	The Chief Executive must provide written notice to each member regarding the date, time, and location of any meeting, which does not allow members to plan their commitments for the rest of the year.

Consultation

16. Consultations were held with the Senior Leadership Group, with specific input from key business units including the Office of the Chief Executive, Office of the Mayor, Enterprise Portfolio Management Office, Finance, Strategy and Policy, and Planning. In addition, the Chair of the Audit and Risk Subcommittee also provided input.
17. Based on the feedback from the consultation, officers have made changes to the interim meeting schedule for various committees and subcommittees. The interim meeting schedule for the Long Term Plan/ Annual Plan Subcommittee meetings in February and May 2025 has been adjusted. The meetings scheduled initially for the first week of March 2025 have been moved to the following week. The Council meeting in May 2025, the Audit and Risk Subcommittee meeting, and the Chief Executive Performance Review Subcommittee meeting in June 2025 have also been rescheduled.
18. In July 2025, there will be a three week break period with no scheduled Council or committee meetings.
19. The Corporate Leadership Team has endorsed the interim meeting schedule for 2025 before being considered by Council.
20. The civic events will be scheduled to avoid conflicting with the meeting schedule.
21. The meeting dates for the Komiti Ratonga O Te Awa Kairangi | Hutt Valley Services Committee and Komiti Ngā Wai Hangarua | Wellington Water Committee have been reviewed by Upper Hutt City Council and Wellington Water Limited. The Hutt Valley Services Committee meeting dates will be considered on 22 November 2024. The Wellington Water Committee meeting dates were adopted on 24 May 2024.
22. The meeting schedule for meetings managed by Te Pane Matua Taiao Greater Wellington Regional Council (GWRC) includes dates provided by GWRC officers. These meetings encompass the Te Awa Kairangi | Hutt River Valley Subcommittee, the Regional Transport Committee, the Wellington Region Leadership Committee, and the Civil Defence Emergency Management Group.
23. Ko Tātou | Local Government New Zealand has confirmed the dates for the Zone 4 meetings and the SuperLocal conference in Christchurch scheduled for 2025. These dates are included in the meeting schedule.
24. Council, committee, subcommittee and community board meetings will be publicly advertised. All meetings will be livestreamed through Council's page on YouTube.
25. As a governance decision of Council, this decision does not require engagement or consultation with the public.

Climate Change Impact and Considerations

26. There are no climate change considerations as the report relates to an administrative matter.

Legal Considerations

27. The LGA allows local authorities to adopt a meeting schedule, which serves as notice to members of when the meetings will be held.
28. The LGA provides the Mayor with powers to establish committees of the territorial authority.
29. Council, committee, subcommittee and community board meetings will be publicly notified in accordance with the LGOIMA. The meeting schedule will also be published on Council's website.
30. Due to the Local Government Electoral Legislation Bill Act, members are now allowed to participate in meetings through audio or audio-visual connections and this will be considered as part of the quorum. On 6 September 2024, Council agreed to amend its Standing Orders to comply with this new legislation change.

Financial Considerations

31. There are no direct financial considerations arising from the report.

Appendices

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1 ↓	2025 Meeting Schedule	184

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Reviewed By: Kathryn Stannard
Head of Democratic Services

Approved By: Jarred Griffiths
Director Strategy and Engagement

JANUARY 2025

Interim schedule adopted by Council – 30 October 2023

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
		1 New Year's Day	2 Day after New Year's Day	3
6	7	8	9	10
13	14	15	16	17
20 Wellington Anniversary	21	22	23	24
27	28	29	30	31

Council	Committee Meetings	Subcommittee Meetings	Community Board Meetings	Joint/GWRC Committees	Briefings/Training	Functions/Events/Conferences	Hearings
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FEBRUARY 2025

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
3 Briefing (DAP financials) 4.00pm	4	5	6 Waitangi Day	7
10 Petone Community Board	11 Te Awa Kairangi/Hutt River Valley Subcommittee 2.00pm (HCC)	12 Wainuiomata Community Board	13	14
	Eastbourne Community Board			
17	18 Audit and Risk Subcommittee	19 Briefing 4.00pm	20 Traffic Subcommittee	21
24 Long Term Plan/Annual Plan Subcommittee 9.00am	25 Climate Change and Sustainability Committee	26 Communities, Culture and Sustainability Committee	27 District Plan Review Committee	28
Additional Council at the conclusion of the LTP/AP Subcommittee				

Council	Committee Meetings	Subcommittee Meetings	Community Board Meetings	Joint/GWRC Committees	Briefings/Training	Functions/Meetings/Symposiums	Hearings
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MARCH 2025

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
3	4	5	6	7 Hutt Valley Services Committee
10 Chief Executive's Performance Review Subcommittee	11 Policy, Finance and Strategy Committee Additional Council (draft SOI)	12	13 Infrastructure and Regulatory Committee	14 Wellington Water Committee 10.00
17	18 Wellington Regional Leadership Committee 10.00am (HCC) Civil Defence Emergency Management Group 1.00pm (HCC)	19 Briefing 4.00pm	20	21
24	25 Long Term Plan/Annual Plan Subcommittee 1.00pm Additional Council (end of cycle 1)	26	27	28
31				

Council	Committee Meetings	Subcommittee Meetings	Community Board Meetings	Joint/GWRC Committees	Briefings/Training	Functions/Meetings/Other	Hearings
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APRIL 2025

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
	1 Regional Transport Committee 10.00am (GWRC)	2 Briefing 4.00pm	3	4 LGNZ Zone 4 meeting
7	8	9	10	11
14 Petone Community Board	15 Eastbourne Community Board	16 Wainuiomata Community Board	17	18 Good Friday
21 Easter Monday	22 Audit and Risk Subcommittee	23 Briefing 4.00pm	24 Traffic Subcommittee	25 Anzac Day
28	29 Climate Change and Sustainability Committee	30 Communities, Culture and Partnerships Committee		

Council	Committee Meetings	Subcommittee Meetings	Community Board Meetings	Joint/GWRC Committees	Briefings/Training	Functions/Meetings/Other	Hearings
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MAY 2025

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
			1 District Plan Review Committee	2 Hutt Valley Services Committee
5	6 Policy, Finance and Strategy Committee	7 Briefing 4.00pm	8 Infrastructure and Regulatory Committee	9
12	13 Te Awa Kairangi/Hutt River Valley Subcommittee 2.00pm (UHCC)	14 Long Term Plan/Annual Plan Subcommittee (hearing of submissions) 9.00am	15 Long Term Plan/Annual Plan Subcommittee (hearing of submissions) 9.00am	16 Long Term Plan/Annual Plan Subcommittee 9.30am Additional Council at the conclusion of the LTP/AP Subcommittee meeting
19	20	21 Briefing 4.00pm	22	23
26	27	28	29 Council (end of cycle 2)	30 Wellington Water Committee 10.00

Council	Committee Meetings	Subcommittee Meetings	Community Board Meetings	Joint/GWRC Committees	Briefings/Training	Functions/Workshops/Conferences	Hearings
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JUNE 2025

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
2 King's birthday	3	4 Long Term Plan/Annual Plan Subcommittee 9.30am	5 Briefing 4.00pm	6
		Additional Council		
9 Petone Community Board	10 Eastbourne Community Board	11 Wainuiomata Community Board	12	13
16	17	18 Briefing 4.00pm	19 Traffic Subcommittee	20 Matariki
23 Audit and Risk Subcommittee	24 Regional Transport Committee 10.00am (GWRC) Civil Defence Emergency Management Group 1.00pm (GWRC)	25 Communities, Culture and Partnerships Committee	26 District Plan Review Committee	27 Additional Council (to make rates)
30 Chief Executive's Performance Review Subcommittee				

Council	Committee Meetings	Subcommittee Meetings	Community Board Meetings	Joint/GWRC Committees	Briefings/Training	Functions/Meetings/Other	Hearings
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JULY 2025

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
	1 Policy, Finance and Strategy Committee	2 Climate Change and Sustainability Committee	3 Infrastructure and Regulatory Committee	4
7	8	9	10	11
14	15	16 Local Government New Zealand SuperLocal 2025 Te Pae, Christchurch	17 Local Government New Zealand SuperLocal 2025 Te Pae, Christchurch	18
21	22	23 Briefing 4.00pm (via Zoom)	24	25 LGNZ Zone 4 meeting Wellington Water Committee 10.00 (TBC)
28	29	30	31 Council (end of cycle 3)	

Council	Committee Meetings	Subcommittee Meetings	Community Board Meetings	Joint/GWRC Committees	Briefings/Training	Functions/Meetings/Events	Hearings
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AUGUST 2025

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
				1
4	5	6 Briefing 4.00pm	7	8
11	12 Te Awa Kairangi/Hutt River Valley Subcommittee 2.00pm (HCC)	13	14	15
18 Petone Community Board	19 Eastbourne Community Board	20 Wainuiomata Community Board	21	22 Hutt Valley Services Committee
25 Long Term Plan/Annual Plan Subcommittee 9.30am	26 Audit and Risk Subcommittee	27 Briefing 4.00pm	28 Traffic Subcommittee	29
Additional Council at the conclusion of the LTP/AP Subcommittee				

Council	Committee Meetings	Subcommittee Meetings	Community Board Meetings	Joint/GWRC Committees	Briefings/Training	Functions/ Hearings/ Open House	Hearings
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SEPTEMBER 2025

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
1 Chief Executive's Performance Review Subcommittee	2 Communities, Culture and Partnerships Committee	3 Climate Change and Sustainability Committee	4 District Plan Review Committee	5
Additional Council at the conclusion of the CEPRS				
8	9 Policy, Finance and Strategy Committee	10 Briefing 4.00pm	11 Infrastructure and Regulatory Committee	12
15	16 Wellington Regional Leadership Committee 10.00am (HCC)	17	18	19
	Civil Defence Emergency Management Group 1.00pm (HCC)			
22	23 Regional Transport Committee 10.00am (GWRC)	24 Briefing 4.00pm	25	26 Wellington Water Committee 10.00
	Audit and Risk Subcommittee (Annual Report)			
29	30 Council (end of cycle 4)			

Council	Committee Meetings	Subcommittee Meetings	Community Board Meetings	Joint/GWRC Committees	Briefings/Training	Functions/Meetings/Events	Hearings
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OCTOBER 2025					Attachment 11	2025 Meeting Sched
MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY		
		1	2	3		
6	7 Policy, Finance and Strategy Committee	8	9	10 Local Government elections on 11 October		
	Additional Council					
13	14	15	16	17		
20	21	22	23	24		
27 Labour Day	28	29	30	31		
Council	Committee Meetings	Subcommittee Meetings	Community Board Meetings	Joint/GWRC Committees	Briefings/Training	Functions/ Holidays/Other
						Hearings