CENTRAL HAWKE'S BAY DISTRICT COUNCIL

Finance, Infrastructure & Performance Committee Agenda

Thursday, 24 April 2025
11.15am
Council Chambers,
28-32 Ruataniwha Street, Waipawa

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LOCAL WATER DONE WELL - PROPOSED WATER SERVICES DELIVERY MODELS FOR CONSULTATION

File Number:

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Attachments:
1. **Summary of Water Reform Background**
2. **Local Water Done Well Modelling and Criteria Assessment - Central Hawke's Bay (subject to Legal review)**

PURPOSE

To approve the water service delivery model options that will be included in public consultation required under the Local Government (Water Services Preliminary Arrangements) Act 2024 (PA Act).

The decisions made will enable Council to develop the consultation material required by the PA At, which is proposed for adoption at a meeting of Council on 8 May 2025, with the public consultation to be carried out in May 2025.

RECOMMENDATION

That the Finance, Infrastructure and Performance Committee:

1. **Notes the Local Government (Water Services Preliminary Arrangements) Act 2024 requires councils to produce and submit a Water Services Delivery Plan to Central Government by 3 September 2025**
2. **Notes that Council is required by Government to:**
   - 2.1. **Consider and consult with community on at least two options for future delivery of water services.**
   - 2.2. **Demonstrate, as part of its water services delivery plan, that it will meet requirements that the delivery of water services will be financially sustainable by 30 June 2028.**
   - 2.3. **Moving forward, ring-fence revenue for three waters so that it is separate from other Council activities.**
3. **Approves that Council consult on three water services delivery models:**
   - 3.1. **Option 1 – Internal Business Unit (also referred to as In-House and Council Delivered Services), the current water services delivery model with needed changes to meet legislation; and**
   - 3.2. **Option 2 – a Single-council Water Organisation (WO), referred to as the Central Hawke's Bay Water Services Council Controlled Organisation (CHB WSCCO); and**
   - 3.3. **Option 3 – a Regional, Hawke's Bay Multi-owned Water Organisation (HBWSCCO), that would include Central Hawke's Bay District Council (CHBDC), Hastings District Council (HDC), Napier City Council (NCC) and Wairoa District Council (WDC).**
4. **Agrees to identify that Option 3 – a Regional, Hawke's Bay Water Organisation as the preferred option for public consultation.**
5. **Endorses that officers will prepare a Consultation Document to present to Council on 8 May 2025 for approval.**
6. **Notes that officers will summarise the outcomes of consultation considering**

community feedback, submissions, and hearings and provide their final advice via a report to Council to confirm the delivery model to be identified in the Water Services Delivery Plan to be presented to the Government by 3 September 2025.

EXECUTIVE SUMMARY

The Hawke's Bay Three Waters Business Case, completed in 2019, laid the foundation for the success of a Regional (Joint) Council CCO.

Recent assessments and financial modelling under the new Local Water Done Well legislation further support that the Regional (Joint) Hawke's Bay WSCCO model best meets the Strategic Investment Objectives and offers the most affordable price path for water users among the options evaluated for future water services delivery models. This model is expected to deliver significant benefits and leverage non-financial advantages.

The In-House (Council Delivered) option is the second most affordable, while Single Council CCOs are the least affordable. All three options are manageable within existing council debt limits, but the Regional (Joint) CCO option provides a better residual debt/revenue position for all councils. The removal of the 500% net-debt revenue limit gives the Regional CCO greater financial flexibility.

It is recommended that the Regional (Joint) Hawke's Bay WSCCO be specified as the preferred delivery model in consultation materials.

Further work is needed on the details of a Regional CCO, but this recommendation is a crucial first step for Council to consult with the community on the available options.

This will inform a final recommended option for adoption by Council at its 8 May 2025 meeting as part of the Consultation Document to meet the Local Water Done Well legislation and allow the development of a Water Services Delivery Plan that must be completed by 3 September 2025.

BACKGROUND

This section of the report, outlines:

- how Councils have worked together in the past to progress water challenges and opportunities for the region
- the legislative framework Councils must now operate within and,
- the background from a Central Hawke's Bay perspective.

Water Reviews and Reform Since 2017

Hawke's Bay councils have a long history with water reform, pre-dating the various reform agendas of the former and current Government. It has been considered through multiple reports and Council workshops.

A major milestone relating to water was in 2019, when the region completed the Hawke's Bay Three Waters Review, which concluded that the status quo for waters was not affordable or sustainable long term. This formed the basis for national waters reform, with Hawke's Bay being recognised as a leader in regional collaborations in this period.

Following the change in Government in late 2023, the current Government committed to repealing the previous Three Waters / Affordable Waters reform legislation and developed the Local Water Done Well policy in its place.

At Council's 13 March 2024 meeting a report was provided on Water Services Reform and the future direction of things. This report can be found here.

A further summary of the history and significant previous work this region has completed is attached as Attachment 1.

Local Water Done Well Legislative and Policy Framework

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 for communities and provides councils with a framework to determine how their water services will be delivered in the future. There is a strong emphasis on meeting economic, environmental and water quality regulatory requirements.

The Local Government (Water Services Preliminary Arrangements) Act 2024 ("the PA Act") was enacted on 2 September 2024. The Local Government (Water Services) Bill ("the Bill") was introduced in early December 2024 and builds on the foundations set in the Act. The Bill is currently with the Select Committee, so there remains a degree of uncertainty as to the final form of the Bill.

On the assumption these matters will not change, the combined legislation sets minimum requirements for service delivery models that include:

1. New economic, environmental and water quality regulations
2. A new planning and accountability framework
3. Financial sustainability objectives
4. New statutory objectives consistent for all water providers
5. Restrictions against privatisation.

All Councils are required under the PA Act to consider options and determine a preferred water service delivery model. Based on guidance prepared by the Department of Internal Affairs, there are five options for new water service delivery entities that can be considered:

1. In-house business unit / council delivered service
2. Single council-owned council-controlled organisation (CCO)
3. A council-controlled organisation (CCO) owned by the council and one or more of our neighbours
4. Mixed council / consumer trust – a consumer trust established as the majority shareholder with one or more councils owning a minority of shares
5. Consumer trust – council assets would transfer to a consumer-trust owned organisation.

This report and recommendations before Council focus on the first three water service delivery options. The last two options do not currently have access to Local Government Funding Agency (LGFA) enhanced financing and are therefore not considered to be financially viable.

Irrespective of the model chosen - there are legislative restrictions against privatisation, the existing responsibilities, commitments and obligations under the Local Government Act (LGA) and Treaty settlement legislation continue to apply. In addition, all revenue, assets, expenses and debt for water services must be separated or ring-fenced from all other Council services.

The proposed legislative regime allows councils to retain control of water infrastructure but requires them to adhere to new investment, borrowing, and pricing rules. A new economic regulation framework will be put in place that will provide for oversight of water service providers, and enforce compliance where necessary.

Financial Sustainability

The Act requires that water services be delivered in a financially sustainable manner by 30 June 2028.

This is defined in the PA Act as:

"*…in relation to a territorial authority's delivery of water services, that—*

(a) the revenue applied to the authority's delivery of those water services is sufficient to ensure the authority's long-term investment in delivering water services; and

(b) the authority is financially able to meet all regulatory standards and requirements for the authority's delivery of those water services"

Guidance prepared by Department of Internal Affairs (DIA) states that financial sustainability means that water services revenue is sufficient to meet the costs of delivering water services. This same 'revenue sufficiency' concept appears in one of the financial principles in the Bill. In addition, it is expected that the costs of delivering water services will include costs associated with meeting all regulatory standards, and long-term investment requirements in water services.

There are three key factors to how financial sustainability will be assessed:

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

The process to develop a one-off, transitional Water Services Delivery Plan (WSDP) for submission to DIA in September 2025 is designed to require Councils to prepare a full stocktake of their current water assets, investment planning, and growth strategies, and demonstrate how financially sustainable water services provision will be achieved by 30 June 2028 at the latest.

Under LWDW, the LGFA has committed to Water Service CCOs being able to gain access to additional lending from the LGFA, if they are financially supported (through a guarantee or uncalled capital facility) by their parent council or councils.

The LGFA is the lowest cost provider of financing to local government and is already utilised by Council, and by CCOs across the country. While the LWDW model opens-up borrowing capacity, Council is still concerned over affordability issues with our ratepayer base.

Water organisations (which are CCOs or organisations other than the Council) will be able to assess, set and collect water services charges from consumers and will be able to use the development contributions regime (equivalent to that in the Local Government Act 2002) to collect development contributions from developers where additional demand or growth is created for water related infrastructure. (Councils will still be able to use rates, charges and development contributions if they retain delivery of water services).

The LWDW legislation does not expressly embed or require price harmonisation e.g. where every water user served by a multi-council CCO would move to paying the same cost-per-connection at a point in the future. It is still unknown as to whether the economic regulator will allow for price harmonisation, or specific types of harmonisation options if at all.

The intention of providing a specific lending facility is to better enable councils via a WSCCO to address water investment needs and enable 'balance sheet separation' with the advantage of reducing ex-water Council debt, potentially freeing-up debt 'headroom' for other Council activities if desired or keeping pressure off other Council rates.

Under the CCO model (single or joint), LGFA will not 'consolidate' a water services CCO's debt with the overall Council's debt position, instead it will be considered as separate debt (and ring-fenced to water related revenue). However, LGFA guidance is that credit rating agencies, which influence the cost of borrowing for Councils from LGFA through the issuance of credit ratings, will treat the debt of a water CCO which is more than 50 percent owned by a single Council back to that Council's balance sheet when it reviews the Council's credit-worthiness. This means the parent Council under a single CCO option may be provided a lower credit rating (and higher resulting finance costs), than under a multi-council CCO option (see below).

For a multi-council, or Regional CCO where no council owns a majority of the organisation, both LGFA and Standard and Poor's (S&P) will treat the debt of the water CCO separately to the parent Council. Credit rating agencies are expected to recognise the water CCO as a contingent liability for the shareholding Councils, but assess the Council's stand-alone debt position without the water debt held by the Regional CCO.

If a council decides to maintain In-House delivery of water services through a new business unit, their existing water debt will remain on the council's books, despite the ring-fencing provisions in the LWDW legislation. This will generally mean considerably less debt headroom for Councils against their existing LGFA covenant limits from both an LGFA and rating agency perspective.

LGFA has issued guidance on how it will assess its lending to Water CCOs. This will not be controlled by a specific net debt/revenue limit (which is currently applied to generic LGFA lending to Councils). Rather, a combination of cashflow covenants will apply:

1. A Funds from Operation (FFO) to Gross Debt ratio of between 8% and 12%
2. A Funds from Operation (FFO) to Cash Interest Coverage of between 1.5 times and 2.0 times.
3. Water CCOs will have up to five years to comply with the covenants
4. Water CCOs will be able to recognise a percentage of development contributions as operational revenue for the purposes of determining the above covenants.

LGFA stresses that the covenants it has published are just for guidance; negotiations will still be held with councils. However, Hawke's Bay Councils have received confirmation from LGFA that an 8% FFO/Gross Debt ratio would apply to a Regional CCO.

Ahead of the LGFA releasing these covenants, previous guidance was that it would lend up to an equivalent of 500% net debt/revenue to water CCOs. In the absence of more specific guidance before an LGFA announcement on 20 December 2024, this ratio was being applied in modelling (for Hawke's Bay Councils and others across the country) as a 'control' on debt from 2028, which in turn required pricing to be lifted in the model to keep debt positions down. Removing a net debt/revenue limit from the CCO pricing models has allowed for smoother price increases in the initial years of new water services delivery models, compared to earlier analysis.

Water Services Delivery Plans (WSDP)

Under the PA Act, all territorial authorities must submit a WSDP by 3 September 2025, which explicitly states their proposed water services delivery model, and includes the other content required by section 13 of the Act. As part of this process, decisions must be made that include:

1. The proposed or anticipated future water services delivery model (if a decision is not made to set up a new model)
2. Whether to transfer (or not) its water services and/or assets
3. Financial separation of its water services from the rest of Council activities
4. Demonstrations that financial sustainability will be achieved by 30 June 2028.
5. The plan must be adopted and certified as being correct by the Chief Executive, before being submitted to the Government.

The WSDP must be accompanied by an Implementation Plan and submitted to the Secretary of Local Government (Secretary) - via DIA, by 3 September 2025. The WSDP is then either:

1. Accepted by the Secretary, who can only accept a WSDP if it complies with the Act (as above)
2. Not accepted by the Secretary, who may make a recommendation to the Minister of Local Government (the Minister).

In the event that a joint arrangement (or multi-council CCO) is preferred by more than one council, the PA Act provides for the preparation of a joint WSDP, which must satisfy the requirements of section 13 (as above), and section 14 of the PA Act. The additional content for a joint WSDP includes:

1. The identify of all councils who will be parties to the arrangement
2. Explanation of what services will be provided to the councils involved
3. The form of the arrangement (ie. a CCO or another type of entity/arrangement)
4. Information about the ownership, governance and control structures.

The Minister has the power to appoint a Crown Facilitator and/or Water Services Specialist if a council or group of councils, are failing in delivering or implementing a WSDP. This includes not meeting an accepted measure of financial sufficiency. A council can also request the appointment of a Crown Facilitator and/or Water Services Specialist, to effectively act as a mediator if required.

Planning and Accountability Framework

The Government is also proposing, through the Bill, a new planning and accountability framework for water services. The framework is intended to improve transparency and accountability for future delivery of water services.

There are three documents (set out below) that form the framework within which each water service provider's strategic and investment priorities, and performance settings, will be developed, explained and reported.

1. *A statement of expectations, for service delivery arrangements that include separate water organisations (prepared by shareholders)*

   A statement of expectations is prepared by shareholders and issued to the water organisation they own, relating to a period of at least ten financial years. It will set out the shareholders' expectations, priorities, and strategic direction for the water organisation. It will inform and guide the decisions and actions of the organisation's board. Water organisations must give effect to these statements.

2. *A water services strategy (prepared by water service providers)*

   A water services strategy is prepared by water service providers every three years, and supported by an annual budget in the other years. This document will set out how the provider is proposing to perform, respond to local expectations and priorities, and meet statutory objectives and regulatory requirements for water. It will include financial forecasting information over 10 years, and infrastructure and investment information over 30+ years. Strategies prepared by water organisations will respond to matters in the statement of expectations. Prices and charges will be set in accordance with the proposals in the strategy. An annual budget will also be prepared for each financial year, consistent with the provider's intended approach to funding, revenue, and pricing.

3. *A water services annual report (prepared by water service providers)*

   A water services annual report is prepared by water services providers every year, reporting on the provider's actual performance against the expectations and proposals in the above documents. It will include financial reporting.

Under the options where a water organisation is responsible for providing water services instead of a council, the council will not be able to include information about water services in its long-term plan, infrastructure strategy, or annual report.

Statement of Expectations

The statement of expectations provides an important opportunity for Council, as a/the shareholder,

to communicate and set direction relative to the water organisation. The Bill sets out in detail what a statement of expectations must include, covering:

1. The shareholders' expectations of the water organisation
2. The shareholders' strategic priorities for the water organisation
3. The outcomes the shareholders expect the water organisation to achieve by delivering water services
4. Requirements relating to the TA's resource management planning and land-use planning.

The Bill also includes a range of matters that shareholders may choose to include in a statement of expectation, including:

1. How the shareholders require the water organisation to conduct its relationships with the shareholders, the shareholders' communities, hapū, iwi, and other Māori organisations, consumers, and other specified consumers
2. Performance indicators and measures that the shareholders may use to monitor the water organisation
3. A requirement that the water organisation acts in accordance with an obligation that a shareholder may have (including with hapū, iwi or other Māori organisation) and undertake a specified obligation on behalf of a shareholder
4. A requirement to undertake community or consumer engagement and the contents of that engagement
5. Expectations in relation to collaborating with shareholders and other parties when providing water services
6. A requirement that part or all of the water organisation's water services strategy must be independently reviewed.

Consultation Requirements

The Act specifies that consultation is mandatory on the Council's proposed model or arrangement for its water service delivery, but optional on the balance of the WSDP. However, a streamlined consultation is outlined in the Act, simplifying the process to assist with the preparation, consultation and adoption of a WSDP. This consultation process replaces Part 6 of the Local Government Act 2002 provisions.

The Act also specifies the information that must be provided about the proposed delivery model during consultation. These include:

1. Specifying the proposed model or arrangements for delivering water services and the reasons for it.
2. An analysis of the advantages and disadvantages of at least two options (including the proposed arrangements/model) that have been considered; one of these is expected to be a status quo approach. Council may decide to include analysis of additional options.
3. Potential impacts of proceeding or not proceeding with the proposal, including on rates, debt, levels of service, and any charges for water services.
4. For a joint model, the implications for communities and accountability arrangements for communities throughout the joint service area.

The proposed outline for consultation with community will be outlined later in the report presented on 8 May 2025.

Central Hawke's Bay Context

This Council critically understands the importance of unlocking sustainable and affordable water infrastructure for its community.

Since 2017, Council has been diligently working to address the historic underinvestment in its three waters assets adopting principles in its Infrastructure Strategy that sees a long-term, no band-aids approach being adopted.

The 2021 Long Term Plan 'Facing the Facts' outlined the major investment required in Council's Three Water Assets, with major investment required in all categories of Council's water assets. This includes:

- The replacement of major reservoirs in Waipawa and Waipukurau
- Critical drinking water treatment upgrades required in Waipawa and Waipukurau
- Wastewater Plant upgrades required in Takapau, Waipawa, Waipukurau, Te Paerahi and Porangahau
- Major renewal shortfalls in reticulation networks for drinking water and wastewater
- Major investment in stormwater management, including planned and proactive investment for the long term.

The Long Term Plan 2021 projected major increases across waters. Long-term it was financially challenging, with Council's 2021 Financial Strategy proposing one of three things occur to enable Council to continue to deliver its three waters capital programme, being:

- Requiring a capital contribution from each connected household
- Three water reform occurs
- Gain a credit rating to extend Council's borrowing capacity

Since this time, costs have increased significantly with major costs escalation and inflation through 2022 – 2025, making the status quo scenario increasingly challenging.

Cyclone Gabrielle required Council to take a more prioritised approach, instead only able to focus on the most critical three waters infrastructure investments relating to drinking water due to affordability challenges. This was confirmed as part of the Three Year Plan 2024 – 2027.

While a Three Year Plan, significant expenditure including major upgrades for wastewater were still included in the plan. Across the District, community faces major upgrades across all of its wastewater treatment plants and has completed or needs to complete major water treatment plant or reservoir upgrades. While future changes to wastewater standards may ease some of this future expenditure, significant long term investment across the assets is still needed.

Central Hawke's Bay has been a supporter of a regional model since the completion of the Hawke's Bay Three Waters Review. This model was supported by Council and the region as its preferred option in submissions to Government in relation to the Three Waters Reform Programme.

The Local Water Done Well Framework provides an opportunity to address the major barriers to investment the District faces, including capacity – both in terms of resource to deliver and debt capacity to borrow. The most significant challenge for the District is affordability. With only 4,400 connected ratepayers, affordability is critically challenging.

Further support and guidance material

Further guidance material about the Water Services Policy Future Delivery System that Government are implementing has been provided. The key policy and guidance material on Local Water Done Well are provided in the links below:

1. Local Water Done Well Overview

2. Water service delivery models: Guidance for local authorities August 2024 (PowerPoint)
3. Financing for councils and water organisations
4. Planning and accountability for local government water services
5. Future arrangements for stormwater
6. Economic regulation and consumer protection
7. Drinking water quality regulation
8. Standards to help reduce water infrastructure costs
9. Local Government (Water Services Preliminary Arrangements) Act 2024 No 31, Public Act Contents – New Zealand Legislation

DISCUSSION

This section of the report outlines the proposed options for consultation, analysis of the three options against non-financial regional and Central Hawke's Bay specific criteria and provides financial modelling on the three options.

Shortlisted Water Service Delivery options for Consultation

As outlined in the background section of this report, there are three options available to Council:

1. **Internal Business Unit**

   This model maintains the current delivery method where Council retains ownership, responsibility and governance of all water services (water supply, wastewater, and stormwater), albeit in a form that meets legislative requirements (e.g. revenue and expenditure separation). Ultimate decision-making will continue to remain with Council, as the owner of all three water infrastructure and assets.

2. **Single Council CCO**

   Central Hawke's Bay District Council establishes a Water Organisation in which it is the sole shareholder. Ownerships of assets would transfer to this new organisation along with the responsibility for delivering water services. A competent independent board, as outlined in legislation, will be established and will be responsible for the governance of the organisation. Council will set strategic direction of the organisation through a Statement of Expectations issued to the board along with the role of approving a Water Services Strategy that the organisation must prepare and present to Council as the shareholder.

3. **Regional (Joint) Council CCO (Preferred)**

   Central Hawke's Bay District, along with Hastings District Council, Napier City Council and Wairoa District Council, together establish a Water Organisation and transfer all three waters assets and responsibility of delivering services to the organisation.

   At this stage, shareholding position has not been considered and is a key task to be undertaken once a substantive decision is made by late July for all Councils. All Councils have supported the notion of no major shareholder in the early development of the work to date. Council's ability to set strategic direction of the organisation remains through the Statement of Expectations issued to the board.

Officers have not explored Joint Council CCO proposals other than the Hawke's Bay Three Waters Model, consistent with the Terms of Reference adopted by Council for this work on 27 June 2024. This report can be found here.

The next section of this report outlines the assessment of the three options and why a preferred option of a Joint Council CCO is Officers recommended option.

Hawke's Bay Three Waters Business Case - 2019

Considerable work has been done previously through the Morrison Low "Hawke's Bay Three Waters – Business Case of Three Waters Service Delivery Options" that set out key investment objectives and principles to form that report's recommendation.

Beginning in 2018, Central Hawke's Bay District Council, Hastings District Council, Hawke's Bay Regional Council, Napier City Council and Wairoa District Council worked together through a Joint Three Waters Steering Group to review the current and potential three waters service delivery options for Hawke's Bay. The final report (July 2020) evaluated five models, two of which were variations of CCOs.

The asset owning model was recommended over a management CCO as it would unlock greater economic efficiencies and allow for more consistent, strategic and long-term investment decisions.

Council's 13 March 2024 meeting provided background on the Water Services Reform including background on this report. This report can be found here.

The investment objectives of the Hawke's Bay Model were identified as:

To provide three water services in a way that is affordable and effective	The three waters service's model must address the challenge of providing for an effective, affordable service in a fiscally responsible way
To provide services that are safe, reliable and resilient	Access to safe and reliable three waters service are fundamental to all the urban and rural comunities of Hawke's Bay
To provide services through a model that enables a meaningful role for Māori	The Local Government Act requires a local authority to provide opportunities for Māori to contribute to its decision making processes
To provide services through a model that has the value of water at the centre	Water is vital to community life and as such three water services are part of a holistic water system
To provide three waters services in a way that supports our urban and rural communities	The services influence how people across Hawke's Bay live, work, gather, socialise, recreate and value environmental amentity
To provide three waters services that build enduring capability and capacity	The three waters model must be capable of, and have the capacity to, deliver quality sustainable planning, management and operation of three water services now and into the future

With the following underlying principles:

Value Te Ao Māori	Incorporating and implementing mātauranga Māori, culture and values (i.e. Te Aranga Design Principles) are a core element for any potential framework to realise and enhance the region's commitment to Māori to protecting/enhancing water
Value water	Wai is the essence of all life and the world's most precious resource. It is of high importance to Māori, as it is the life giver of all things, a precious taonga, part of our whakapapa
Whakapapa – genealogical links	Recognise and respect the relationship and whakapapa (genealogical link) that mana whenua has with water.
Te mauri o te wai – the life force of water	Mauri is the integrated and holistic well-being and life suport capacity of water. The well-being/healthiness of the water, the land and the people are intrinsically connected.
Holistic approach to water	Although the project is based around the review of the service and delivery of the three waters (infrastructure), the proposed model needs to take into account a holistic water approach: there is only one water.
Enabling of Te Tiriti o Waitangi	Involving mana whenua in governance and decision making required to ensure Te tititi o Waitangi obligations are met, as well as making sure they are able to actively exercise kaitiakitanga in a practical way
Mana motuhake - identity, self-determination	The identity of mana whenua in Hawke's Bay should not be lost in any potential model. But inclusion and co-goverance whilst keeping their identity is an opportunity

The objectives and principles identified in the Morrison Low Business Case were confirmed as still valid by councils, mana whenua partners, and other community stakeholders at a Regional Collaboration Day held in September 2024. However, it was acknowledged that they needed to be reassessed to address the current legislative environment.

Regional Financial Criteria

The below financial criteria were developed by council officers across the four Hawke's Bay Councils as part of the financial modelling process to assess and compare potential water services delivery model options. The expectation is that all options will meet the financial sustainability requirements set out in the legislation under the LWDW framework, therefore this requirement is excluded from the criteria.

- *Average cost of delivering water services annually through to FY34*

  This models the average cost per connected property for drinking water, wastewater, and stormwater services each year through to 2034 – the tenth year of current LTPs.

- *Council balance sheet and debt position*

  This measures council's debt position under each shortlisted delivery option against the limits imposed by itself or by regulators/LGFA. In-House and Council CCO options include Three Waters (3Ws) debt, while the regional option assumes 3Ws debt shifts off Council's balance sheet. All other Council operations are modelled to continue 'as is' – i.e. any headroom created is not assumed to be spent elsewhere.

Development of Regional Non-Financial Criteria

Alongside the financial criteria, a set of non-financial criteria were developed to assess the different delivery models. These criteria were developed with the legislative requirements in mind, as well as to align with the shared principles the region has agreed on to guide the decisions on water service delivery.

Agreed Regional Principles:

- To deliver water services in a way that is affordable, effective and allows for equitable access
- To deliver water services that are safe, resilient and balance cost-effectiveness with high standard
- To deliver water services through a model that enables a meaningful role for Māori through governance and outcome-setting
- To deliver water services through a model that has the value of water at the centre in addressing both current and future needs
- To deliver water services in a way that supports out urban and rural communities ensuring targeted solutions that develop local capabilities for effective support and service delivery
- To deliver water services that builds enduring capability and capacity
- To deliver water services informed by meaningful community engagement and collaboration

The above principles were then used to develop a set of agreed non-financial criteria to assess options against – alongside any financial modelling. These were:

Agreed Non-financial Criteria

Criteria	Explanation and Measures
Service provision	• The extent to which a delivery model would be able to provide and maintain levels of service across water networks, including supporting equitable access to water services, and ensuring safe and environmentally sustainable outcomes. • The ability to identify and manage risks in alignment with industry best practices.
Resilience	• The extent to which a delivery model would support resilience, from both a financial and operational perspective, including the ability to support and respond to climate adaptation and emergencies. • The ability to respond to increasing demand and managing that demand effectively.
Capital delivery and asset management	• Ability to deliver the capital programme and improve asset management maturity.
Capability and capacity	• Ability to build sustainable regional capability in three water development and operations. • Ability to build a long-term stable pipeline of work at scale and build regional supplier capacity and capability.
Scale and opportunities for efficiency	• Ability to lower unit cost of infrastructure through standardisation and modular approach to infrastructure development and operations.
Mana whenua involvement	• The extent to which each option is designed to reflect the priorities of, and agreed outcomes for, mana whenua.
Community	• The extent to which each option enables the ability for communities to engage

Criteria	Explanation and Measures
influence and engagement	with water decision-making.

These criteria were then tested and ranked externally with feedback provided by a technical working group. An assessment of the three options included:

Criteria	Council delivered Service	Council CCO	Regional Council CCO
Service Provision	✓ Levels of service	✓ Potential service improvements, regional variation remains	✓✓ Equity of service levels, combining networks / infrastructure, lowering the cost to serve
Scale and Efficiencies	- No efficiency gains	✓ Potential to achieve some efficiency gains through new competency based board appointment and key performance indicators	✓✓ Maximum efficiency gains due to scale and potential to standardised / share resources
Resilience	✓ Some resilience improvements, although limited by the lack of scale / geographic diversification	✓ Some resilience improvements, although limited by the lack of scale / geographic diversification	✓✓ Greatest resilience improvements due to scale and diversification revenues
Capability and capacity	- No improvements beyond existing arrangements	✓ Potentially some improvements due to focus on water services. Potential to offer clear career pathways	✓✓ Can scale, offering clear career pathways and specialisation in water services
Capital delivery and asset management	- No improvement	✓ Water focus drives potential to improve capital delivery but limited by scale	✓✓ Potential for broader network considerations and efficient capital works planning
Mana whenua involvement	✓ Mana whenua engaged by councils directly in ad hoc way	✓ Opportunity for dedicated mana whenua governance role, regional variation remains	✓✓ Opportunity for dedicated mana whenua governance role, regional consistency more likely
Community Engagement	✓✓ Direct community engagement and	✓ CCO responsible to one community, engagement	✓ CCO responsible to multiple communities,

Criteria	Council delivered Service	Council CCO	Regional Council CCO
	accountability to council	via LTP process and consumer panels	engagement via LTP process and consumer panels

Consistent with the earlier Morrison Low work, the non-financial assessment confirmed that there were clear benefits for the councils of the Hawke's Bay Region to work together to establish a Joint Council CCO and jointly provide three waters services to its communities in the future.

In addition to the financial benefits, there are several non-financial benefits that could be achieved by collaborating under a Regional Council CCO including:

- Improved capability and capacity that is available from scale creating clear career pathways and opportunities for professional development and specialisation.
- Dedicated focus on the delivery of three waters services allowing for consideration of the broader network and efficient planning of capital works.
- The ability to explore opportunities to combine networks or share infrastructure where this presents the most cost-effective long-term solution.
- Participation in a larger entity allows an improved ability to attract larger scale contractors, by providing consistent procurement approaches and long-term project certainty.

Central Hawke's Bay Critical Success Principles

To help support Council through the decision-making process, Council developed critical success principles for incorporation into the regional work and to help analyse options locally in late 2024. These principles describe successful future water services for Central Hawke's Bay, and include:

Principle	Explanation
Costs are Reduced	Water services that are led, created, managed and operated in a way that is more cost effective and financially enabling for Central Hawke's Bay households and future investors, than if Council was to operate services alone.
Safe and Healthy Water	Safe and healthy drinking water is delivered and the impacts of our wastewater and stormwater services are minimised, through the operation and management of assets that are fit for purpose and safe for suppliers, people and residents.
Environmental Responsibility	Water services are managed to optimise resource use, improve efficiency, and address the interconnectedness of these water services for the good of the natural and built environment – recognising the importance of water as a resource and taonga in all its forms.
Resilient Infrastructure responsive to growth	Local Infrastructure is appropriately prioritised and invested in a long-term view of sustainability, to ensure resilience against climate change, population growth and location, and natural disasters.
Community Ownership and Empowerment:	That community continue to have a meaningful role in the decision-making processes, management and operation of their local water services, with policies, outcomes and investment decisions reflective of the community's values, needs and

Principle	Explanation
	local expertise.

Councillors went through an exercise of assessing the options against these principles. Different weightings were granted to different principles, and Officers made initial scorings for each of the options. These scorings were discussed and tested with Councillors. This exercise again identified that Regional Council CCO as the preferred option against the success principles from a Central Hawke's Bay perspective scoring 78%, followed by the Single Council CCO at 56% and the Council Delivered Services at 46%.

The summary of the three options and the scorings are outlined below.

Assessment Key:

1	2	3	4	5
Little/No Alignment		**Moderate Alignment**		**Strong Alignment**

			Option 1 - Regional Model (HBWCCO)		Option 2 - CHBDC WSCCO		Option 3 - Council Delivered Service	
			Establishment of a Waters CCO across the 4 HB Councils		Establishment of a Waters CCO for Central Hawke's Bay only		Ongoing management and delivery of water services for Central Hawke's Bay by CHBDC with new established mgmt and governance structures and financial/balance sheet separation	
Principles		**Weighting**	**Score (1-5)**	**Comment**	**Score (1-5)**	**Comment**	**Score (1-5)**	**Comment**
Principle 1. Costs are Reduced	Water services that are led, created, managed and operated in a way that is more cost effective and financially enabling for Central Hawke's Bay households and future investors, than if Council was to operate services alone.	**40%**	**4**	Maximum economies of scale achieved as well as efficiency across larger user base + access to maximum borrowing capacity + increased buying power. Opportunity for cost sharing in future, which other options do not provide.	**2**	Improved access to better funding and enhanced asset planning - but offset by increased mgmt structures/overheads and challenges with stranded overheads.	**2**	No improved access to funding = continued debt cap constraints. Less overhead/mgmt costs than full CCO establishment - issues with stranded overheads exist

			Option 1 - Regional Model (HBWCCO)		Option 2 - CHBDC WSCCO		Option 3 - Council Delivered Service	
			Establishment of a Waters CCO across the 4 HB Councils		Establishment of a Waters CCO for Central Hawke's Bay only		Ongoing management and delivery of water services for Central Hawke's Bay by CHBDC with new established mgmt and governance structures and financial/balance sheet separation	
Principles		**Weighting**	**Score (1-5)**	**Comment**	**Score (1-5)**	**Comment**	**Score (1-5)**	**Comment**
Principle 2. Safe and Healthy Water	Safe and healthy drinking water is delivered and the impacts of our wastewater and stormwater services are minimised, through the operation and management of assets that are fit for purpose and safe for suppliers, people and residents.	**20%**	**4**	Enhanced planning capability, and enhanced ability to fund infrastructure works to ensure safe and healthy water	**3**	Improved access to funding will enable some greater investment, but likely not all that is needed. Some improvement in planning capability possible through the creation of more specialist and skilled teams, this to be balanced against affordability and increased operational overheads	**2**	Council likely to continue to struggle to deliver on required infrastructure upgrades to ensure safe and healthy water. Minimal improvement in planning capability likely.

			Option 1 - Regional Model (HBWCCO)		Option 2 - CHBDC WSCCO		Option 3 - Council Delivered Service	
			Establishment of a Waters CCO across the 4 HB Councils		Establishment of a Waters CCO for Central Hawke's Bay only		Ongoing management and delivery of water services for Central Hawke's Bay by CHBDC with new established mgmt and governance structures and financial/balance sheet separation	
Principles		**Weighting**	**Score (1-5)**	**Comment**	**Score (1-5)**	**Comment**	**Score (1-5)**	**Comment**
Principle 3. Environmental Responsibility	Water servces are managed to optimise resource use, improve efficiency, and address the interconnectedness of these water services for the good of the natural and built environment – recognising the importance of water as a resource and taonga in all its forms.	**10%**	**4**	Enhanced planning capability, and enhanced ability to fund infrastructure works to ensure the environment is respected and protected	**3**	Improved access to funding will enable some greater investment, but likely not all that is needed. Some improvement in planning capability possible through the creation of more specialist and skilled teams, this to be balanced against affordability and increased operational overheads	**2**	Council likely to continue to struggle to deliver on required infrastructure upgrades to ensure optimal environmental outcomes. Minimal improvement in planning capability likely.

			Option 1 - Regional Model (HBWCCO)		Option 2 - CHBDC WSCCO		Option 3 - Council Delivered Service	
			Establishment of a Waters CCO across the 4 HB Councils		Establishment of a Waters CCO for Central Hawke's Bay only		Ongoing management and delivery of water services for Central Hawke's Bay by CHBDC with new established mgmt and governance structures and financial/balance sheet separation	
Principles		**Weighting**	**Score (1-5)**	**Comment**	**Score (1-5)**	**Comment**	**Score (1-5)**	**Comment**
Principle 4. Resilient Infrastructure Responsive to Growth	Local Infrastructure is appropriately prioritised and invested in a long-term view of sustainability, to ensure resilience against climate change, population growth and location, and natural disasters.	**20%**	**4**	Enhanced planning capability, and enhanced ability to fund infrastructure works to ensure that infrastructure plans cater for the impacts of growth. Note potential for loss of efficiency in aligning growth across infrastructure classes (e.g. with Transport) and in engaging with authorities in planning for growth.	**3**	Improved access to funding will enable some greater investment, but likely not all that is needed. Some improvement in planning capability possible through the creation of more specialist and skilled teams, this to be balanced against affordability and increased operational overheads	**2**	Council likely to continue to struggle to deliver on required infrastructure upgrades to effectively enable and manage growth. Minimal improvement in planning capability likely.

			Option 1 - Regional Model (HBWCCO)		Option 2 - CHBDC WSCCO		Option 3 - Council Delivered Service	
			Establishment of a Waters CCO across the 4 HB Councils		Establishment of a Waters CCO for Central Hawke's Bay only		Ongoing management and delivery of water services for Central Hawke's Bay by CHBDC with new established mgmt and governance structures and financial/balance sheet separation	
Principles		**Weighting**	**Score (1-5)**	**Comment**	**Score (1-5)**	**Comment**	**Score (1-5)**	**Comment**
Principle 5. Community Ownership and Empowerment	That community continue to have a meaningful role in the decision-making processes, management and operation of their local water services, with policies, outcomes and investment decisions reflective of the community's values, needs and local expertise.	**10%**	**3**	Assets still owned by community at large and community still connected to same assets - potential for local projects to be 'lost' in larger prioritisation in the event of cost reductions.	**5**	Assets still owned by community and projects identified and prioritised only for CHB water users	**5**	Assets still owned by community and projects identified and prioritised only for CHB water users
Ranking	**Total**	**100%**	**78%**		**56%**		**46%**	

Financial Modelling

Hawke's Bay councils have undertaken scenario modelling and analysis to understand the implications of the new requirements and what these would mean for the different delivery models.

Initial indicative modelling was undertaken over the second half of 2024 to understand the financial sustainability of each council's water services under different LWDW delivery options. This assessed whether each water service delivery option could be financially sustainable, where water services revenue and costs are 'ring-fenced' and meet the financial sustainability criteria of the new Local Water Done Well requirements.

A number of financial outcomes were modelled across a 10-year period and assessed, including indicative costs for delivering water to a property connected to all three waters under the delivery models allowed for under Local Water Done Well. Resulting Council debt and financial positions were also modelled and assessed to determine how they might be affected by the characteristics of different delivery models.

The modelling provided below has been updated with guidance from the Department of Internal Affairs (DIA), the Local Government Funding Agency (LGFA), and the legislative requirements under LWDW. The latest Three Year Plan 2024-2027 (Long-Term Plan) or updated Annual Plan data of each council was used to create central scenarios for each delivery option.

The data includes financial information from each council, such as asset valuation, depreciation, funding approach, and financing costs, as well as key statistics like population size, number of connected and non-connected properties, and the length and age of the reticulated network. This provides a clear, standardised, and comparable assessment of each delivery model across key metrics like debt and cost per connection.

These inputs and assumptions are detailed further Attachment 2. Further information on the metrics and key assumptions are detailed also.

Financial modelling can only provide indicative projections at a point in time, but it offers a useful guide for the direction of costs and Council debt under different delivery models. The analysis is based on assumptions about how the new economic regulation regime will be applied by the Commerce Commission and final financial assessments by entities like the LGFA and credit rating agencies. Establishment and ongoing costs have been estimated using previous analysis and benchmarking.

The modelling does not consider detailed implementation arrangements, such as organisational design or commercial agreements. If councils agree to develop a regional CCO, further work would be done on detailed operational design, including shareholding splits between parent councils. The modelling assumes no one council holds a majority stake in a Regional CCO.

For Central Hawke's Bay, the Regional CCO model is the most cost-effective for delivering water services long-term compared to Council Delivered Services or a Single Council Controlled Organisation. Over ten years, Council delivered services are estimated to cost $59,489 per connection, compared to $54,974 per connection in a regional CCO, saving $4,515 per household – an average of $415/year.

This is expected to deliver $19.8 million in savings to connected households across Central Hawke's Bay District over ten years, saving ratepayers an estimated $1.98m/year.

The current financial modelling for Central Hawke's Bay should be seen as a 'maximum cap', noting the capital modelling currently includes an 'all in' approach to capital to address the major investment required for the districts key wastewater and drinking water assets.

Further work including how the impacts of the proposed Taumata Arowai Wastewater standards on future work programmes, and further detail on how the programme could be further phased is yet to be worked through. Taking an 'all in' approach, while fiscally challenging has been done to demonstrate the scale of investment the district requires. To this end, an approach to a regional price pathway has also not been included in the modelling. While desirable for Central Hawke's Bay based on the current modelling, further detailed work and analysis needs to be completed across the

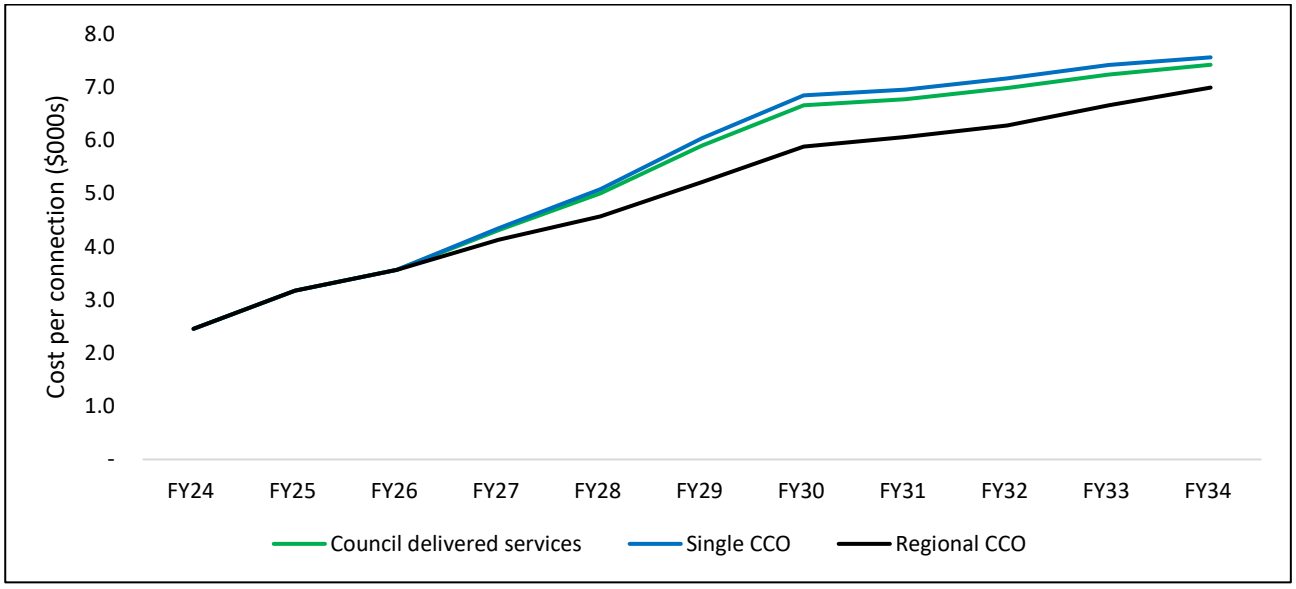
region to consider whether a regional price pathway is required or demonstrates best value for Central Hawke's Bay ratepayers.

The financial modelling for Central Hawke's Bay is outlined below:

Table: Central Hawke's Bay – Cost per connection by year and option (in $1000s)

Cost per connection ($000s)	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34
Council delivered services	2.5	3.2	3.6	4.3	5.0	5.9	6.7	6.8	7.0	7.2	7.4
Single CCO	2.5	3.2	3.6	4.3	5.1	6.0	6.8	7.0	7.2	7.4	7.6
Regional CCO	2.5	3.2	3.6	4.1	4.6	5.2	5.9	6.1	6.3	6.7	7.0

Graph: Central Hawke's Bay – Cost per connection by year and option



Central Hawke's Bay – Cumulative Model Savings Regional Model vs Council Delivered Service

Cumulative Savings - Regional CCO v CDS ($)	
Council delivered services - 10-year total cost	$59,489
Regional CCO - 10-year total cost	$54,974
Cumulative savings	$4,516

While the regional model offers lower costs and greater benefits to residents compared to the Council Delivered Services option, Central Hawke's Bay connected ratepayers will still see a significantly higher increase over the next ten years than their neighbouring ratepayers. This increase is due to the district's unique situation, with major water reservoirs, water treatment plants, and wastewater treatment plants all needing significant investment over the next 10-15 years

Work will need to continue to assess the implications of the new Taumata Arowai Wastewater standards and opportunities this may have to reduce the cost of wastewater delivery also.

The challenges to reduce costs are unlikely to diminish due to the increased regulatory standards proposed by the Local Water Done Well Policy Framework. These standards encompass both economic investment and expected asset quality, aligning water operations with the rigorous standards of the electricity sector. This approach limits the ability to defer major expenditure on critical water assets, legislatively requiring the community to invest more in its three waters assets. This represents a significant shift in the policy framework compared to the current operation of water services.

Recommended Preferred Option

As outlined in the discussion section of this report, the Hawke's Bay Three Waters Business Case completed in 2019 set the basis for the success of a Regional (Joint) Council CCO.

Further non-financial criteria assessment and financial modelling completed to date under the new Local Water Done Well legislation makes a compelling case that Joint Hawke's Bay WSCCO model best meets the Strategic Investment Objectives and presents the most affordable price path for water users of the three options assessed. It is expected to deliver the most benefits and leverage the non-financial benefits discussed above.

- The In-House (Council Delivered) option is the second most affordable, with Single Council CCOs being the least affordable.
- Council's debt position can handle all three options within existing limits noting credit ratings will be required, however residual debt/revenue position is better for all Councils with off-balance-sheet Regional CCO option.
- Removal of the 500% net-debt revenue limit gives the Regional CCO greater headroom than previously thought.

It is Officers' recommendation that the Regional (Joint) Hawke's Bay WSCCO be specified as the preferred delivery model in consultation materials.

This recommendation forms an important first step for Council to consult and hear from the community on the range of options available, to inform a final recommended option for adoption by Council, and to allow the development of a Water Services Delivery Plan for adoption by 3 September 2025.

There is still further work to complete however on the details associated with a Regional CCO and unanswered questions that still need to be addressed as the Councils progress to the detail of a regional CCO, on the basis this early engagement is supported by Councils. This includes:

- How proposed wastewater standards may impact all of the region's programmes
- Understanding a further 2020/2030 regional pricing pathway
- Opportunities for further phasing of Council's capital programmes.

RISK ASSESSMENT AND MITIGATION

The decision at this point is low risk, being to confirm the options and a preferred option to consult community on as part of the Governments Local Water Done Well legislation.

There are still many areas that are yet to be confirmed and this decision is not a final binding decision to progress with a Regional (Joint) Water CCO. Council can also expect further work on the future risks associated with these decisions as they are progressed.

Part of this further work includes outlining concerns that Council has previously raised such as confidence in the delivery of programmes in line with Council's projected investment programme and

ensuring the proposed rating requirement is used for Central Hawke's Bay infrastructure and services. All of these aspects and more, including potential matters on regional price pathways are yet to be discussed, agreed and resolved. On the basis that Councils support the regional model, these will be the further areas that are explored in the development of the Water Services Delivery Plan.

Progressing with the preferred option of a Regional (Joint) Water Services CCO is also a key control to manage the key risks contained within Council's Risk Register. A regional model is a control to address the key risk of *the delivery of water services is unaffordable to the ratepayer and Council is unable to meet is regulatory thresholds.*

It is also a key enabler to address other risks and implement controls on the register including:

- Failure of drinking water rising and failing mains in Waipukurau and Waipawa.
- Failure of drinking water reservoirs in Waipukurau and Waipawa.
- Council fails to meet Wastewater consent conditions.
- Waipukurau Wastewater infrastructure is unable to service growth.
- Council infrastructure is unable to service development.

STRATEGIC ALIGNMENT

The development of a Regional (Joint) Water Services CCO for the region aligns directly with Councils fundamental strategic philosophy of 'Together we Thrive'. Working together across the region demonstrates that Central Hawke's Bay and the wider Hawke's Bay region will benefit, based on the financial modelling and non-financial analysis completed.

Importantly, a Regional Water Services CCO unlocks the major barriers and constraints the district faces relating to its Three Waters Infrastructure, which have been outlined in Council's Infrastructure Strategy, Financial Strategy and other key financial documents.

Noting that this report is an important first step, it will provide the opportunity for community now give feedback to assess their views on the proposed options available to Council.

DELEGATIONS OR AUTHORITY

The Committee has the delegated authority to make this decision, noting this decision simply enables Council to proceed to engagement with community. Council will confirm the consultation document (containing the three options and its preferred option) at the 8 May 2025 Council meeting when it is proposed the Local Water Done Well Consultation Document is adopted.

SIGNIFICANCE AND ENGAGEMENT

In accordance with the Council's Significance and Engagement Policy, this matter has been assessed of high significance, affecting many in the community, involves strategic assets, implications for Council's purpose and obligations and include significant financial implications. This paper recommends a preferred option for consultation with the community as set out in the PA Act and is not the final decision.

Following this consultation the decision around our water service delivery for the district will be brought to Council for hearings, deliberations and the confirmation of a preferred option to finalise the Water Service Delivery Plan, to be submitted by 3 September 2025.

OPTIONS ANALYSIS

Having presented through this report the background information including the legislative framework Council must operate under, an assessment of the non-financial criteria both regionally and locally,

as well as financial modelling, Officers have arrived at a recommended option for Council to consider.

Two potential options for Council to consider progressing this matter are:

Option 1: Endorse recommended options and preferred option for consultation (preferred)

This option recommends that Council consult community on the three options for Water Service Delivery models outlined in this report, with the preferred option being the Regional (Joint) Council CCO model.

This option provides for Council to meet its legislative requirements within the timeframes set by Central Government.

Option 2: Identify alternate options and provide guidance

This option would require Councillors to identify an alternate option to that recommended to consult community on or as a preferred option

	Option 1 **Endorse recommended options and preferred option for consultation**	**Option 2** **Identify alternate options and provide guidance**
Financial and Operational Implications	This option has no new financial or operational implications with the Local Water Done Well work programme factored into the delivery of programmes currently. In the longer term, if the change is supported by community, operational benefits are expected.	The notable impact will be potential new costs from having to rework options and the associated costs associated with this. Council has been working collaboratively regionally on this, significantly reducing the burden on Council. This support would likely not be available to progress these options.
Long Term Plan and Annual Plan Implications	At this time, there are not material implications to the Long Term Plan or Annual Plan. This decision is an early decision with considerable further gateway decisions required to progress the work required.	Relative to the scope change required, additional funding may be required of Council to achieve this work.
Promotion or Achievement of Community Outcomes	This option aligns with success principles identified by the elected Council.	This would be relative to the alternate option recommended.
Statutory Requirements	This approach allows Council to meet its legislative requirements with the timeframes set, being to have a water service delivery plan submitted by 3 September 2025.	Relative to the scope and scale of the size, Council would likely not achieve its legislative expectations under the Local Water Done Well framework.
Consistency with Policies and Plans	This option provides the opportunity for Council to begin to address the major challenges and barriers it faces for its infrastructural three waters deficits, and to achieve lasting long-term benefits for connected ratepayers.	This would need to be assessed against the proposed change.

Recommended Option

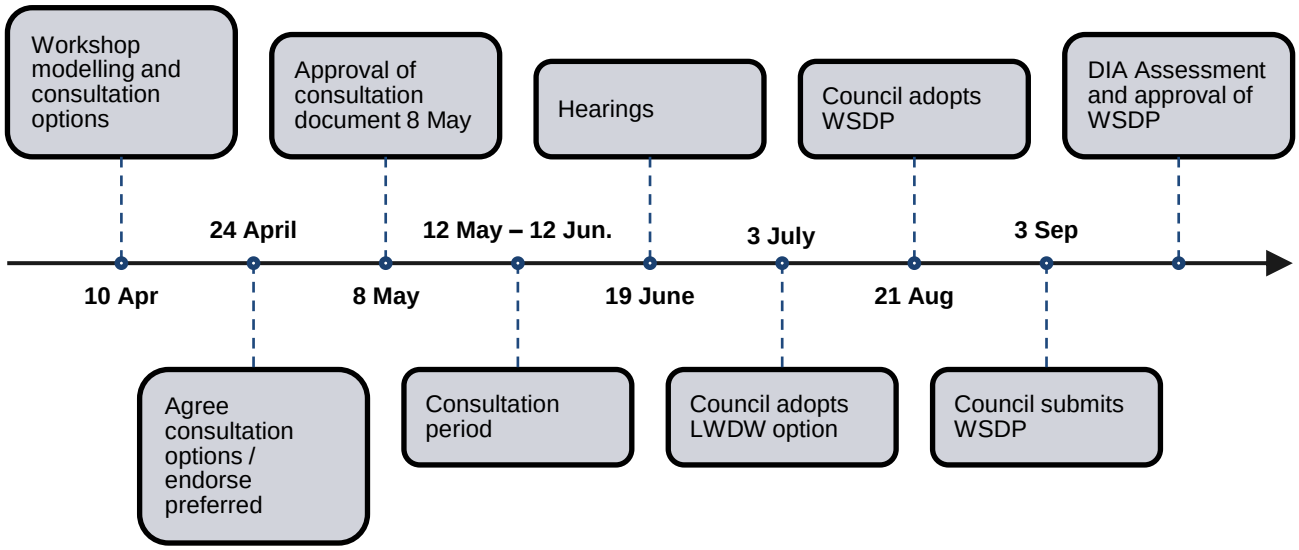
This report recommends **Option 1 – Endorse Recommended options and preferred option for consultation** for addressing the matter.

This recognises the significant work completed since 2017 on regional water entities for the Hawke's Bay, and the compelling case for change across Hawke's Bay to support the Regional (Joint) Council Water CCO.

NEXT STEPS

Key next steps are Officers will prepare consultation material based on today's recommendations, for consideration and adoption at Council's 8 May 2025 meeting. The material to be considered at this meeting will include proposed consultation, hearing and deliberation dates.

Officers will also continue to work through the unanswered questions, outlined earlier in the report relating to the impact of proposed wastewater standards, regional price pathways and capital programme phasing.



LOCAL WATER DONE WELL – PROPOSED WATER SERVICES DELIVERY MODELS FOR CONSULTATION

APPENDIX 1: Summary of the Hawke's Bay water services reform journey

Hawke's Bay councils have a long-standing history with water, pre-dating the various reform agendas of the last two Governments. It has been considered through multiple reports and Council workshops. Being the centre of the initial water outbreak that triggered the government inquiry and then initiated water reform across the country, Hawke's Bay has been invested in being at the forefront of this change – commissioning a business case and modelling before the Government announced any updates on water standards and reform.

As a region, we have kept financial modelling up to date through the various changes within Government to ensure we are best placed to make the right decisions for our communities. We have continued to advocate for a localised model with local decision making.

The current Government has repealed the previous Three Waters / Affordable Waters legislation and developed a replacement model under the Local Water Done Well policy. As a result of previous work and investment to date, Hawke's Bay councils and elected members were in a strong position with much greater understanding than many other local authorities.

We have been working together a region from the beginning – irrespective of the different positions of member councils at various times, and there has always been a common agreement that the status quo is no longer an option. As a result, our most recent financial modelling to support the current reform and public consultation, is some of the most comprehensive across the country – and has been developed in partnership (with agreed inputs and assumptions) across all member councils.

BACKGROUND SUMMARY – PRE-LOCAL WATER DONE WELL REFORM

1. 2016 – Havelock North water outbreak.
2. 2017 – Havelock North water outbreak Government inquiry finding released. Highlighted widespread systematic failures and triggers regulatory changes, structural reforms and establishment of a regulator.
3. 2019 – First regulatory reform proposed. Adoption of Health (Drinking Water) Amendment Act.
4. July 2020 - Hawke's Bay Councils received a commissioned business case prepared by Morrison Low, to assess delivery options for three water services in Hawke's Bay. Through this process, workshops were held in partnership with mana whenua representatives to establish initial principles and investment objectives. On completion of this business case, this process was paused as the Government announced the Three Waters reform programme.
5. 2020 – Regulator (Taumata Arowai) established, water services bill introduced to the House, revitalised Three Waters reform announced.
    5.1. This reform had all Hawke's Bay councils as part of 'Entity C'. This included the local government areas stretching from Gisborne, down the east coast of the North Island through to Wellington, the local government areas from Manawatu south on the west coast and either the entire Nelson, Tasman and Marlborough areas or parts of them.
    5.2. There was a strong regional opposition to the Entity C delivery model, with leaders advocating to Central Government for a localised Hawke's Bay standalone model – as assessed in the business case developed above.
6. August 2021 - Hawke's Bay Councils received an updated financial analysis section of the initial

business case prepared by Morrison Low, to assess the impact of Entity C model and incorporate new parameters/guidance received from DIA under new reform.

7. December 2021 - Hawke's Bay Councils received an updated 30-year debt projection, prepared by Morrison Low. This was to update the existing financial analysis to meet further reform updates by Central Government.

   7.1. Particularly, answering key debt constraint and borrowing capacity questions – and bridging the gap between the WICS (Water Industry Commission of Scotland) analysis that the Government was using as a basis for Three Waters reform – and financial analysis completed for Hawke's Bay to date.

8. April 2023 – Government announced changes to water services reform programme. These changes included increasing the number of new water service entities from four to ten in order to strengthen local representation and voice.

   8.1. Out with 'Three Waters' terminology, and in with 'Affordable Water'

   8.2. Increase of the number of water service entities from four to ten

   8.3. Hawke's Bay moved from Entity C, to Model F. The new model included all four Hawke's Bay councils and Gisborne District Council

   8.4. Financial modelling was updated to incorporate Gisborne – to assess 'East Coast Water' against the initial 'Hawke's Bay Water'

9. May 2023 onwards – Hawke's Bay councils supported Model F, however continued to advocate for improvements. The model as is was not going to work.

   9.1. Key advocacy areas included balance sheet separation (with a heightened importance post-Cyclone), equivalent of Watercare legislation, and streamlined process for formation that protected against delay and judicial review

BACKGROUND SUMMARY – LOCAL WATER DONE WELL REFORM

10. November 2023 – New Government sworn in and repeal of Three Waters reform

11. September 2024 - Local Government (Water Services Preliminary Services Arrangements) Act passed, establishing the Local Water Done Well (LWDW) framework and starting the 12-month timeframe for local councils to develop Water Services Delivery Plans (WSDP)

12. October 2024 – Hawke's Bay councils engaged Price Waterhouse Coopers (PwC) to undertake financial modelling for the new LWDW reform parameters, and with updated council LTP numbers to support decision making, public consultation and WSDP requirements.

    12.1. Hawke's Bay councils continued to meet with DIA, Commerce Commission, LGFA and the Minister for Local Government – to share feedback on the current parameters and highlight policy ambiguity that was creating uncertainty

    12.2. In March 2025, LGFA responded – officially, providing the debt ratios and parameters required to fine tune inputs and complete modelling

13. April 2025 – financial modelling and outputs complete, councils began workshops and council meetings to respond to legislation and meet Government's deadlines.

    13.1. The detailed financial modelling showed that for all councils, the Regional CCO option presents the most affordable price path for water users of the three options assessed. The In-House option is the second most affordable, with Single Council CCOs being the least affordable.

Local Water Done Well

Hawke's Bay Modelling and Criteria Assessment

April 2025

Background

This document provides an overview of the financial modelling and analysis of non-financial criteria undertaken as a part of the work in Hawke's Bay to assess delivery models for implementing the Local Water Done Well requirements.

Local Water Done Well

The Government's Local Water Done Well has several new requirements for water service providers, including:

- **water services delivery system changes**, including new delivery models and structural arrangements, financial principles and financing options, and reporting and planning requirements
- a **new economic regulation and consumer protection regime** for water services, with tools available to the Commerce Commission as the regulator, including information disclosure, revenue thresholds, quality regulation and financial ring-fencing
- **changes to the water quality regulatory framework** including arrangements for stormwater, drinking water quality regulation, and wastewater and stormwater environmental performance standards

These requirements mean significant changes to the way that water services are delivered, regardless of delivery model. As a first step, councils (or groupings of councils) are required to submit Water Services Delivery Plans to central Government by 3 September 2025.

These plans are a way for councils to demonstrate their approach and commitment to providing water services that meet new regulatory requirements, support growth and urban development, and are financially sustainable.

Through the development of the plans, councils need to provide an assessment of their water infrastructure, how much they need to invest, and how they plan to finance and deliver it. To do this, councils need to understand what that will look like under the different delivery models available.

From the long list of options provided by central Government, the work in Hawke's Bay has focused on analysing the pros and cons of three delivery models:

Shortlisted options - delivery models
Internal business unit or division (enhanced council delivered services)
Single council-owned water organisation
Multi-council owned water organisation

Further information on these delivery model options is outlined in Tables 1, 2 and 3.

Two further models - consumer trust and mixed council/consumer trust - were discounted at this time as they create significant additional financial complexity, particularly because they are currently unable to access Local Government Funding Agency (LGFA) financing and would have to source alternative finance, requiring an operational track record.

Modelling

Hawke's Bay councils have undertaken scenario modelling and analysis to understand the implications of the new requirements and what these would mean for the different delivery models.

Initial indicative modelling was undertaken over the second half of 2024 to understand the financial sustainability of each council's water services under different LWDW delivery options. This assessed whether each water service delivery option could be financially sustainable, where water services revenue and costs are 'ring-fenced' and meet the financial sustainability criteria of the new Local Water Done Well requirements. A number of financial outcomes were modelled across a 10-year period and assessed, including indicative costs for delivering water to a property connected to all three waters under the delivery models allowed for under Local Water Done Well. Resulting Council debt and financial positions were also modelled and assessed to determine how they might be affected by the characteristics of different delivery models.

The modelling presented in this report and the consultation document has been updated from the initial indicative modelling. It has utilised further guidance from the Department of Internal Affairs (DIA), the LGFA - where most New Zealand Councils source their borrowing from - and the legislative requirements under Local Water Done Well to determine a set of inputs and assumptions for the modelling. The latest Long-Term Plan or updated Annual Plan data of each council was inputted to create a set of central scenarios for each delivery option, for each council.

The data includes financial information from each Hawke's Bay council - like asset valuation, depreciation, funding approach and financing costs - as well as their key statistics like their population size, number of connected and non-connected properties, and the length and age of the reticulated network.

This provides for a clear, standardised and comparable assessment of what each delivery model would look like for each council across key metrics like debt and cost per connection for a property with all three waters. It builds off modelling carried out for the region previously from 2018-2023.

These inputs and assumptions are detailed further in the Financial Modelling section of this report.

Financial modelling can only provide indicative projections at a point in time but provides a useful guide for the direction for costs and Council debt under the different delivery models being analysed. The analysis is based on several assumptions about how the new economic regulation regime will be applied by the Commerce Commission, as well as final financial assessments by entities including the LGFA and credit rating agencies. Establishment and ongoing costs have been estimated using previous analysis and benchmarking.

Given this, it does not consider detailed implementation arrangements, such as organisational design (e.g. which particular staff from each council shift to a joint entity) or commercial agreements (e.g. whether contracts will be entered into with different construction firms). If councils agree to progress the development of a regional CCO, then further work would be undertaken on detailed operational design, including shareholding splits between the parent councils. The modelling assumes no one Council holds a majority stake in a Regional CCO.

Financial Sustainability

The Act requires that water services be delivered in a financially sustainable manner by 30 June 2028. DIA guidance is that financial sustainability means water services revenue is sufficient to meet the costs of delivering water services.

The costs of delivering water services includes meeting all regulatory standards, and long-term investment requirements in water services.

There are three key factors to how financial sustainability will be assessed:

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

The process to develop a one-off, transitional Water Services Delivery Plan (WSDP) for submission to DIA in September 2025 is designed to get Councils to demonstrate how financially sustainable water services provision will be achieved from 30 June 2028 at the latest.

Under Local Water Done Well, the LGFA has committed to Water CCOs being able to utilise debt from the LGFA, if they are financially supported (through a guarantee) by their parent council or councils.

The LGFA is the lowest cost provider of financing to local government and is already utilised by Council. While the LWDW model opens-up borrowing capacity, Council is still concerned over affordability issues for our ratepayer base.

Water organisations will be able to assess, set and collect water services charges from consumers and will be able to use the development contributions regime in the Local Government Act 2002 to charge developers where additional demand or growth is created.

The LWDW legislation does not specifically embed price harmonisation, e.g. where every water user within a regional CCO would move to paying the same cost-per-connection at a point in the future. It is still unknown as to whether the economic regulator will allow for price harmonisation, or specific types of harmonisation options if at all.

The intention of providing a specific lending facility is to better enable councils via a WSCCO to address water investment needs and enable 'balance sheet separation' with the advantage of reducing ex-water Council debt, potentially freeing-up debt 'headroom' for other Council activities if desired, or keeping pressure off other Council rates.

Under the CCO model (single or joint), LGFA will not 'consolidate' a water services CCO's debt back to its view of the overall Council's debt position. However, LGFA guidance is that credit rating agencies, which influence the cost of borrowing for Councils from LGFA through the issuance of credit ratings, will treat the debt of a water CCO which is more than 50 percent owned by a single Council back to that Council's balance sheet when it reviews the Council's credit-worthiness. This means the parent Council under a Single CCO option may be provided a lower credit rating (and higher resulting finance costs), than under a multi-council CCO option (see below).

For a multi-council, or Regional CCO where no council owns a majority of the organisation, both LGFA and S&P will treat the debt of the water CCO separately to the parent Council. Credit rating agencies are expected to recognise the water CCO as a contingent liability for the shareholding Councils.

If a council decides to maintain In-House delivery of water services through a new business unit, their existing water debt will remain on the council's balance sheet, despite the ring-fencing provisions in the LWDW legislation. This will mean considerably less debt headroom for Councils against their LGFA limits from both an LGFA and rating agency perspective.

LGFA has issued guidance on how it will assess its lending to Water CCOs. This will not be controlled by a specific net debt/revenue limit (which is currently applied to generic LGFA lending to Councils). Rather, a combination of cashflow covenants will apply:

- A Funds from Operation (FFO) to Gross Debt ratio of between 8% and 12%
- A Funds from Operation (FFO) to Cash Interest Coverage of between 1.5 times and 2.0 times.
- Water CCOs will have up to five years to comply with the covenants
- Water CCOs will be able to recognise a percentage of development contributions as operational revenue for the purposes of determining the above covenants.

LGFA stresses that the covenants it has published are just for guidance; negotiations will still be held with Councils. However, Hawke's Bay Councils have received confirmation from LGFA that an 8% FFO/Gross Debt ratio would apply to a Regional CCO.

Ahead of the LGFA releasing these covenants, previous guidance was that it would lend up to an 'equivalent' of 500% net debt/revenue to water CCOs. In the absence of more specific guidance before an LGFA announcement on 20 December 2024, this ratio was being applied in modelling (for Hawke's Bay Councils and others across the country) as a 'control' on debt from 2028, which in turn required pricing to be lifted in the model to keep debt positions down. Removing a net debt/revenue limit from the CCO pricing models has allowed for smoother price increases in the initial years of new water services delivery models, compared to earlier analysis.

Further detail - short-listed delivery model options:

The delivery models are designed to ensure communities receive enhanced water services without placing undue financial pressure on ratepayers and are intended to give flexibility to choose a model that is financially independent or can become financially independent from the council's credit rating over time.

Based on the options available, Hawke's Bay shortlisted three for further consideration:

- Internal business unit (in-house/enhanced council delivered services)
- Single CCO
- Regional CCO

The Department of Internal Affairs describes the shortlisted delivery models as follows:

Table 1: Key features – Internal business unit (in-house/council delivered services)

Internal business unit	
Overall	• Subject to all the new requirements that apply to water service providers - including meeting statutory objectives and financial principles (ring-fencing and financial sustainability requirements), separate planning and reporting requirements for water services, and being subject to new economic regulation regime
Ownership	• 100% council owned as a business unit or division within the organisation • No new organisation is established
Governance	• Internal business unit or division responsible to the elected council members, with other usual council governance oversight
Strategy	• Councils will need to prepare a water services strategy
Accountability	• Water division reports to council per established internal processes • Water services delivery will be accountable to the public through usual democracy practices • Water services annual report - including new financial statements on water supply, wastewater and stormwater - will be completed to enhance current requirements
Borrowing	• Borrowing undertaken by council with water activity groups meeting their share of financing costs (on internal and any external borrowing)

Table 2: Key features – Single council-owned water organisation

Single council-owned water organisation (Single CCO)	
Overall	• Subject to all the new requirements that apply to water service providers - including meeting statutory objectives and financial principles (ring-fencing and financial sustainability requirements), separate planning and reporting requirements for water services, and being subject to new economic regulation regime
Ownership	• Limited liability company, 100% owned by the council • Ownership rights spelled out in a constitution, subject to compliance with the legislation • Council can transfer or retain ownership of assets, subject to transfer of asset use rights
Governance	• Council has flexibility to design governance and appointment arrangements • Appointments made directly or via an Appointments and Accountability Committee (or similar body) • Board comprised of independent, professional directors • Current council staff and elected members cannot be appointed to boards
Strategy	• Shareholding council issues statement of expectations • Water organisation board prepares a water services strategy and consults the shareholding council
Accountability	• Water organisation board is accountable to council shareholders and reports regularly on performance (shareholders are accountable to community) • Water organisation required to give effect to statement of expectations and meet statutory requirements • Water organisation prepares annual report, including financial statements, and information on performance and other matters outlined in water services strategy
Borrowing	• Borrowing via council or from Local Government Funding Agency directly supported by council guarantee or uncalled capital

Table 3: Key features – Multi-council-owned water organisation

Multi-council-owned water organisation (Regional CCO)	
Overall	• Two or more councils establish a jointly-owned organisation • Subject to all the new requirements that apply to water service providers - including meeting statutory objectives and financial principles (ringfencing and financial sustainability requirements), separate planning and reporting requirements for water services, and being subject to new economic regulation regime
Ownership	• Limited liability company owned by two or more councils • Ownership arrangements and rights set out in a constitution and/or shareholder agreement, within legislative requirements • Each council prepares transfer agreement setting out matters being transferred to water organisation and those retained
Governance	• Councils agree how to appoint and remove directors, for example through a shareholder council or similar • Board comprised of independent, professional directors • Current council staff and elected members cannot be appointed to boards
Strategy	• Shareholding councils agree the process for issuing a combined statement of expectations • Water organisation board prepares a water services strategy and consults shareholding councils
Accountability	• Water organisation board is accountable to council shareholders and reports regularly on performance (shareholders are accountable to community) • Water organisation required to give effect to statement of expectations and meet statutory requirements • Water organisation prepares annual report, including financial statements, and information on performance and other matters outlined in water services strategy
Borrowing	• Borrowing arrangements and credit rating implications dependent on whether shareholding councils provide financial support • Water organisation could access LGFA financing, subject to meeting LGFA financial metrics and with shareholding councils providing proportionate guarantees to the CCO • The CCO will be entirely self-funded, without financial support or revenue from shareholding councils

Financial Modelling

This section analyses the two key financial criteria established to assess and compare the three options for water services delivery models under Local Water Done Well.

The assessment follows the Department of Internal Affairs (DIA) guidance on available water service delivery models under LWDW, potential financing arrangements, and key financial sustainability indicators.

Financial Criteria

The table below outlines the two key financial criteria developed to assess and compare potential water services delivery model options, through the process of financial modelling. The expectation is that all options will meet the financial sustainability requirements set out in the legislation under the LWDW framework, therefore this requirement is excluded from the criteria.

Table 4: Two key financial criteria to assess and compare delivery models

Criteria	Explanation	Evaluation
Cost of delivering water services at FY34	This models the average annual cost per property to deliver water services, for a property connected to all 3-waters at the end of the current forecast period in 2033/34. This is an indicative, nominal cost path for standardised assessment of the attributes of each delivery option, and comparison across TAs. Note, numbers are rounded to the nearest $100. Analysis includes the difference in cost-per-connected property per delivery option, nominally and proportionately, and cumulative savings under the most affordable option compared to the other two over the 10 years to 2034.	**Green shading =** Option is the most affordable to the rate payer

Council balance sheet and debt position	This measures a council's debt position through the ten-year period to 2034 against the limits imposed on it by itself or by regulators, including likely treatment by credit ratings agencies.	✓✓ Option allows for modelled three waters investment and contributes to best Council balance sheet and debt position. ✓ Option allows for modelled three-waters investment, with resulting Council debt position able to be within covenants, but with caveats, for example meets LGFA covenant but Council debt to be considered higher by rating agency. - As with ✓ but least amount of balance sheet capacity **X** Option does not have sufficient balance sheet capacity at FY34 and exceeds the current LGFA limit, with no option for mitigation (e.g. securing a credit rating).

Options evaluation: Financial

The following tables present the results of the quantitative assessment of each of the shortlisted options, broken down by council. Numbers are to the nearest $100.

Central Hawke's Bay District Council

Criteria	Council delivered services	Single CCO	Regional CCO
Cost of delivering water services at FY34	$7,400	$7,600	$7,000
Council balance sheet and debt position	- Least amount of Council balance sheet capacity of the three options from LGFA point of view. Modelling shows combined council debt above current LGFA 175% net debt/revenue covenant from FY26-FY29	✓ LGFA to consider water CCO debt separate to Council; Ratings agencies to assess combined debt	✓✓ LGFA to consider water CCO debt separate to Council; Ratings agencies to treat water debt as contingent liability for Council

Current Modelling Assumptions

Parameter	Assumption
FFO/Gross Debt	• Pricing (revenue) is adjusted to ensure that the FFO / Gross Debt ratio remains at a minimum of 11% for the Council Delivered Service and Single CCO options, and 8% for the Regional CCO option, from FY30 to 2034.
Cash interest ratio	• Single CCO and Regional CCO option: Funds from operation to cash interest coverage of a minimum of 1.5 times from FY30
Debt covenants	• Five years to meet key LGFA metrics (LGFA finance covenants).
Capex	• CAPEX delivery factors to be reduced to 80% from current plans, given historical underinvestment, DIA guidance. • Subsequent reduction in depreciation, through standardised method across councils.

Debt/revenue covenant	• Existing Council debt/revenue covenants are used to assess balance sheet capacity. Previous modelling imposed a 500% debt/revenue constraint on 3-waters finances due to previous central Government guidance; this measure does not appear in LGFA's guidance anymore and so has been removed as a control.
	• No changes to Council Delivered Service debt limits:
	  ○ Central Hawke's Bay, Napier*, Wairoa: Current LGFA: 175% Net Debt/Revenue
	  ○ Hastings: Current LGFA: 280% Net Debt/Revenue; Internal 250% limit
	
	**Note if Napier were to secure a credit rating its LGFA limit would be expected to be 280%*

Parameter	Assumption
Regional CCO efficiencies	• Conservative modelling assumes the joint CCO capital efficiencies will start at 1% **in year 3**, growing 1% per annum (5% by FY34). • Conservative modelling assumes operating efficiencies of 2% **in year 3**, growing to 12% by FY34
Establishment costs	• Regional CCO and Council Delivered Services: The indicative estimated cost is based on the figures provided in the 2020 Morrison Low business case for Hawke's Bay Councils, adjusted for inflation. • Single CCO: As above, but costs are adjusted to 50% of the estimates of establishing a Regional CCO.
Ongoing operational costs	• Regional CCO and Council Delivered Services: The indicative estimated cost is based on the figures provided in the Morrison Low business case, adjusted for inflation. • Single CCO: As above, but costs are adjusted to 50% of the Morrison Low estimates.
Stranded costs	• Councils provided guidance on potential stranded costs (see below).

Establishment and additional Operational/Capex costs as a result of the change

The costs in the following indicative estimate are variable and will depend on the level of activities that can be completed by any new CCO, at their own cost, after establishment. All figures are based on analysis conducted by Morrison Low during the previous reforms.

The costs below are shown indexed to FY25 values from the FY20 values using historical inflation. The forecast has been indexed using NZIER inflation rates through FY28 and 3% thereafter.

Establishment Costs ($000s)	Council Delivered Services	Single CCO	Regional CCO
Operating costs	1,373	1,769	3,538
Capital costs	1,507	2,174	4,347

Stranded Costs

All figures are based on analysis conducted by the councils and where this has not been available, we have used the analysis by Morrison Low during the previous reforms.

Council	Updated modelling ($000s)
Central Hawke's Bay	1,125

Ongoing operational costs created as a result of the change

Ongoing Operational Costs ($000s)	Council Delivered Services	Single CCO	Regional CCO
Directors	49	92	183
Tier 1 additional costs	305	214	427
Tier 2 additional costs	0	305	610
ICT - extra operating	61	61	122
Harmonisation of salary	177	89	177
Audit remuneration	18	101	201
Regulatory auditing	18	101	201
Accommodation - office rent	549	275	549
Office overheads	33	24	47
Staff overheads	81	148	295
Additional resources	418	833	1,665

Modelling overview

In the charts below, previous council cost and pricing projections have not been included as these projections are not considered viable options, given the new regulations and financial sustainability requirements mandated by the LWDW framework legislation.

The financial modelling covers a ten-year horizon, based on latest LTPs, and in Napier's case new Annual Plan numbers. For modelling purposes, a capex delivery factor of 0.8 and an accompanying depreciation reduction has been applied across Councils, given historical under-delivery of capex plans. This also follows guidance from DIA to Councils that forward-looking plans, while acknowledging the scale of investment required, need to be realistic regarding delivery capacity. The lower capex delivery factor is not a proposal to reduce capex, but rather used to present what might be more realistic debt and cost-per-connection outputs from the modelling to what ratepayers and Councils might face expenditure-wise over the timeframe modelled. A combined regional capex programme of $1.32 billion is modelled out to FY34.

Modelling of 100% of current capex plans was conducted through this process, although with slightly different assumptions regarding the LGFA covenants which would apply. A high-level observation across this previous modelling and the current modelling outputs is that a Regional CCO may be able to deliver 100% of current capex plans at a similar or lower cost-per-connection than each individual Council would have to charge to deliver 80% of their current capex plans through either In-House or the Single CCO delivery options.

A Hawke's Bay regional CCO will be able to utilise its financial resources to borrow more efficiently and effectively than individual councils. It requires less additional revenue compared to the other options because less stringent financial metrics will be imposed on it by the LGFA than individual Councils.

The regional CCO option considers non-harmonised pricing for each shareholding council, given strong central Government statements against harmonisation and guidance that the economic regulator may not allow for price harmonisation. The purpose of the modelling was to assess the relative benefits of the different delivery models allowed for under Local Water Done Well, assessed across the region's Councils.

More cost-effective service delivery

With increased scale, the region can achieve operational and capital investment savings. The freed-up funds can be reinvested to complete more projects within the same budget. Savings may arise from avoided mobilisation and demobilisation costs, better project sequencing, bulk discounts, and standardised plants.

A joint organisational structure can also benefit from sharing operational costs, enabling the councils to optimise overheads and workforce within their operations and balance them effectively. These benefits of the Regional CCO should endure as efficiency gains improve over time and as a focussed workforce grows in terms of capability and capacity to deliver the required water investment across the region.

Central Hawke's Bay

Financial modelling – Central Hawke's Bay Affordability

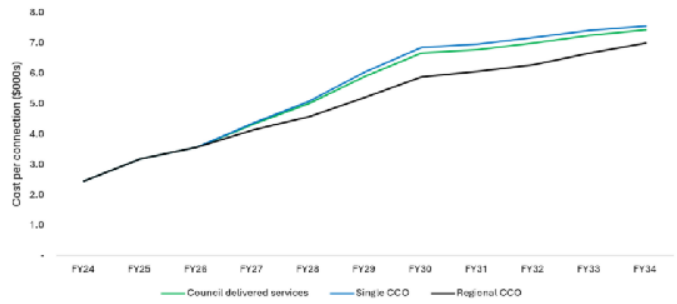
The regional CCO results in a lower cost of water per connected property in FY34 than the other two options.

Under a regional CCO model, the average ratepayer in Central Hawke's Bay will pay c.$400 less in annual water charges in 2034, than under the Council Delivered Services option and c.$600 less than under the Single Council CCO option.

At 2034, cost per connection under the CDS option is 6% more expensive than under the Regional CCO cost path, and 9% more expensive under the Single Council CCO option than the Regional CCO cost path.

Cumulative savings over the 10-year period for the average connected property amount to $4,515 under the Regional CCO option compared to the Council Delivered Services option and $5,627 compared to the Single Council CCO option.

Cost per connection ($000s)	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34
Council delivered services	2.5	3.2	3.6	4.3	5.0	5.9	6.7	6.8	7.0	7.2	7.4
Single CCO	2.5	3.2	3.6	4.3	5.1	6.0	6.8	7.0	7.2	7.4	7.6
Regional CCO	2.5	3.2	3.6	4.1	4.6	5.2	5.9	6.1	6.3	6.7	7.0



Financial modelling – Central Hawke's Bay balance sheet

For CHB, all options are within existing LGFA debt covenants by FY34, indicating capacity to finance the modelled water services investment at that point. Debt does rise above CHBDC's LGFA limit in the early years of a single-Council CCO, which could be alleviated through CHBDC securing a credit rating, as well as the Council's current internal limit. The regional CCO results in lower all-of-council debt due to water debt under this option being a contingent liability to council, and not 'on balance sheet'.

Central Hawke's Bay District Council can borrow up to 175% net debt to revenue under the LGFA foundation covenant and has an internal limit of 150%.

Under the Council Delivered Services option

- 3-waters net debt held by CHBDC is modelled to increase from $79.6 million in FY26 to $118.1 million in FY33, before dropping to $113.6 million in FY34, representing 76% of total Council net debt at FY34. Ringfenced 3-waters net debt/revenue will fall over that time from 540% to 320%.
- Council net debt excluding three waters is modelled to rise from $16.5 million in FY26 to $35.2 million in FY34. Council (ex 3-waters) net debt/revenue will rise from 44% in FY26 to 62% in FY34.
- **Combined, Council net debt is modelled to rise from $96.1 million in FY26 to $148.8 million in FY34. Combined council net debt/revenue is modelled to fall from 185% in FY26 (above the LGFA limit) to 161% in FY34.**

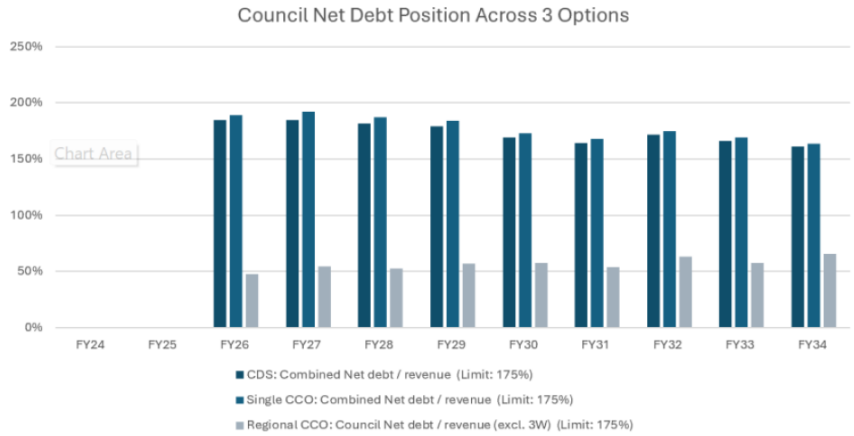
Under the Single CCO option,

- 3-waters net debt held by the CCO is modelled to increase from $80.7 million in FY26 to $119.6 million in FY33, before falling to $115.1 million in FY34. Three-waters net debt/revenue will fall over that time from 547% in FY26 to 318% in FY34.
- Council net debt excluding three waters is modelled to rise from $17.7 million in FY26 to $37.5 million in FY34. **Council (ex 3-waters) net debt/revenue will rise from 47% in FY26 to 66% in FY34** (LGFA focus).
- **Combined, Council net debt is modelled to rise from $98.3 million in FY26 to $152.6 million in FY34. Combined council net debt/revenue is modelled to rise from 189% in FY26 to 192% in FY27 before falling to 164% in FY34** (rating agency focus).

Under the Regional CCO option,

- Combined three-waters debt across the four Councils under a Regional CCO is modelled to increase from $489.2 million in FY26 to $912.7 million in FY34. The Regional CCO's (Three-waters) net debt-revenue will rise from 473% in FY26 to 490% in FY28, before falling to 451% in FY34. Note there is no '500% limit' on this metric, based on guidance from LGFA. CHBDC's contribution to the combined three-waters debt of a regional entity will rise from $78.5 million in FY26 to $123.0 million in FY33, before falling to $117.7 million in FY34.
- CHBDC's Council debt (excluding three-waters) under a Regional CCO option is modelled to rise from $17.7 million in FY26 to $37.5 million in FY34. **With three-waters debt off balance sheet under a Regional CCO option, CHBDC's Council net debt/revenue will rise from 47% in FY26 to 66% in FY34**.

CHBDC	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34
CDS: Combined Net debt / revenue	0%	0%	185%	185%	181%	179%	169%	164%	172%	166%	161%
Single CCO: Combined Net debt / revenue	0%	0%	189%	192%	187%	184%	173%	168%	175%	169%	164%
Regional CCO: Council Net debt / revenue (ex. 3W)	0%	0%	47%	55%	53%	57%	58%	54%	63%	58%	66%



Non-financial analysis

Alongside the financial criteria, a set of non-financial criteria were developed to assess the different delivery models.

These criteria were developed with the legislative requirements in mind, as well as to align with the shared principles the region has agreed on to guide the decisions on water service delivery.

The shared principles were first developed for the Morrison Low work. These were re-tested with councils, mana whenua and other stakeholders in Hawke's Bay in September 2024, where they were updated to reflect the current circumstances.

The updated principles are:

- To deliver water services in a way that is affordable, effective and allows for equitable access
- To deliver water services that are safe, resilient and balance cost-effectiveness with high standard
- To deliver water services through a model that enables a meaningful role for Māori through governance and outcome-setting
- To deliver water services through a model that has the value and water at the centre in addressing both current and future needs
- To deliver water services in a way that supports out urban and rural communities ensuring targeted solutions that develop local capabilities for effective support and service delivery
- To deliver water services that builds enduring capability and capacity
- To deliver water services informed by meaningful community engagement and collaboration

Non-financial criteria

Criteria	Explanation and Measures
Service provision	• The extent to which a delivery model would be able to provide and maintain levels of service across water networks, including supporting equitable access to water services, and ensuring safe and environmentally sustainable outcomes. • The ability to identify and manage risks in alignment with industry best practices.
Resilience	• The extent to which a delivery model would support resilience, from both a financial and operational perspective, including the ability to support and respond to climate adaptation and emergencies. • The ability to respond to increasing demand and managing that demand effectively.
Capital delivery and asset management	• Ability to deliver the capital programme and improve asset management maturity.
Capability and capacity	• Ability to build sustainable regional capability in three water development and operations. • Ability to build a long-term stable pipeline of work at scale and build regional supplier capacity and capability.
Scale and opportunities for efficiency	• Ability to lower unit cost of infrastructure through standardisation and modular approach to infrastructure development and operations.
Mana whenua involvement	• The extent to which each option is designed to reflect the priorities of, and agreed outcomes for, mana whenua.
Community influence and engagement	• The extent to which each option enables the ability for • communities to engage with water decision-making.

High-level option evaluation - Non-financial criteria:

The table below provides a high-level overview of the results of the option evaluation results against the non-financial criteria. For further commentary on each of these criteria, please see the following pages.

Criteria	Council delivered Service	Council CCO	Regional CCO
Service Provision	✓ Levels of service will need to meet new government requirements, regional variation remains	✓ Levels of service will need to meet new government requirements, regional variation remains	✓✓ Equity of service levels, combining networks / infrastructure, lowering the cost to serve
Scale and Efficiencies	- No efficiency gains (noting councils could opt to work together via agreements)	✓ Potential to achieve some efficiency gains through new competency-based board appointment and key performance indicators	✓✓ Maximum efficiency gains due to scale and potential to standardised / share resources
Resilience	✓ Some resilience improvements, although limited by the lack of scale / geographic diversification	✓ Some resilience improvements, although limited by the lack of scale / geographic diversification	✓✓ Greatest resilience improvements due to scale and diversification revenues
Capability and capacity	- No improvements beyond existing arrangements	✓ Potentially some improvements due to focus on water services. Potential to offer clear career pathways	✓✓ Can scale, offering clear career pathways and specialisation in water services

Capital delivery and asset management	✓ New requirements drive potential to improve capital delivery but limited by scale	✓ Water focus drives potential to improve capital delivery but limited by scale	✓✓ Potential for broader network considerations and efficient capital works planning
Mana whenua involvement	✓ Mana whenua engaged by councils directly through current arrangements	✓ Opportunity for dedicated mana whenua governance role, regional variation remains	✓✓ Opportunity for dedicated mana whenua governance role, regional consistency more likely
Community Engagement	✓✓ Direct community engagement and accountability to council	✓ CCO responsible to one community, engagement via LTP process and consumer panels	✓ CCO responsible to multiple communities, engagement via LTP process and consumer panels

Detailed option evaluation - Non-financial criteria:

SERVICE PROVISION

The extent to which a delivery model would be able to meet and maintain levels of service across water networks, including supporting equitable access to water services, and ensuring safe and environmentally sustainable outcomes.

Council Delivered Service ✓	• Levels of service are set by the council but must be consistent with all legislative and regulatory requirements. • Council will need to fund and prioritise recovering the full cost of services to meet financial sustainability requirements, with regulation driving investment decisions.
Single CCO ✓	• Council staff can remain local and continue delivering existing service levels. The council will hold the CCO accountable for the delivered service levels via a Statement of Expectations (SoE). However, service levels and standards will ultimately be set by the CCO and regulators. • The board will have the flexibility to determine the necessary pricing and allocation of funding to meet the required service levels, driven by compliance with economic, service and consumer regulation.
Regional CCO ✓✓	• Shareholding councils will influence district service levels through a joint SoE. • The boards will have the flexibility to determine pricing and allocate funding to meet these service levels, driven by economic, service and consumer regulation. • Centralising investment planning, service delivery, and customer engagement may lead to efficiencies and improved customer service. • The CCO can work towards standardising service levels across districts over time.

COMMUNITY INFLUENCE AND ENGAGEMENT

This criterion measures how effectively a delivery model enables communities and councils across Hawke's Bay to engage with the delivery of water services and influence outcomes through that engagement. Mana whenua are also included within this criterion in their role as community members.

Council Delivered Service ✓✓	• Councils will continue to regularly consult communities on water services delivery planning and infrastructure development through processes such as the LTP which determine council's strategic direction as well as how it sets budgets and prioritises projects. • Economic regulation and consumer protection will require providers to increase level of engagement to confirm levels of service and evidence that investments are being made. • Communities will still be able to express their views on decisions related to future water services, but councils will be subject to economic regulation, which will set prices and minimum investment levels, driving prioritisation decisions.
Single CCO ✓	• Each CCO can establish and maintain a direct relationship with its respective community and will be solely accountable to its independent board. • The council will engage with the CCO to understand and align financial impacts on ratepayers and influence in the governance of the CCO via the SoE and the LTP requirements. Provisions are likely to need to be put in place to ensure that consumers' voices are heard through a consumer panel and/or advocacy council, a disputes resolution process, and through public consultation requirements. • Mana whenua will engage with the CCO as well as the council as per pre-existing arrangements.
Regional CCO ✓	• The CCO can establish and maintain a direct relationship with customers and will be accountable to its independent board and to all communities within Hawke's Bay. • Shareholding councils will engage with the CCO to understand and align financial impacts on ratepayers and influence the governance of the CCO via the SoE and the LTP requirements.

RESILIENCE

The extent to which a delivery model would support resilience, from both a financial and operational perspective, including the ability to support and respond to climate adaptation and emergencies.

Council Delivered Service ✓	• Operating within a single district on a smaller scale reduces geographic diversification, limiting the ability to share costs and resources across districts. • Each council will apply resilience differently, with less collective emphasis on funding resilient options across the region. • Opportunities to build financial and operational resilience against economic or environmental shocks are limited. Funding will come from the entire council's balance sheet, requiring decision-making to balance community needs across various activities competing for limited resources and funding.
Single CCO ✓	• Similar to Council Delivered Services, operating within a single district and on a smaller scale results in less geographic diversification, limiting the ability to share costs and resources across districts. • The CCO model is expected to have greater autonomy for efficient decision-making, e.g. to better respond to severe weather events.
Regional CCO ✓✓	• Joint service delivery across district boundaries has the potential to improve climate resilience, providing greater geographic diversification. • A regional entity has the scale and potentially greater financial capacity to manage severe weather events. It also has the flexibility to divert operational resources providing additional operational resilience. • Developing a shared workforce among neighbouring councils would provide more workforce resilience, and potentially enable operational efficiencies.

CAPABILITY AND CAPACITY

The ability to build sustainable and enduring capability in the development and operations of three waters services across the region.

Council Delivered Service -	• Water services are delivered by council teams focused on operations and maintenance across their individual water networks. • Employees / staff will need to be shared with non-water services, with workforce capability and capacity currently constrained within all councils. • Operating within a single employment market can limit recruitment of new staff and capability.
Single-Council CCO ✓	• Similar to Council Delivered Service, the entity's scale may limit the ability to attract talent and develop enduring capability due to competition among districts for staff. • However, a competency-based board may enable greater focus on recruitment and retention of high-quality staff who might not typically join a local authority. • May lead to greater capability and specialisation among operational and maintenance staff (compared to a council delivered service model, where teams may have wider functions).
Regional CCO ✓✓	• Increased scale creates opportunities for more specialised roles and builds enduring capability, alongside a larger market of suppliers. • Operating as a single employer in Hawke's Bay region attracts a diverse range of skills and reduces competition for staff. • Improved capability and capacity provide clear career pathways and opportunities for professional development and specialisation in water services delivery.

CAPITAL DELIVERY AND ASSET MANAGEMENT

This criterion assesses the ability of a delivery model to support the efficient and effective delivery of a council's capital programme and improve their asset management maturity.

Council Delivered Service ✓	• The council retains control over investment prioritisation in water services, in line with the water services strategy provided that they are consistent with all economic and water regulations. Ring-fencing requirements will mandate a certain level of investment that cannot be avoided by a council. • Capital delivery and asset management, including any required trade-offs, continues to be undertaken by councils themselves within existing financial constraints. • The council delivers its capital works programme using existing / local suppliers. Potential to collaborate with other districts in joint procurement strategies.
Single CCO ✓	• The CCO board can focus on investment in water infrastructure, eliminating the need for trade-offs on investment decisions against other non-water related / council activities. • The CCO can maintain / share procurement arrangements with the council as well as participate in joint procurement arrangements with other neighbouring districts to improve capital delivery. However, this is not guaranteed.
Regional CCO ✓✓	• The CCO board will determine the approach to investment prioritisation, with input from shareholding councils on priorities. • A dedicated focus on delivering three waters services enables broader regional outcomes and efficient capital works planning across the network. • Aligning procurement and project management approaches, along with coordinating large-scale work programmes, can help attract contractors to the regions. • The scale of the operations is likely to also lead to procurement and operational efficiencies.

SCALE AND EFFICIENCIES

This criterion assesses the delivery model's ability to lower the unit cost of infrastructure through standardisation, scale in procurement and a modular approach to infrastructure development and operations.

Council Delivered Service -	• Assumed that this option will not provide efficiencies or resilience benefits above and beyond assumptions in the 2024-34 LTPs. • Note that there could be some efficiencies gained if Councils worked collectively on a single water services procurement strategy, single professional services and contractor construction panel arrangements.
Single CCO ✓	• CCO operates with increased commercial focus, a dedicated board and performance metrics which could provide some minor efficiency improvements and potentially operating cost reductions associated with CCO establishment.
Regional CCO ✓✓	• The entity can focus on optimising operations and processes to reduce overall costs. Savings may arise from avoided mobilisation and demobilisation costs, better project sequencing, bulk discounts, and standardised plants. • A joint organisational structure can also benefit from sharing operational costs, enabling the councils to optimise overheads and labour within their operations and balance them effectively.

MANA WHENUA INVOLVEMENT

For the purpose of this document, the term 'mana whenua' refers to the Post-Settlement Governance Entities (PSGE) and Taiwhenua. This criterion measures how well a delivery model ensures that existing partnership arrangements (which may include Treaty settlement commitments) and commitments to mana whenua are maintained and enhanced by ensuring that they have a meaningful role in water services decision-making and outcome setting into the future.

It is important to emphasise that mana whenua hold dual roles across and are entitled to all the rights and privileges afforded to the wider community. Therefore, in addition to the 'community influence and engagement' criteria outlined earlier, the subsequent criteria are also pertinent to mana whenua.

Council Delivered Service ✓	• Council engagement with Māori on water is guided by the Local Government Act and existing Treaty settlement commitments. • Governance of water services remains within existing council and regional structures, preserving any pre-existing governance arrangements with mana whenua and other Māori partnership groups. • Non-governance arrangements between councils and mana whenua also remain unchanged. The role of mana whenua may differ across the region
Single CCO ✓	• The single-council CCO model could enable new and innovative approaches to collaborating with mana whenua, providing new opportunities for representation and input. • The CCO model may offer opportunities for the inclusion of mana whenua at a governance level that are not as deliverable under Council Delivered Service, though this would depend on organisational design. • The role of mana whenua will likely continue in the same manner as with Council Delivered Services.
Regional CCO ✓✓	• The new entity offers the opportunity to leverage innovation through the CCO model while also ensuring to engage with mana whenua in a consistent manner across the region. This prevents engagement and influence differing across multiple different councils, resulting in different outcomes across the region. • There is an opportunity for councils and mana whenua to have a role in governance and outcome setting. This may involve jointly appointing a competency-based board and management team. • The final details of any such arrangements will need to be determined following the decision to establish a regional CCO in consultation with mana whenua and other stakeholders.