Local Water Done Well
Modelling and Criteria Assessment

Contents

Background

This document provides further detail of the Hawke's Bay Local Water Done Well financial modelling and non-financial criteria development to support public consultation across the region in May/June 2025 on the different delivery models. It accompanies individual council consultation documents.

Local Water Done Well

The Government's Local Water Done Well (LWDW) policy and legislation propose to introduce several new requirements for water service providers, including:

- **water services delivery system changes**, including new delivery model options 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 that significant changes to the way that water services are delivered will be required, regardless of the delivery model chosen. As a first step towards implementing the changes required by the LWDW policy, councils (or groupings of councils) are required to consult on their delivery model option and then submit Water Services Delivery Plans (WSDP) 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 water services in the longer term. 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 model options. These options were identified as the reasonably practicable options for the councils involved, being:

Shortlisted options – delivery models
In-house delivery (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 other 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, which requires 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' from July 2028 and meet the financial sustainability criteria of the new LWDW requirements. This includes requirements in legislation, likely requirements of the Department of Internal Affairs (DIA) when assessing WSDPs, and the financial requirements set to be required by the LGFA.

For this work, 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 model options provided for under LWDW. 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. A 10-year period was used for the modelling to align with Council Long-Term Plan (LTP) projections; financial projections beyond the LTP period are subject to significant uncertainty. However, assessing Council and water services entity positions at the end of the period (2034) allows for comparable assessment of how well-placed each option is to continue delivering financially sustainable water services over the long-term.

The modelling presented in this report and the consultation document has been updated from the initial indicative modelling. It has utilised further guidance from DIA, the LGFA – where most New Zealand councils source their borrowing from – and the legislative requirements under the LWDW policy to determine a set of inputs and assumptions for the modelling. The latest LTP 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 option 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 previously carried out for the region 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 Water Services CCO (WSCCO), then further work would be undertaken on detailed operational design and transitional arrangements, including shareholding splits between the parent councils. The modelling assumes no one Council holds a majority stake in a Regional WSCCO.

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?

Financial sustainability is to be demonstrated initially through the preparation of a one-off, transitional WSDP, which must be submitted to DIA for approval in September 2025. These WSDPs are to provide a full stocktake of current water assets, investment planning, and growth strategies, and show how financially sustainable water services provision will be achieved by 30 June 2028 at the latest.

Under LWDW, the LGFA has committed to WSCCOs 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 (ex-Auckland Council) and is already utilised by the majority of councils and many CCOs across the country. While the LGFA's approach to lending to WSCCOs will open up borrowing capacity for water infrastructure, councils are still concerned over affordability issues for the ratepayer base.

In terms of funding, water organisations (which are WSCCOs or organisations other than the Council) will be able to assess, set and collect water services charges from consumers. They will also be able to use the 'development contributions regime' to collect contributions from developers where additional demand or growth is created for water-related infrastructure. This ensures a fair share of the capital costs associated with new infrastructure like roads, transport, parks and drainage is apportioned directly rather than borne equally across all ratepayers. Councils will still be able to use rates, charges and development contributions if they retain delivery of water services in-house.

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

The intention of LGFA providing a specific lending facility is to better enable councils who decide to move to a WSCCO option to address water investment needs and enable 'balance sheet separation' with the advantage of reducing non-water Council debt. This will potentially freeing-up debt 'headroom' for other Council activities if desired or allow Councils to keep pressure off other Council rates.

Under the WSCCO model (single or multi-council), LGFA will not 'consolidate' a water services WSCCO'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 WSCCO – which is more than 50 percent owned by a single Council – as on the balance sheet when it reviews the Council's credit-worthiness. This means the parent Council under a Single WSCCO option may be provided a lower credit rating (and higher resulting finance costs), than under a multi-council WSCCO option (see below).

For a multi-council, or Regional WSCCO where no council owns a majority of the organisation, LGFA will treat the debt of the WSCCO separately to the parent Council. Credit rating agencies like Standard and Poor's and Fitch are expected to do the same, according to guidance provided by LGFA to Councils. Credit rating agencies are expected to recognise the WSCCO 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 generally mean considerably less debt headroom for Councils against their existing LGFA covenant limits from both an LGFA and credit rating agency perspective.

LGFA has issued guidance on how it will assess its lending to WSCCOs. 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.
- WSCCOs will have up to five years to comply with the covenants
- WSCCOs 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 / WSCCO when arranging lending from LGFA. However, Hawke's Bay Councils have received confirmation from LGFA that an 8% FFO/Gross Debt ratio would apply to a Regional WSCCO.

Ahead of the LGFA releasing these covenants, previous guidance was that it would lend up to an 'equivalent' of 500% net debt/revenue to WSCCOs. 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 WSCCO 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:

Based on the options available under new Government legislation, Hawke's Bay Councils shortlisted three options for detailed assessment:

- In-house delivery (Internal business unit/enhanced council delivered services)
- Single WSCCO
- Regional (four council) WSCCO

DIA describes the features of the shortlisted delivery models as follows:[1]

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

In-house delivery	
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)

1 https://www.dia.govt.nz/diawebsite.nsf/Files/Water-Services-Policy/$file/LWDW-guidance-Water-services-delivery-models-(updated-December-2024).pdf

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

Single council-owned water organisation (Single WSCCO)	
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 (SoE) • 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 SoE 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 WSCCO)	
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 SoE • 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 SoE 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 WSCCO • The WSCCO 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 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 as part of the indicative modelling process to assess and compare the potential water services delivery model options, through the process of indicative financial modelling. Modelling ensured financial sustainability and revenue sustainability requirements were met, with the following assumptions given LWDW policy:

- Financial ringfencing is met from July 2028
- For WSCCOs, LGFA guidance is these organisations will have up to five years to meet covenants such as FFO/Gross debt ratios. It has been assumed that this will be allowed for in DIA's assessment of WSDPs.
- For modelling purposes, it has also been assumed that In-house Delivery models will have the same time to reach the same FFO/Gross debt ration required for Single-Council WSCCOs. While it is expected that DIA's financial sustainability assessment of In-house Delivery will use the same financial metric requirements as for Single-Council WSCCOs, it is possible DIA will require the metrics to be met earlier, for example by July 2028. This introduces the risk that the price paths for In-house Delivery models spike earlier than modelled, meaning larger price increases, earlier.

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.	**Blue 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. ✘ 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 rounded to the nearest $100.

Hastings District Council

Criteria	In-house delivery	Single WSCCO	Regional WSCCO
Cost of delivering water services at FY34	$3,500	$3,500	$3,100
Council balance sheet and debt position	– Least amount of Council balance sheet capacity of the three options from LGFA point of view	✔ LGFA to consider WSCCO debt separate to Council; Ratings agencies to assess combined debt	✔✔ LGFA to consider WSCCO debt separate to Council; Ratings agencies to treat water debt as contingent liability for Council

Napier City Council

Criteria	In-house delivery	Single WSCCO	Regional WSCCO
Cost of delivering water services at FY34	$3,100	$3,100	$2,800
Council balance sheet and debt position	– Least amount of Council balance sheet capacity of the three options from LGFA point of view NCC's combined net debt/revenue may go above the LGFA 175% threshold for unrated Councils in from FY30-34, but this would be overcome by NCC securing a credit rating as debt rises, allowing for a 280% limit	✔ LGFA to consider WSCCO debt separate to Council; Ratings agencies to assess combined debt	✔✔ LGFA to consider WSCCO debt separate to Council; Ratings agencies to treat water debt as contingent liability for Council

Central Hawke's Bay District Council

Criteria	In-house delivery	Single WSCCO	Regional WSCCO
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 WSCCO debt separate to Council; Ratings agencies to assess combined debt	✔✔ LGFA to consider WSCCO debt separate to Council; Ratings agencies to treat water debt as contingent liability for Council

Wairoa District Council

Criteria	In-house delivery	Single WSCCO	Regional WSCCO
Cost of delivering water services at FY34	$6,400	$6,800	$5,400
Council balance sheet and debt position	– Least amount of Council balance sheet capacity of the three options from LGFA point of view	✔ LGFA to consider WSCCO debt separate to Council; Ratings agencies to assess combined debt	✔✔ LGFA to consider WSCCO debt separate to Council; Ratings agencies to treat water debt as contingent liability for Council

Current modelling assumptions

<table>
<tr><th>Parameter</th><th>Assumption</th></tr>
<tr><td>FFO/Gross debt</td><td>Pricing (revenue) is adjusted to ensure that the FFO/Gross Debt ratio remains at a minimum of 11% for the In-house Delivery and Single WSCCO options, and 8% for the Regional WSCCO option, from FY30 to 2034.</td></tr>
<tr><td>Cash interest ratio</td><td>Single WSCCO and Regional WSCCO option: Funds from operation to cash interest coverage of a minimum of 1.5 times from FY30.</td></tr>
<tr><td>Debt covenants</td><td>Five years to meet key LGFA metrics (LGFA finance covenants).</td></tr>
<tr><td>Capex</td><td>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.</td></tr>
<tr><td>Debt/revenue covenant</td><td>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 In-house Delivery 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%</td></tr>
<tr><td>Regional WSCCO efficiencies</td><td>Conservative modelling assumes the joint WSCCO 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.</td></tr>
<tr><td>Establishment costs</td><td>Regional WSCCO and In-house Delivery: 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 WSCCO: As above, but costs are adjusted to 50% of the estimates of establishing a Regional WSCCO.</td></tr>
<tr><td>Ongoing operational costs</td><td>Regional WSCCO and In-house Delivery: The indicative estimated cost is based on the figures provided in the Morrison Low business case, adjusted for inflation.
Single WSCCO: As above, but costs are adjusted to 50% of the Morrison Low estimates.</td></tr>
<tr><td>Stranded costs</td><td>Councils provided guidance on potential stranded costs (see below).</td></tr>
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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 WSCCO, 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)	In-house delivery	Single WSCCO	Regional WSCCO
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
Hastings	3,131
Napier	573 Morrison Low analysis used
Wairoa	902

Ongoing operational costs created as a result of the change

Establishment costs ($000s)	In-house delivery	Single WSCCO	Regional WSCCO
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 expected to be mandated by the LWDW framework legislation.

The financial modelling covers a ten-year horizon, based on the 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 the community 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 WSCCO 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 WSCCO delivery options.

A Hawke's Bay Regional WSCCO 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 WSCCO 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.

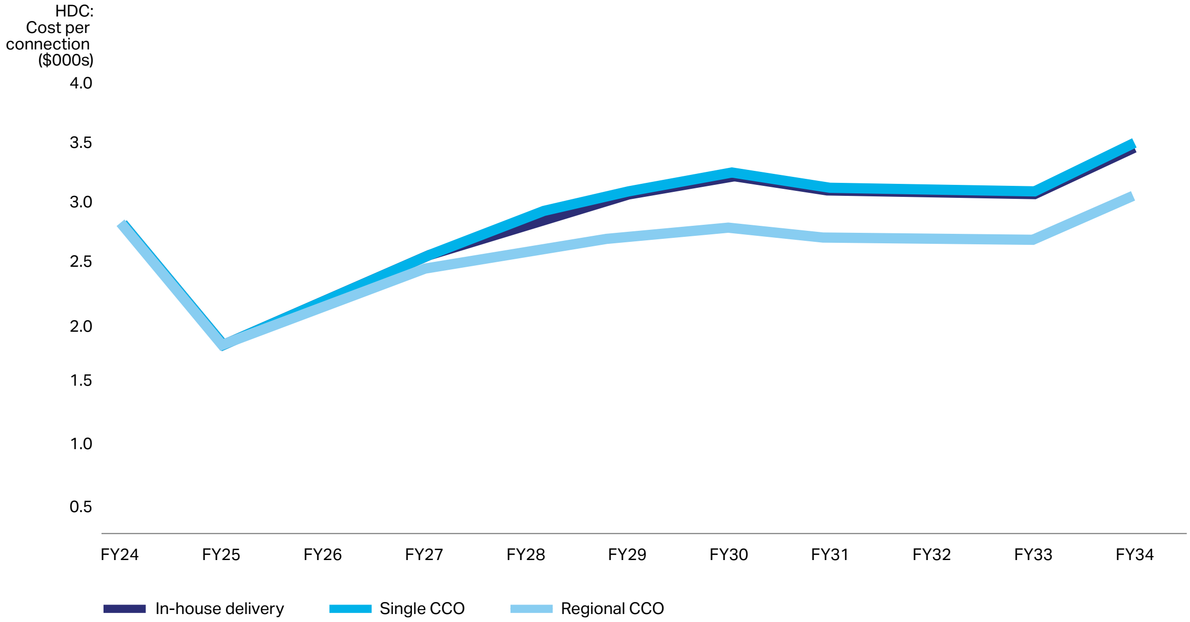
A joint organisational structure can also benefit from sharing operational costs, enabling the councils to optimise overheads and workforce within their operations and balance them effectively. These benefits of the Regional WSCCO should endure as efficiency gains improve over time and as a focussed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

Hastings

Financial modelling – Hastings affordability – key observations:

- The regional WSCCO results in a lower cost of water per connected property in FY34 than the other two options.
- Under a regional WSCCO model, the average ratepayer in Hastings will pay c.$400 less in annual water charges in 2034, than under the In-House or Single WSCCO option.
- At 2034, cost per connection under the In-House and Single WSCCO options is 13% more expensive than under the Regional WSCCO cost path.
- Cumulative savings over the 10-year period for the average connected property amount to $2,646 under the Regional WSCCO option compared to the In-House option, and $2,855 compared to the Single WSCCO option.

Cost per connection ($000s)	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34
In-house delivery	2.8	1.8	2.2	2.6	2.9	3.1	3.2	3.1	3.1	3.1	3.5
Single CCO	2.8	1.8	2.2	2.6	2.9	3.1	3.2	3.1	3.1	3.1	3.5
Regional CCO	2.8	1.8	2.2	2.5	2.6	2.7	2.8	2.7	2.7	2.7	3.1



Financial modelling – Hastings balance sheet and Council debt position

For Hastings, all options are within existing debt covenants, indicating capacity to finance the modelled water services investment. The regional WSCCO 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'.

Hastings District Council can borrow up to 280% net debt to revenue under the LGFA foundation covenant and has an internal council limit of 250%.

Modelling shows that HDC has sufficient balance sheet capacity under all three options to stay within the LGFA covenant. However, under the In-house Delivery and Single WSCCO options, combined net debt revenue is above HDC's internal limit in the early years of operation, limiting the Council's ability to respond to unexpected shocks or non-water capital investment requirements.

Under the In-house Delivery option:

- 3-waters net debt held by HDC is modelled to increase from $324.3 million in FY26 to $353.1 million in 2034, representing 71% of total Council net debt at FY34. Ringfenced 3-waters net debt/revenue will fall over that time from 641% to 381%.
- Council net debt excluding three waters is modelled to rise from $223.7 million in FY26 to $286.6m in FY30, before falling to $143.0 million in FY34. Council (ex 3-waters) net debt/revenue will rise from 137% in FY26 to 143% in FY27, before falling to 57% in FY34.
- **Combined, Council net debt is modelled to rise from $548.1 million in FY26 to $623.1 million in FY29, before falling to $496.1 million in FY34. Combined council net debt/revenue is modelled to fall from 257% in FY26 to 145% in FY34.**

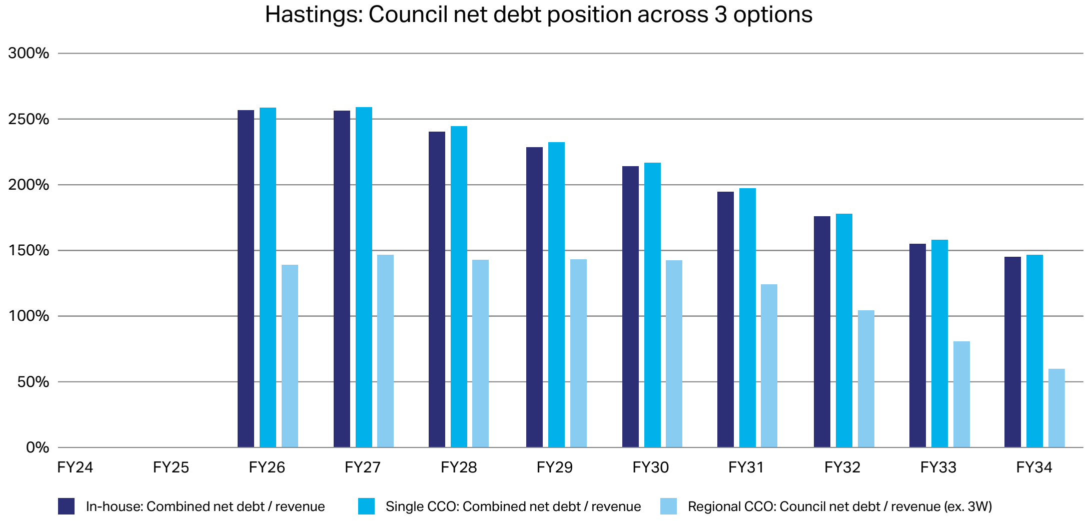
Under the Single WSCCO option:

- 3-waters net debt held by the WSCCO is modelled to increase from $325.4 million in FY26 to $358.9 million in FY28 and moderating to $354.4 million at FY34 at FY34. Three-waters net debt/revenue will fall over that time from 643% in FY26 to 379% in FY34.
- Council net debt excluding three waters is modelled to rise from $226.9 million in FY26 to $293.1 million in FY30, before falling to $149.4 million in FY34. **Council (ex 3-waters) net debt/revenue will rise from 139% in FY26 to 147% in FY27, before falling to 60% in FY34** (LGFA focus).
- **Combined, Council net debt is modelled to rise from $552.3 million in FY26 to $631.7 million in FY29, before falling to $503.8 million in FY34. Combined council net debt/revenue is modelled to fall from 259% to 147% in FY34** (rating agency focus).

Under the Regional WSCCO option:

- Combined three-waters debt across the four Councils under a Regional WSCCO is modelled to increase from $489.2 million in FY26 to $912.7 million in FY34. The Regional WSCCO'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. HDC's contribution to the combined three-waters debt of a regional WSCCO will rise from $323.2 million in FY26 to $387.0 million in FY34.
- HDC's Council debt (excluding three-waters) under a Regional WSCCO option is modelled to rise from $226.9 million in FY26 to $293.1 million in FY30, before falling to $149.4 million in FY34. **With three-waters debt off balance sheet under a Regional WSCCO option, HDC's Council net debt/revenue will rise from 139% in FY26 to 147% in FY27, before falling to 60% in FY34.**

HDC	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34
In-house: Combined net debt / revenue	–	0%	257%	256%	241%	229%	214%	195%	176%	155%	145%
Single CCO: Combined net debt / revenue	0%	0%	259%	259%	244%	232%	216%	197%	178%	157%	147%
Regional CCO: Council net debt / revenue (ex. 3W)	0%	0%	139%	147%	143%	142%	141%	124%	104%	80%	60%



Napier

Financial modelling – Napier affordability

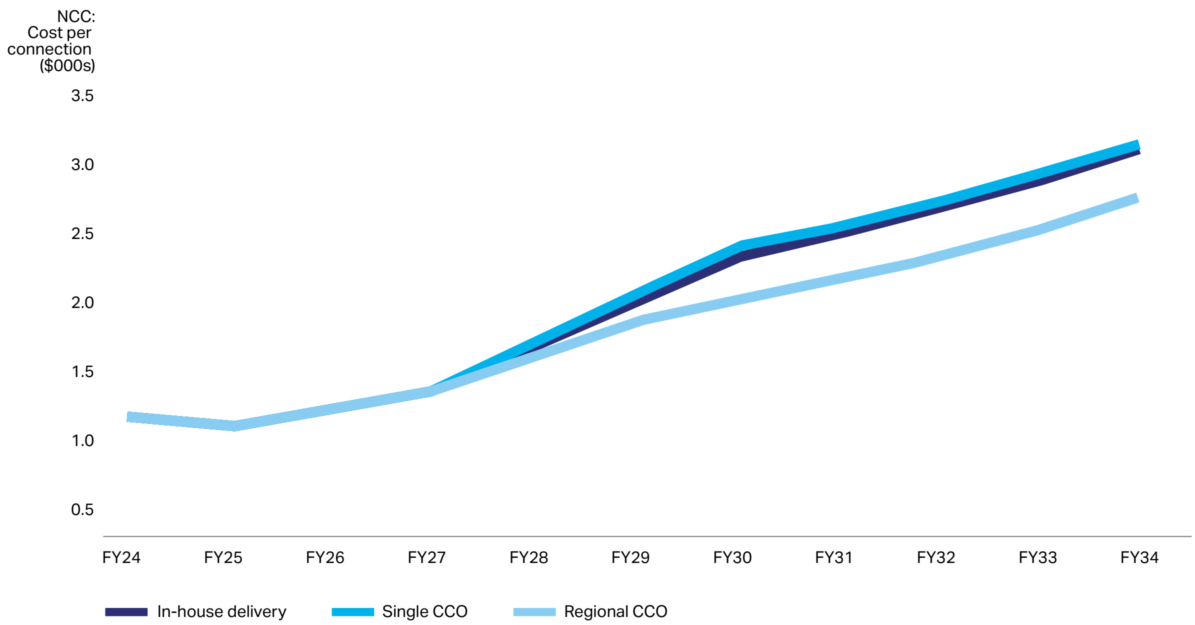
The regional WSCCO results in a lower cost of water per connected property in FY34 than the other two options.

Under a regional WSCCO model, the average ratepayer in Napier will pay c.$300 less in annual water charges in 2034, than under the In-House or Single WSCCO option.

At 2034, cost per connection under the In-House and Single WSCCO options is 11% more expensive than under the Regional WSCCO cost path.

Cumulative savings over the 10-year period for the average connected property amount to $1,983 under the Regional WSCCO option compared to the In-House option, and $2,169 compared to the Single WSCCO option.

Cost per connection ($000s)	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34
In-house delivery	1.2	1.1	1.2	1.3	1.7	2.0	2.3	2.5	2.7	2.9	3.1
Single CCO	1.2	1.1	1.2	1.3	1.7	2.0	2.3	2.5	2.7	2.9	3.1
Regional CCO	1.2	1.1	1.2	1.3	1.6	1.8	2.0	2.1	2.3	2.5	2.8



Note on financial modelling used for NCC

Napier's 3-waters option modelling was provided through the same modelling as for other Councils. However, due to significant changes in NCC's 3-waters capital plan (reflected in the 2026 Annual Plan compared to the 2024/25 Three-Year Plan), NCC remodelled the impact on the Council (ex 3-waters and combined) using updated Annual Plan numbers. This has been done to ensure the most accurate modelling based on NCC's revised capital programme. The changes do not affect modelling for the Regional WSCCO.

Under the In-house Delivery option:

- 3-waters net debt held by NCC is modelled to increase from $61.8 million in FY26 to $333.1 million in FY34, representing 53% of total Council net debt at FY34. Ringfenced 3-waters net debt/revenue will increase over that time from 205% in FY26 to 404% in FY33 400% in FY34.
- Council net debt excluding three waters is modelled to rise from $107.9 million in FY26 to $262.6 million in FY31, before falling to $173.8 million in FY34. Council (ex 3-waters) net debt/revenue will rise from 58% in FY26 to 119% in FY32, before falling to 75% in FY34.
- **Combined, Council net debt is modelled to rise from $169.6 million in FY26 to $506.9 million in FY34. Combined council net debt/revenue is modelled to rise from 77% in FY26 to 181% in FY32, before falling to 156% in FY34.** Note Napier has the option of obtaining a credit rating, to provide ability to secure a 280% net debt/revenue limit from LGFA.

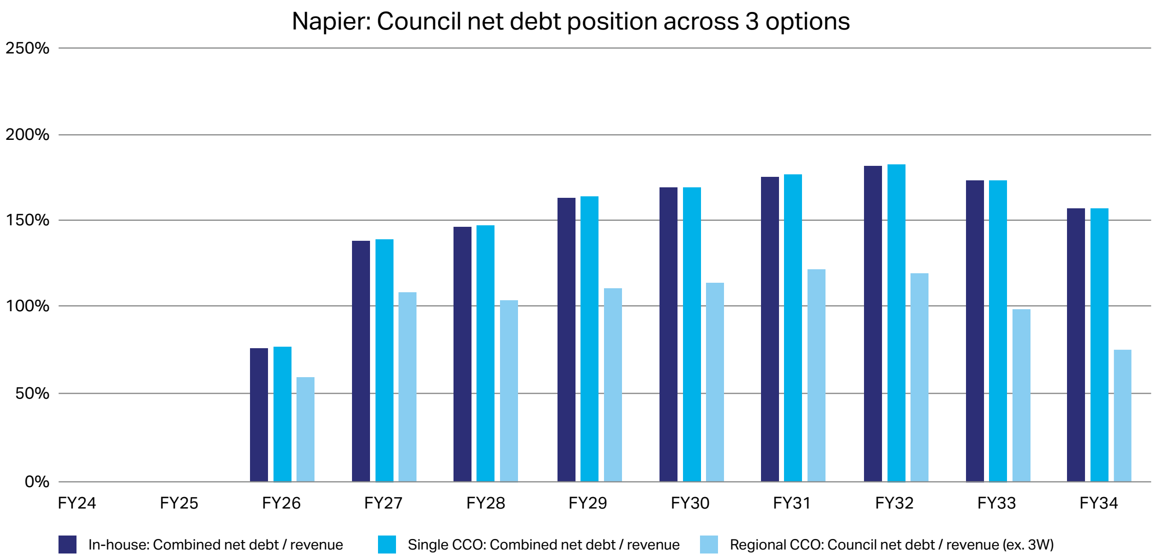
Under the Single WSCCO option:

- 3-waters net debt held by the WSCCO is modelled to increase from $62.9 million in FY26 to $334.8 million in FY34. Three-waters net debt/revenue will rise from 209% in FY26 to 402% in FY33, before falling to 398% in FY34.
- Council net debt excluding three waters is modelled to rise from $107.9 million in FY26 to $262.6 million in FY31, before falling to $173.8 million in FY34. **Council (ex 3-waters) net debt/revenue will rise from 58% in FY26 to 119% in FY32, before falling to 75% in FY34** (LGFA focus).
- **Combined, Council net debt is modelled to rise from $170.8 million to $532.8 million in FY26 to $508.5 million in FY34. Combined council net debt/revenue is modelled to rise from 77% in FY26 to 182% in FY33 before falling to 157% in FY34** (rating agency focus).

Under the Regional WSCCO option:

- Combined three-waters debt across the four Councils under a Regional WSCCO is modelled to increase from $489.2 million in FY26 to $912.7 million in FY34. The Regional WSCCO's (Three-waters) net debt-revenue will rise from 473% in FY26 to 490% i n FY28, before falling to 451% in FY34. Note there is no '500% limit' on this metric, based on guidance from LGFA. NCC's contribution to the combined three-waters debt of a regional entity will rise from $60.7 million in FY26 to $349.9 million in FY34.
- NCC's Council debt (excluding three-waters) under a Regional WSCCO option is modelled to rise from $107.9 million in FY26 to $262.6 million in FY31, before falling to $173.8 million in FY34. **With three-waters debt off balance sheet under a Regional WSCCO option, NCC's Council net debt/revenue will rise from 58% in FY26 to 121% in FY31, before falling to 75% in FY34.**

NCC	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34
In-house: Combined net debt / revenue	0%	0%	77%	138%	146%	163%	168%	176%	181%	173%	156%
Single CCO: Combined net debt / revenue	0%	0%	77%	139%	147%	164%	169%	177%	182%	173%	157%
Regional CCO: Council net debt / revenue (ex. 3W)	0%	0%	58%	109%	103%	110%	113%	121%	119%	99%	75%



Central Hawke's Bay

Financial modelling – Central Hawke's Bay affordability

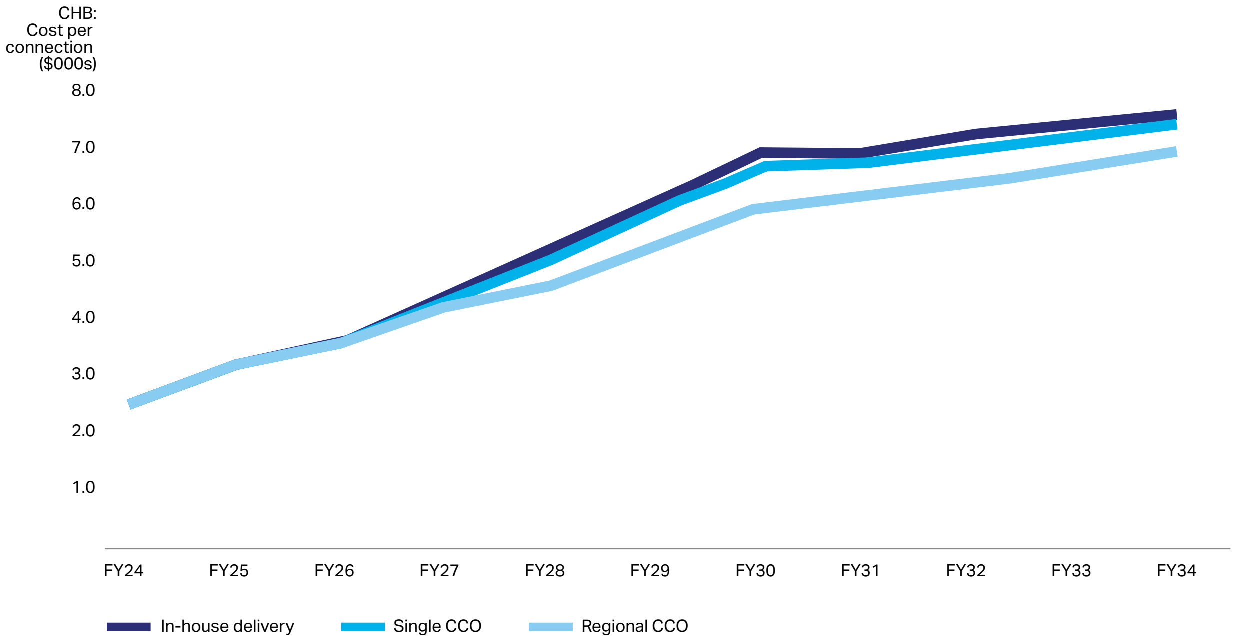
The regional WSCCO results in a lower cost of water per connected property in FY34 than the other two options.

Under a regional WSCCO model, the average ratepayer in Central Hawke's Bay will pay c.$400 less in annual water charges in 2034, than under the In-house Delivery option and c.$600 less than under the Single WSCCO option.

At 2034, cost per connection under the In-house Delivery option is 6% more expensive than under the Regional WSCCO cost path, and 9% more expensive under the Single WSCCO option than the Regional WSCCO cost path.

Cumulative savings over the 10-year period for the average connected property amount to $4,515 under the Regional WSCCO option compared to the In-house Delivery option and $5,627 compared to the Single WSCCO option.

Cost per connection ($000s)	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34
In-house delivery	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 WSCCO, which could be alleviated through CHBDC securing a credit rating, as well as the Council's current internal limit. The Regional WSCCO 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 In-house Delivery 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 WSCCO option:

- 3-waters net debt held by the WSCCO 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 WSCCO option:

- Combined three-waters debt across the four Councils under a Regional WS is modelled to increase from $489.2 million in FY26 to $912.7 million in FY34. The Regional WSCCO'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 WSCCO 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 WSCCO option, CHBDC's Council net debt/revenue will rise from 47% in FY26 to 66% in FY34.**

HDC	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34
In-house: 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%

Wairoa

Financial modelling – Wairoa affordability

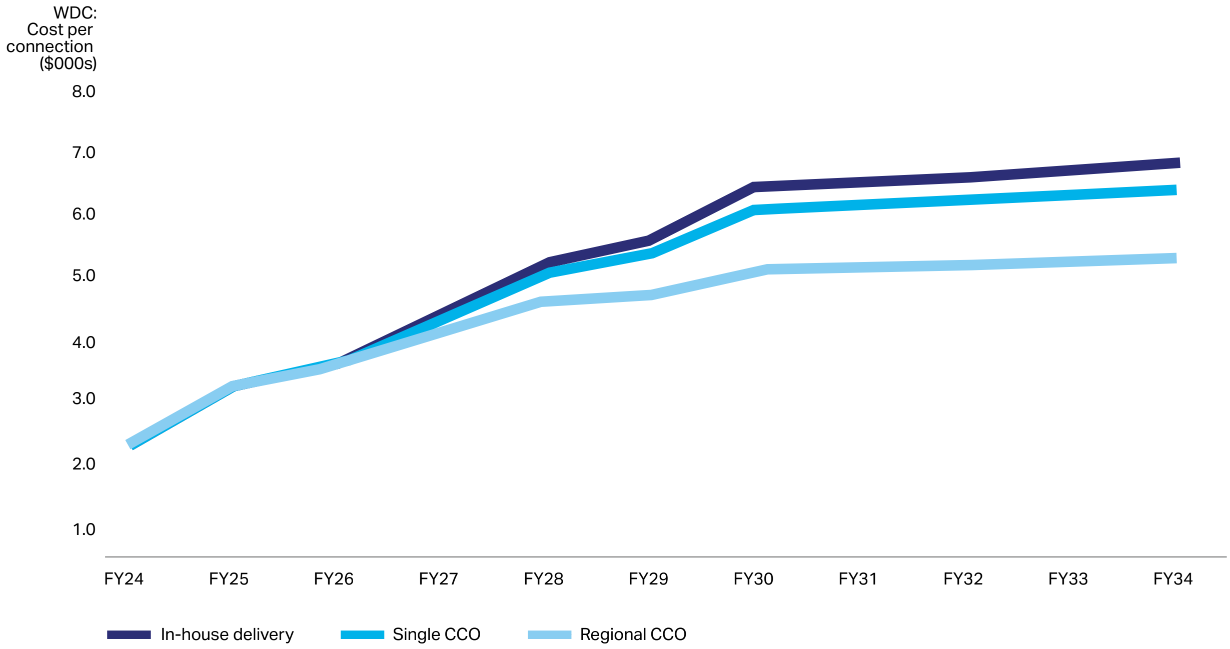
The Regional WSCCO results in a lower cost of water per connected property in FY34 than the other two options.

Under a Regional WSCCO model, the average ratepayer in Wairoa will pay c.$1,000 less in annual water charges in 2034 than under the In-house Delivery option and c.$1,400 less than under the Single WSCCO option.

At 2034, cost per connection under the In-house Delivery option is 19% more expensive than under the Regional WSCCO cost path, and 26% more expensive under the Single WSCCO option than the Regional WSCCO cost path.

Cumulative savings over the 10-year period for the average connected property amount to $6,237 under the Regional WSCCO option compared to the In-house Delivery option, and $8,559 compared to the Single WSCCO option.

Cost per connection ($000s)	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34
In-house delivery	2.4	3.3	3.6	4.3	5.1	5.5	6.1	6.2	6.2	6.4	6.4
Single CCO	2.4	3.3	3.6	4.3	5.2	5.7	6.5	6.6	6.6	6.8	6.8
Regional CCO	2.4	3.3	3.6	4.1	4.7	4.8	5.2	5.2	5.2	5.3	5.4



Financial modelling – Wairoa balance sheet

For Wairoa District Council all options are within existing LGFA covenants, indicating ability to finance modelled three-waters investment. Combined net debt under the In-house Delivery option (and Single WSCCO option) is above WDC's internal debt-revenue limit. The regional WSCCO 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'.

Wairoa District Council can borrow up to 175% net debt to revenue under the LGFA foundation covenant, and has an internal limit of 100%.

Under the In-house Delivery option:

- 3-waters net debt held by WDC is modelled to increase from $27.8 million in FY26 to $55.6 million in FY34, representing 89% of total Council net debt at FY34. Ringfenced 3-waters net debt/revenue will increase over that time from 349% in FY26 to 389% in FY27 before fluctuating and ending at 388% in FY 34.
- Council net debt excluding three waters is modelled to rise from $13.7 million in FY26 to $14.9 million in FY27, before falling to $7.1 million in FY34. Council (ex 3-waters) net debt/revenue will rise from 47% in FY26 to 48% in FY27, before falling to 19% in FY34.
- **Combined, Council net debt is modelled to rise from $41.5 million in FY26 to $63.8 million in FY32 before falling to $62.7 million in FY34. Combined council net debt/revenue is modelled to rise from 112% in FY26 to 127% in FY29, before falling to 120% in FY34.**

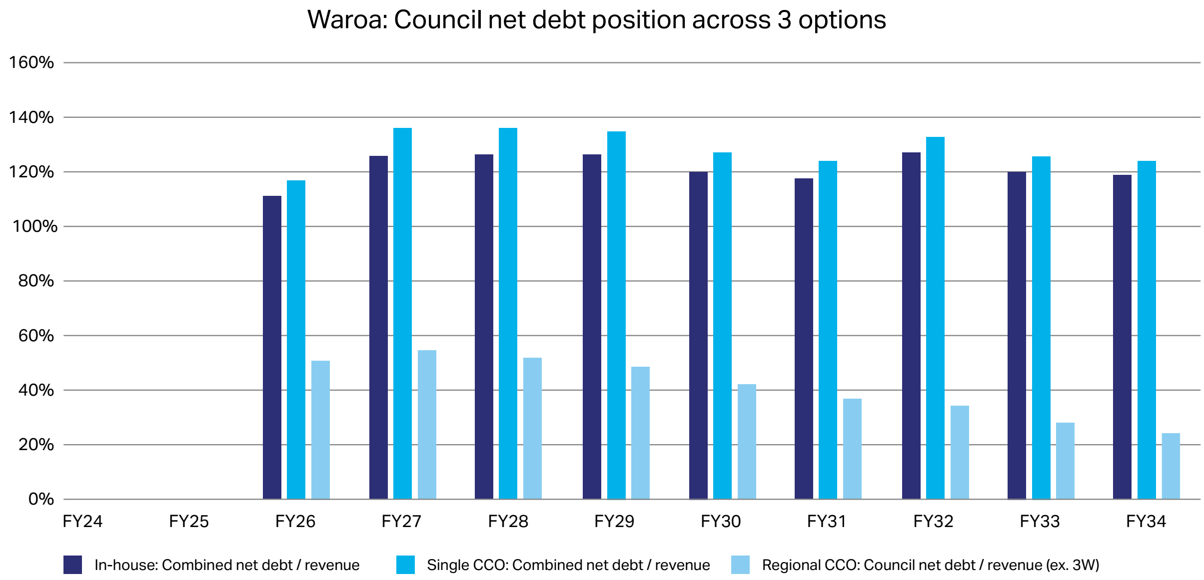
Under the Single WSCCO option:

- 3-waters net debt held by the WSCCO is modelled to increase from $28.9 million in FY26 to $57.0 million in FY34. Three-waters net debt/revenue will rise from 363% in FY26 to 409% in FY2, before falling to 375% in FY34.
- Council net debt excluding three waters is modelled to rise from $14.8 million in FY26 to $17.2 million in FY27, before falling to $9.3 million in FY34. **Council (ex 3-waters) net debt/revenue will rise from 51% in FY26 to 55% in FY27, before falling to 25% in FY34** (LGFA focus).
- **Combined, Council net debt is modelled to rise from $43.7 million in FY26 to $67.9 million in FY32, before falling to $66.4 million in FY34. Combined council net debt/revenue is modelled to rise from 118% in FY26 to 137% in FY28 before falling to 125% in FY34** (rating agency focus).

Under the Regional WSCCO option:

- Combined three-waters debt across the four Councils under a Regional WSCCO is modelled to increase from $489.2 million in FY26 to $912.7 million in FY34. The Regional WSCCO'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. WDC's contribution to the combined three-waters debt of a regional entity will rise from $26.7 million in FY26 to $58.1 million in FY34.
- WDC's Council debt (excluding three-waters) under a Regional WSCCO option is modelled to rise from $14.8 million in FY26 to $17.2 million in FY27, before falling to $9.3 million in FY34. **With three-waters debt off balance sheet under a Regional WSCCO option, WDC's Council net debt/revenue will rise from 51% in FY26 to 55% in FY27, before falling to 25% in FY34.**

HDC	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34
In-house: Combined net debt / revenue	–	0%	112%	127%	127%	127%	121%	118%	128%	121%	120%
Single CCO: Combined net debt / revenue	0%	0%	118%	137%	137%	136%	128%	125%	134%	127%	125%
Regional CCO: Council net debt / revenue (ex. 3W)	0%	0%	51%	55%	53%	49%	42%	37%	35%	28%	25%



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.

Non-financial criteria continued

Criteria	Explanation and measures
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. • Capacity to satisfy regulatory requirements.
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, developed together across the four councils. For further commentary on each of these criteria, please see the following pages, as well as council-specific information in each consultation document.

Criteria	In-house delivery	Single WSCCO	Regional WSCCO
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	✔✔ Scale gives greatest ability to meet new government requirements, equity of service levels, combining networks / infrastructure, lowering the cost of services through efficiencies
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

High-level option evaluation – non-financial criteria continued

Criteria	In-house delivery	Single WSCCO	Regional WSCCO
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, direct accountability to council	✔ Single WSCCO responsible for one district only, engagement with communities through shareholding council, or through accountability documents / direct communications	✔ Regional WSCCO responsible to multiple districts / communities, engagement with communities through shareholding councils, or through accountability documents / direct communications

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, including through regulatory compliance.

In-house delivery ✔	• 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 WSCCO ✔	• Council staff can remain local and continue delivering existing service levels. The council will hold the WSCCO accountable for the delivered service levels via a SoE. However, service levels, and standards will ultimately be set by the WSCCO 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 WSCCO ✔✔	• 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 WSCCO can work towards standardising service levels across districts over time.

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.

In-house delivery –	• 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 shared water services procurement strategy, single professional services and contractor construction panel arrangements.
Single WSCCO ✔	• WSCCO 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 WSCCO establishment.
Regional WSCCO ✔✔	• 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.

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.

In-house delivery ✔	• 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, potentially affecting financial resilience.
Single WSCCO ✔	• Similar to In-house Delivery, 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 WSCCO model is expected to have greater autonomy for efficient decision-making, e.g. to better respond to severe weather events.
Regional WSCCO ✔✔	• Joint service delivery across district boundaries has the potential to improve climate resilience, providing greater geographic diversification. • A Regional WSCCO 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.

In-house delivery –	• 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 WSCCO ✔	• Similar to In-house Delivery, 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 an In-house Delivery model, where teams may have wider functions).

Regional WSCCO ✔✔	• 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.

In-house delivery ✔	• 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, including ring-fencing requirements which mean water revenues cannot be put towards non-water expenses. • 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 WSCCO ✔	• The WSCCO board will have a dedicated single focus on investment in water infrastructure, eliminating the need for trade-offs on investment decisions against other non-water related / council activities. • The WSCCO 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 WSCCO ✔✔	• The WSCCO board will have a dedicated single focus on investment in water infrastructure, eliminating the need for trade-offs on investment decisions against other non-water related / council activities. • The board will determine the approach to investment prioritisation, with input from shareholding councils on priorities. • More confined focus will enable broader regional outcomes and efficient capital works planning across the regional 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.

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 below, the subsequent criteria are also pertinent to mana whenua.

In-house delivery ✔	• 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 WSCCO ✔	• The SoE from shareholding councils to the WSCCO board can include how the WSCCO must conduct its relationships with hapū, iwi, and other Māori organisations. • The WSCCO model could enable new and innovative approaches to collaborating with mana whenua, providing new opportunities for representation and input. • The role of mana whenua in each council area will likely continue in the same manner as with In-house Delivery.
Regional WSCCO ✔✔	• The SoE from shareholding councils to the WSCCO board can include how the WSCCO must conduct its relationships with hapū, iwi, and other Māori organisations. • 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 new entity offers the opportunity to leverage innovation through the WSCCO, 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. • The final details of any such arrangements will need to be determined following the decision to establish a Regional WSCCO in consultation with mana whenua and other stakeholders.

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.

In-house delivery ✔✔	• 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 WSCCO ✔	• Each WSCCO 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 WSCCO to understand and align financial impacts on the community and influence in the governance of the WSCCO 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 WSCCO as well as the council as per pre-existing arrangements.
Regional WSCCO ✔	• The WSCCO 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. • 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. • Shareholding councils will engage with the WSCCO to understand and align financial impacts on the community and influence the governance of the WSCCO via the SoE and the LTP requirements.

Have your say Hawke's Bay

Your input is needed to help shape the future delivery of water services in Hawke's Bay for generations to come. Each council is seeking feedback on this from its residents, asking you if you support their preferred option of a Regional Water Services Organisation.

Visit **www.hbwater.co.nz** to find out more and to be directed to your council's webpage where you will find:

- A copy of your council's consultation documents
- More information on what this means for you as residents and/or ratepayers in your area
- A schedule of engagement opportunities
- Details on where and how you can have your say.

Submissions for all councils close 5pm, June 15, 2025.

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