HAURAKI
DISTRICT COUNCIL

LOCAL WATERS DONE WELL

BUSINESS CASE

MARCH 2025

Contents

Document Management and Control

Title	Local Water Done Well Business Case
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EXECUTIVE SUMMARY

Introduction

New Zealand is facing significant challenges in the delivery of water services - affordability and capability, standards and compliance. With aging infrastructure, population growth, rising operational costs, climate change and natural disasters, the delivery of water services is becoming increasingly difficult, especially for small councils with low rating / consumer base.

Through Local Water Done Well (LWDW) the Government aims to transform New Zealand's approach to water delivery with increased economic regulation and consumer protection, fit-for-purpose-service delivery options and financing tools, revenue thresholds and financial ring-fencing, price-quality regulation and service-quality codes. In brief, its objective is to increase opportunities for efficiencies and economies of scale through working together to achieve greater buying power and making projects more attractive suppliers.

By 3 September 2025, councils must submit detailed Water Service Delivery Plans which demonstrate their commitment to deliver water services that meet regulatory requirements, support growth and urban development, and that are financially sustainable.

Purpose

This Business Case aims to primarily provide Hauraki district elected members with a high-level analysis of water service delivery options in response to the Government's Local Water Done Well (LWDW) policy. It discusses available options and recommends preferred options for public consultation with Hauraki district communities.

This Business Case follows the principles of the Treasury Indicative Better Business Cases (IBC) guidance and:

- is supported by a compelling case for change - the 'strategic case'
- optimises value for money - the 'economic case'
- is financially affordable - the 'financial case'.

The secondary intended audience is Hauraki district's community whereby Council will consult with the community as detailed below.

Why is this Business Case required?

The Local Government (Water Services Preliminary Arrangements) Act 2024 requires the following information be made publicly available when consulting on its future water services delivery model:

a. What is proposed
b. The reasons for the proposal
c. An analysis of the options (being existing arrangements and establishing or joining a CCO as a minimum)
d. How proceeding with the proposal is likely to affect Council's rates, debt, levels of service and any charges for water services
e. How not proceeding with the proposal will affect the above
f. In a joint arrangement, the implication for communities throughout the joint service area
g. If ownership or control of strategic assets is being transferred, a description of the accountability and monitoring arrangements

h. Any other relevant implications of the proposal of interest to the public.

This business case is being structured so that it will meet these requirements.

Scope of Business Case

The intent of the business case is to provide decision-makers with an early opportunity to consider change and agree the short-listed options for community feedback, or to decide not to proceed with the project, before work starts on the more detailed Water Services Delivery Plan.

The evidence provided is indicative, not detailed and for clarity purposes, the following is within/out scope of the business case:

In scope:

- New bills and legislation
- Structural options available
- Impact on council services and the residual organisation
- Governance and accountability
- Establishment and ongoing costs
- Debt and investment capacity
- Community affordability
- Financial sustainability for water services
- Financial sustainability for council services
- Legal and tax implications

Out of scope:

- New bills and legislation, post January 2025
- Freshwater reforms
- RMA reforms
- Water specific issues such as fluoridation
- Water Service Delivery Plan, other than through meeting requirements to consult prior to the development of the Water Services Delivery Plan
- Potential implementation plans for water services and residual council services
- Waikato Regional and Hauraki District Council's flood protection and control assets.
- Stormwater. Resolution C24/526 THAT the Council confirms that stormwater is retained in-house and excluded from further investigation.

Options overview

The shortlisted options presented within this business case include:

1. **Status Quo with regulation** (mandatory)
2. **Sub-regional CCO** (Waikato Water Done Well)
3. **Regional CCO** (has not been progressed given Hamilton and Waikato District Council are forming their own CCO)
4. **Shared Services** – HDC would continue to own and manage water services and assets via an internal Business Unit with possible transitioning to the Regional/Sub-regional CCO at a date to be confirmed between 2028 and 2031

    a. Shared operational business unit with another Council for supervisory control and data monitoring service.

5. **Commercial –** HDC would continue to own and manage water services and assets via an internal Business Unit, however drinking water and wastewater operations and maintenance services would no longer be undertaken by Council.
    a. An external contractor would provide drinking water and wastewater operations and maintenance services including treatment, reticulation and routine pipe renewals via a long term contract.

Mixed council/consumer trust and consumer trust options were not shortlisted or pursued as there is no access within these options to LGFA funding.

The recommended options discussed this in this business to consult with the community on are options 1 and 2.

Disclaimer

It is important to note that further due diligence is required post-consultation and prior to the final decision being made of which option will be included in the Water Services Delivery Plan to be presented to Central Government before 3 September 2025.

The presentation of options does not involve an in-depth analysis of staff related activity, it is instead a high level predication of what may happen and likely stranded overheads . An in-depth analysis will be completed after Council has confirmed the preferred option for water services delivery and all legislation relating to the Local Water Done Well is confirmed and passed into law.

Information within this indicative Business Case is based on best available information at a point in time, supported by the Hauraki District Council Long-Term Plan 2024-34, Infrastructure Strategy 2024-2054, changes to the application of capital funds in the Annual Plan 2025/26, and Water Asset Management Plans. The financial model and analysis to support this Business case compares the Options to support Council's decision on the preferred option.

This document contains forward-looking statements, including statements regarding the future financial performance of the Council. These statements involve risks and uncertainties and actual results may differ materially from those projected.

WATER SERVICE DELIVERY OPTIONS OVERVIEW

Current Water Service Delivery

HDC, as a territorial authority, currently operates and maintains water services (Drinking Water, Wastewater and Stormwater) as part of the Service Delivery group within Council. The Service Delivery team also includes other functions such as transportation, community services, engineering and the Project Management Office. The Group Manager is responsible for the performance of the group with the Chief Executive overseeing the Group Manager on behalf of the elected Council.

Each water has their own set of financial accounts and pay for a portion of corporate support such as administration support, policy and planning, Human Resources, Information and Technology, Health and Safety and Finance. The teams are "front line", with most living in the community and interacting with residents on a daily basis as they work to solve issues or improve services.

Territorial Authority Responsibility

As per s9 of the Local Government (Water Services) Bill, territorial authorities must ensure that water services are provided in its district in one or more of the following ways:

a. Providing water services itself directly

b. A transfer agreement to transfer responsibility for providing water services to a water organisation

c. A contract with a person or body to provide water services on behalf of the territorial authority

d. A joint water service provider arrangement

e. Becoming a shareholder in a water organisation established by another territorial authority

f. Another type of agreement that is consistent with the bill, including a transfer of responsibility for the provision of water services from the regional council.

Options Available

The objectives of a water service provider is to provide water services that provide safe drinking water to consumers, do not have adverse effects on the environment, to be reliable and resilient to external factors such as climate change, and be of a quality that meets consumer expectations and all applicable regulatory standards and requirements. Water services as defined in s4 of the Local Government (Water Services) Bill include water supply, stormwater, and wastewater services.

Council options are determined from the options provided in s36, of the Local Government (Water Services) Bill and include:

1. An in house business unit or division (direct delivery)
    a. This option is a continuation of existing processes with the integration of water services being fully integrated into council strategy, planning and service delivery. This option is a mandatory option to consult with the community on.
2. Single council owned (transfer agreement)
    a. This option would see a new company established to delivery water services with ownership by a single Council. The council has flexibility to design governance and appointment arrangements.
3. Multi council owned (transfer agreement)
    a. This option would see a new company established to deliver water services with ownership by multiple Councils. The councils involved have flexibility to design governance and appointment arrangements.
4. Mixed council/consumer trust (transfer agreement)

a. This option would see a consumer trust established as the majority shareholder with one or more councils owning a minority of shares.

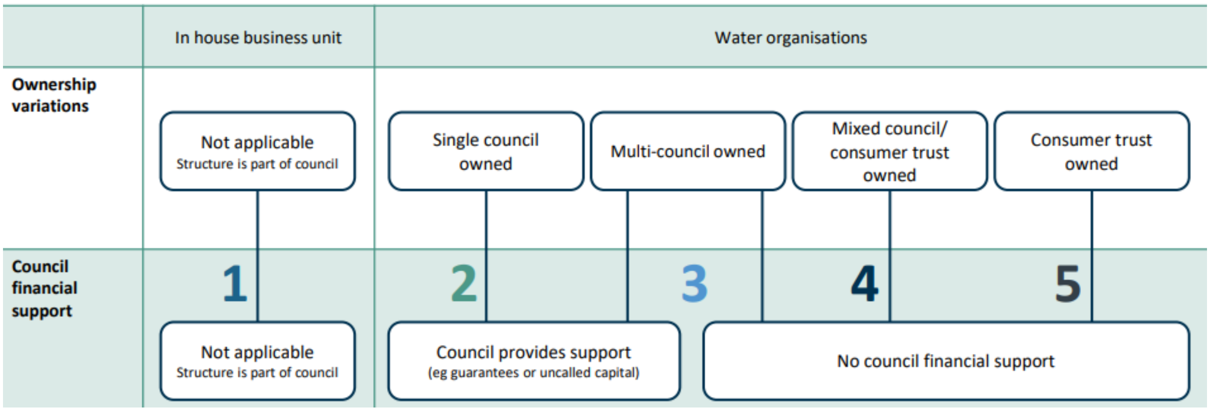
5. Consumer trust owned (transfer agreement)

   a. This option would see council assets transfer to a consumer-trust organisation.

Councils that already deliver water services via a council-controlled organisation or council-controlled trading organisation will be able to continue to use these arrangements. However, the council-controlled organisation or council-controlled trading organisation will be subject to all of the new statutory requirements that will apply to water organisation and changes are likely to be required to meet these requirements. Councils will be able to design their own alternative delivery arrangements, as long as these arrangements meet the requirements for water service providers.

This guidance provides further detail on the following illustrative examples outlined below. Other delivery models are permissible provided they meet certain minimum requirements or if a council obtains an exemption.

Illustrative examples of service delivery models



Defining HDC Options

Five water services delivery options were identified in an Initial Options Council Report discussed at the 18 December 2024 Council meeting. Council requested staff to prepare a detailed options and analysis report.

Based on the recommendations from this meeting, and further discussions with the LWDW working party, the shortlisted options presented within this business case include:

6. **Status Quo with regulation** (mandatory)
7. **Sub-regional CCO** (Waikato Water Done Well)
8. **Regional CCO** (has not been progressed given Hamilton and Waikato District Council are forming their own CCO)
9. **Shared Services** – HDC would continue to own and manage water services and assets via an internal Business Unit with possible transitioning to the Regional/Sub-regional CCO at a date to be confirmed between 2028 and 2031

   a. Shared operational business unit with another Council for supervisory control and data monitoring service.

10. **Commercial –** HDC would continue to own and manage water services and assets via an internal Business Unit, however drinking water and wastewater operations and maintenance services would no longer be undertaken by Council.

a. An external contractor will provide drinking water and wastewater operations and maintenance services including treatment, reticulation and routine pipe renewals via a long term contract.

Mixed council/consumer trust and consumer trust options were not shortlisted or pursued as there is no access within these options to LGFA funding.

STRATEGIC CASE

Strategic context

Safe, affordable and reliable drinking water, wastewater and stormwater is a minimum requirement for all New Zealanders. There is no dispute that water service providers face a challenging future with ageing infrastructure, population growth, meeting increasing compliance requirements, climate change impacts, and natural disasters.

Nationwide funding constraints for public water services provided by local authorities are high with estimates showing between $120 billion and $185 billion of investment is needed by 2054[1]. To address these challenges, the national Government has introduced Local Water Done Well (LWDW) policy. It clearly requires councils to change the way they provide public water services for their communities.

The changing delivery environment

The Local Government (Water Services) Bill (the Bill) introduces a new regulatory framework for water delivery. It mandates councils to ensure that investment is being made when and where it's needed, and that water service delivery is both environmentally and financially sustainable across New Zealand.

To achieve the legislation, three components of LWDW have been identified by the Department of Internal Affairs[2]. These are:

1. Fit-for-purpose delivery models and financing tools.

   To achieve this, this report proposes the issues, options and analysis behind the proposed delivery options for Hauraki District Council (HDC/Council). These service delivery options have been determined through regional collaboration and as a result of initial option direction provided by Elected Members in late 2024.

2. Ensuring water services are financially sustainable.

   To achieve this Councils, must by 3rd September 2025, submit Water Service Delivery that provide the framework for future water service delivery. This includes an assessment of councils water infrastructure, how much is needed to be invested and how council plans to deliver it through their preferred water service delivery option.

   The Local Government Funding Agency (LGFA) has confirmed that it will provide financing to support water council-controlled organisations (CCOs) established under LWDW. A water CCO will need to be council or central Government owned and if a council, they must be a guarantor of LGFA or provide uncalled capital to the CCO.

   LGFA will lend to a water CCO secured over its water revenue and will support leverage up to a level equivalent to 500% of operating revenues (around twice that of existing councils), subject to the CCO meeting financial covenant's such as Funds From Operation (FFO) to debt covenant, expected to have a minimum FFO to debt ratio of between 8% and 12% and FFO cash interest coverage covenant, expected to have a minimum coverage ratio of between 1.5 times and 2 times.

   If councils choose to keep water services 'in-house' rather than establish a water CCO, they will retain the ability to borrow through LGFA, however, water borrowing will be included in overall council debt and be subject to the Councils debt limit.

3. Introducing greater central government oversight, economic and quality regulation

   Similar to that of the existing economic regulation regime which currently applies to electricity lines services, gas pipeline services, and airport services, water services will be required to provide additional information disclosure in a prescribed form set by the Commerce Commission. The

[1] Water services reform frequently asked questions - dia.govt.nz

[2] Water Services Policy legislation and process - dia.govt.nz

Commerce Commission may be given the power to set, for specific providers, maximum and/or minimum revenues and prices alongside minimum quality standard and performance requirements. As a minimum, information disclosure will be required to ensure transparency for consumers and stakeholders.

A range of tools will also be implemented to allow consumer protection to be strengthened, such as the need to prepare a specific water delivery model statement of expectation, water supply strategy, annual report and the need to follow mandatory national engineering design standards (NEDS) for water services network (reticulation) infrastructure.

Case for change

Historically HDC has managed water services delivery using in house teams. The legislative changes through the Bill and LWDW, and following the establishment of Taumata Arowai as the national water regulator, it is going to be increasingly difficult for HDC to stay ahead of regulatory and sustainability requirements with potential additional training, resource and improved data collection.

A key consideration for Council is the increased pressure of rates affordability. Our residents' median household income levels are approximately 30% lower than the national average, so their ability to pay for Council services is front of mind. Recent indicators of local deprivation in our communities suggest that it is more difficult for a larger proportion of our ratepayers to pay for our services (via rates or user fees) compared to New Zealanders in general.

As a result of this, there is a clear need for a water service delivery approach that is affordable for rate payers, complies with new legislation, meets regulation and addresses the current and future demand.

Strategic considerations

Community Affordability and Sufficient Investment

A key component of the Local Government (Water Services) Bill is that councils ensure that water services are financially sustainable, which includes having revenue, investment and financing sufficiency.

Council controlled organisations (CCOs) have the option under LWDW to access additional funding, with the current net debt to operating revenue ratio increasing from 280% to 500%. By establishing a water CCO that can access additional debt financing from LGFA, Councils nationwide have the ability to increase the proportion of infrastructure investment that is debt financed.

Research suggests that households will start to struggle to afford rates bills when they exceed 5% of the household's income. In 2021 38% of HDC home-owning households exceeded this threshold.

The 65+ demographic age distribution for the Hauraki district is estimated to be the fastest growing group and between 2024-34 is projected to grow on average 3.9% per annum. By 2033, it is estimated that 33% of the population of our district will be aged 65+ years, increasing to 37% in 2053. Many of this group will be on lower fixed incomes, be more cautious with their income and vulnerable to any market shocks.

As part of considering what is affordable for our communities, Elected Members determined the affordability metric for the provision of drinking water and wastewater services delivery for Hauraki district to be 2% of median household income (approx. $1,600-$2,000). This threshold is proving to be challenging for all options in relation to wastewater services.

The Long-term Plan 2024-34 has highlighted affordability as a key concern for the district. Guidance from the LWDW programme is that affordability needs to be taken into account when reviewing financial sustainability. Reducing income to maintain affordability, being 2% of median household income, will significantly affect HDC's ability to deliver water services.

In our current position and over the next 10 years the cost of water services[3], particularly wastewater, is expected to increase significantly as shown in figure 1.1 below. This will impact ratepayer's discretionary income and put pressure on paying basic living costs.

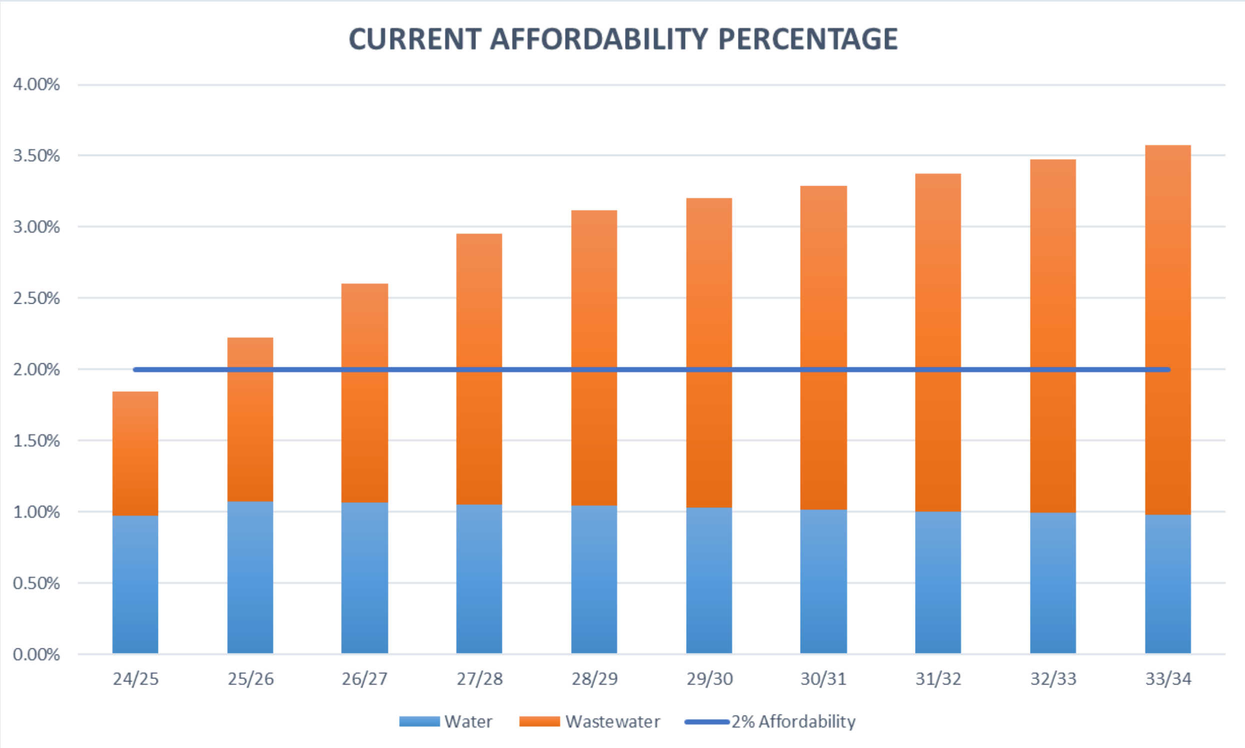


Figure 1.1: Hauraki District current forecast water affordability – based on Long-term Plan 2024-34 data

Leading Workforce

Water is a specialised field that has challenges nationally with recruitment to the industry. A number of our staff have worked for Council for much of their working life and hold extensive institutional knowledge of the water services network, challenges and history.

There are currently uncertainties amongst water services staff Waikato wide about what the future holds. Most staff have built lives in their local communities and have a strong desire to continue to be able to work in them. Conversely, opportunities for career development and extension are appealing to some.

From a workforce perspective, the delivery model that will have as minimal disruption as possible to our valued staff is preferable.

HDC has a strong employee value proposition which serves to attract and retain water services staff reasonably well. Management is supportive of the successful cadetship programmes. It builds our local workforce and provides opportunities for growth and development within the water services industry at a local level.

However, there are challenges with the demands on the workforce, and the level of service expectations for immediate response to the myriad of issues. This ranges from in the supply and treatment of water, along with the minimisation of adverse effects from water leaks to wastewater overflows due to heavy rainfall events. Long hours, standby and on-call requirements, and across-district business continuity can be demanding and costly to resource.

[3] For the purposes of this business case, water services includes potable water and wastewater only

Clarification of response expectations, and building a people resource model that can respond to urgent priority demands 24/7 in a sustainable way across the district will be important to any future organisational design structure.

The potential impact of change on our permanent workforce is variable depending on each option. At present, 13% (28) are fully working in waters; an additional 5% (11) are predominantly (more than half but less than full time) working in waters; 36% of the organisation (80 employees) are somewhat working in waters (less than half their time). This latter group are generally working in support functions.

In all 54% (119 permanent employees) are expected to be impacted to some degree by LWDW.

Infrastructural challenges and opportunities

Water

The Hauraki district water treatment plants (four in total) have recently been updated to ensure they have the required processing capacity to avoid water restrictions in summer months or during significant breaks. The plants are not always working to capacity due to constraints in abstraction, removal of water from a natural source.

The conditions of existing resource consents may not necessarily be rolled over. Waikato Regional Council has advised that water bodies in our district are already close to over allocation. It will be more difficult to obtain new resource consents required for water takes to allow for future growth. The potential implications resulting from changes to water allocation may include:

- The amount of water that can be extracted.
- Our ability to accommodate population and industrial growth
- Additional requirements for monitoring and management of water allocations.

The financial implications of over allocation of water bodies may be significant and require upgrades and/or new water treatment facilities, or investigating alternative water sources. Additional affects could be the potential to restrict development due to the inability to gain additional water allocation.

Current Water Network performance

Council has been proactive in implementing systems to meet current compliance under existing drinking water standards. Council's water quality is measured monthly against the mandatory performance measures and reported in the Annual Report. Any transgressions are reported to Water Services Authority Taumata Arowai.

Annually Waikato Regional Council audit water treatment plants to ensure compliance with the issued resource consents as per table 1.1.

WRC Audit Summary								
Water Treatment Plant	Site Compliance				Letters of direction	Formal Warnings	Abatement notices	Resource Consent Expiry
	2023/24	2022/23	2021/22	2020/21				
Kerepēhi	Reports not audited due to being low risk sites. Advised audit results for 21/22, 22/23 and 23/24 to be combined.							01/07/27
Paeroa								31/12/48
Waihī								16/05/34
Waitakaruru	Not yet received for 2023/24 Moderate non-compliance in 2022/23							01/07/29

Table 1.1: Waikato Regional Council Water Treatment Plant Audit Summary

Water loss is an issue for HDC, as it is for many other councils with ageing infrastructure, being a considerable contributing factor. The percentage of real water lost from Council's networked reticulation system was 35% in 2023/24, 39% in 2022/23 and 31% in 2021/22.

A significant advantage for the Hauraki District is that metered water connections are already in place including smart meters for high users. This makes it easier for users to understand their actual water usage and cost through approximately six monthly billing. This ensures that private leaks are identified early so they can be fixed by the home owner, minimising water wastage.

Many other councils are not in the same situation in this regard, limiting their access to the same data for planning and user pay systems, providing additional challenges for their community to adapt to the change required by the LWDW programme.

Current Wastewater Network performance

There has been steady work undertaken in the past few years with targeted wastewater replacement programmes including pump replacement and electrical cabinet upgrades. Previously there was growing concern for ageing glazed earthenware pipes in the Paeroa and Kerepēhi wastewater networks, in recent years we have spent nearly $2m relining many of these pipes in Paeroa. Paeroa currently has a $50m wastewater plant upgrade underway which is challenging our financial position. This is on top of keeping up with the renewal programmes and providing allowance for climate change impacts long term.

All wastewater plants (seven in total) require upgrades of some sort to meet compliance and changing environmental expectations to improve effluent quality. Several plants can be amalgamated with the new Paeroa plant over the next 10 years to improve environmental impacts and meet partner expectations.

Annually Waikato Regional Council audit wastewater treatment plants to ensure compliance with the issued resource consents as per table 1.2. This shows that all plants have challenges with meeting consent conditions.

<table>
<tr><th colspan="9">WRC Audit Summary</th></tr>
<tr><th rowspan="2">Wastewater Treatment Plant</th><th colspan="4">Site Compliance</th><th rowspan="2">Letters of direction</th><th rowspan="2">Formal Warnings</th><th rowspan="2">Abatement notices</th><th rowspan="2">Resource Consent Expiry</th></tr>
<tr><th>2023/24</th><th>2022/23</th><th>2021/22</th><th>2020/21</th></tr>
<tr><td>Kerepēhi **</td><td>Not yet received</td><td>Short term consent</td><td>Full compliance</td><td>Low risk non-compliance</td><td></td><td></td><td></td><td>30/04/21</td></tr>
<tr><td>Ngātea **</td><td colspan="4">Moderate non-compliance</td><td></td><td></td><td>29/10/20</td><td>31/10/15</td></tr>
<tr><td>Paeroa</td><td>Significant non-compliance</td><td colspan="3">Moderate non-compliance</td><td></td><td>18/12/24</td><td>29/10/20</td><td>20/12/26</td></tr>
<tr><td>Tūrua **</td><td>Low risk non-compliance</td><td>Short-term consent</td><td colspan="2">Low risk non-compliance</td><td></td><td></td><td></td><td>1/5/18</td></tr>
<tr><td>Waihī</td><td>Not yet received</td><td colspan="2">Moderate non-compliance</td><td>Significant non-compliance</td><td></td><td></td><td>29/10/20</td><td>1/6/22</td></tr>
</table>

Waitakaruru	Moderate non-compliance					10/11/23
Whiritoa	Moderate non-compliance	Significant non-compliance			21/12/21	10/01/56

Table 1.2: Waikato Regional Council Wastewater Treatment Plant Audit Summary

**Please see key projects under the Economic Case for upgrade estimates.

Customer Experience and Local influence

Growth

For the past decade, the district has experienced growth in excess of the medium forecast population growth projections, therefore a high growth scenario has been used in setting the growth projections for the District for 2024-34. As a result, it is estimated the usually resident population of the Hauraki District at 1 June 2024 was 22,850 and the population will reach 24,250 by 2034, being a 0.6% growth per annum.

The district population is expected to be at approximately 25,630 in 2054, which is an increase of 1,380 people over the twenty years from 2034-2054[4].

Customer Experience

HDC is unique when compared with other similar sized councils as the amount of water produced is larger due to 65% of water produced for the district is supplied to the agriculture industry.

Customer experience is important and staff have a good relationship throughout the district where customers talk to them on a daily basis and take a genuine interest in council performance.

However, HDC is constrained by income to invest in more robust systems for data collection and reporting. Investment has been made into electronic critical infrastructure monitoring but the customer facing service request and work management system has been developed in-house as a necessary.

To be able to access newer technology for an approved and enhanced customer experience would be beneficial.

Climate change

Climate change is a major issue facing all infrastructure providers and the built environment. Hauraki District is tested as it has physical constraints / natural hazards including the Firth of Thames and the low lying Plains that need to be considered in the context of climate change impacts.

Through the Long-term Plan 2024-34 the capital programme was prepared on the forecasting assumptions taking into account the identified climate change implications for our communities and for our assets. These implications included:

- increased drought potentially resulting in restrictive consent conditions from water takes,
- increased water restrictions,
- increased risk of flooding and therefore reduction of pipe capacity in stormwater water events,
- rising sea levels and storm surges may increase the risk of salt-water intrusion in low-lying coastal areas including a potential long term saltwater intrusion risk at our water intake for Kerepehi Water Treatment Plant due to sea-level rise due to its location near the coast and Waihou river.

[4] page 18 of 2024-34 LTP.

HDC is managing the vulnerability with new raw water storage reservoirs, main replacement and increased monitoring.

Capital Works Delivery

Currently we have a significant programme of capital works for water assets that is required to meet existing regulatory requirements as well as replacing existing assets. As at the Long-term Plan 2024-34 with any Annual Plan 2025 adjustments, including stormwater the 10 year capital programme across the Council was forecast at $243.5m. Of this spend:

- Water was forecast at approx. $50m, with another $46m, by 2054
- Wastewater was forecast at $92m, with another $45m by 2054

Given the regulatory requirements, particularly for water, are expected to increase, the cost of meeting these is also expected to increase. The parts of the networks are aged and subsequently a high level of renewal is underway to replace end of life assets.

HDC's size and location can make capital works resourcing challenging, from finding the right contractors, providing attractive tenders for larger contracting businesses or procuring supplies at a competitive amount.

HDC has had exceptional achievement on delivering the three waters capital programmes at an average of 95% over the past 3 years and 103% for renewals investment over the same period.

Business Continuity and emergency readiness

Business continuity for HDC is about how quickly acceptable levels of service for delivery will resume following a disruptive event. COVID was an example where overnight, staff had to adapt to new ways of working, manage essential workers to remain safe and continue to meet service delivery requirements.

Since 2020, systems have been modernised and plans put in place which have been tested when parts of the district had to deal with significant weather events. Technology has had some improvement with the introduction of fibre to the area as a government initiative. There are sections of our district that will always be vulnerable to disruptive events where communities can be 'cut off' from the main base due to situations such as the slips or floods in the Karangahake Gorge.

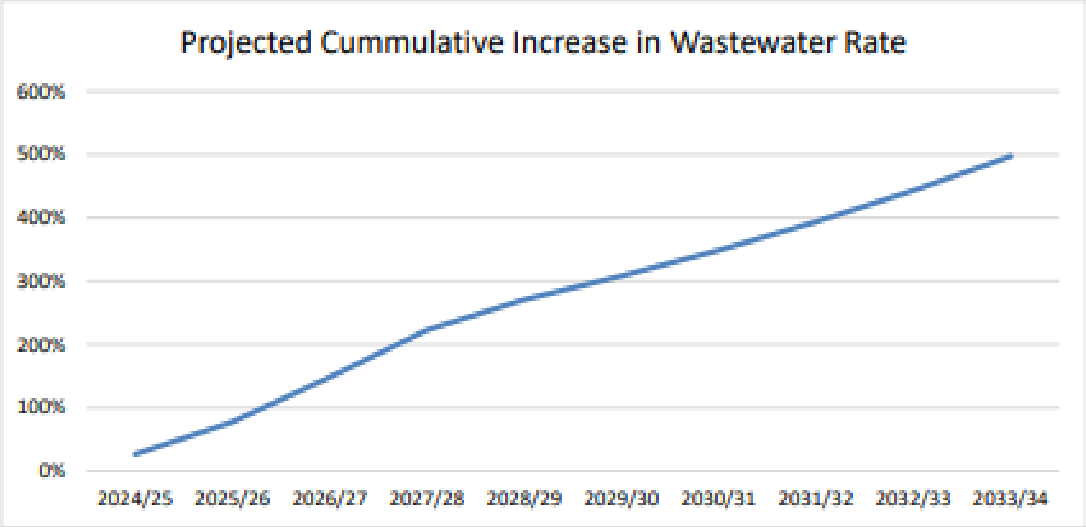
Charging

Water rates are currently structured to promote users to minimise water wastage by paying for the water they use. All townships in the District are universally metered across 8,700 meters and are charged based on water consumed and a fixed charge.

The current water tariff is 100% based on an annual charge per connection to a water supply on each rating unit (fixed charge) and a water volume rate per unit of water supplied to each rating unit, based on location and level of service provided.

The rating units connected to the Paeroa, Plains and Waihī water supplies are based on a scale of stepped charges based on consumption volumes (generally for high water users).

Wastewater is charged between 85%-100% targeted charges and 0-15% fees and charges. Given there is an estimated current forecast of $75m in capital expenditure by 2034, and another $194m by 2054, the project cumulative increase in the Wastewater rate is, at present, significant under the status quo option, as shown in the figure below.



Commitment and Obligation to Iwi / Hapū

The portion of the Better Off Funding received from the previous government is focused on formalising and improving HDC's partnership relationship with Iwi. There are seven iwi groups in Hauraki, and they are currently working through the Pare Hauraki Collective Redress Bill, which has had its first reading in Parliament, as well as their own personal treaty obligations.

1. Ngāti Hako
2. Ngāti Maru
3. Ngati Pāoa
4. Ngāti Porou ki Hauraki
5. Ngāti Tamaterā
6. Ngāti Tara Tokanui
7. Ngāti Whanaunga

Once the redress bill and any individual legislation is complete, Hauraki will be involved in ensuring the contents of the legislation are understood and implemented as required.

National compliance requirements

Compliance

Increased expenditure will be required to meet compliance requirements. There are expected additional costs to councils to meet the economic regulation requirements and additional reporting requirements that have not yet been taken into account in our adopted Long-term Plan 2024-34 budget.

Information disclosure is at the core of the new economic regulation regime as proposed in the Local Government Water Services Bill (Bill #3). All regulated water service delivery providers will be required to disclose information to inform the need for any further regulatory intervention and promote transparency about their performance to stakeholders and customers.

To manage the compliance portion of water services delivery, Water Services Authority Taumata Arowai and the Commerce Commission are introducing a new levy. This is not included in the Long-term Plan 2024-34 as it is a new requirement.

Wastewater Consenting

The Local Government (Water Services) Bill amends the Water Services Act 2021 and the Resource Management Act 1991 to provide for a single standard for wastewater and stormwater environmental performance. It introduces an international best practise approach of a single standard rather than setting a minimum or maximum standard.

The single standard amendments are expected to enable a consistent approach for consenting the discharge of wastewater from treatment plants and will provide a range of discharge treatment options. The preferred discharge option will remain a local choice for councils. It will also mean that the condition of our infrastructure resource consents held with Waikato Regional Council will be altered over time.

Future expected consent charges for wastewater:

- Meet higher wastewater standards including increasing water discharge quality standards within the next 10 years. However, under these standards those plants <1,000 connections may be classed as low risk, which includes the Kerepehi, Turua and Waitakaruru plants.
- Stakeholders may be more focussed on catchment level as custodians of the catchment.

The cost of upgrade to meet increased environmental standards is a key issue for HDC and will impact borrowing capacity.

Wastewater standardisation

Infrastructure design solutions are expected to be introduced and will provide template or standard designs for treatment plant. As much as 15-25% of the cost of new wastewater facilities can be in design and consenting, and standardisation is expected to reduce these costs.

Efficiency and Risk based gains due to collaboration

Government is encouraging collaboration amongst councils to achieve efficiency and risk-based gains. Efficiency gains could be:

1. Resource optimisation, sharing of systems, knowledge and skills.
2. Productivity gains due to additional resource availability and improved team planning.
3. Innovation improvement, sharing of ideas, developments and bringing together different ideas and perspectives.

Risk based gains relate to improving HDCs risk culture:

1. Improved risk awareness and training
2. Enhanced risk culture and detection
3. Sharing of risk based systems and prioritisation.

ECONOMIC CASE

The purpose of this economic case is to identify the investment option that optimises value for Hauraki District. Having determined the strategic context for the investment proposal and established a robust case for change, this part of the Indicative Business Case:

- discusses Financial Sustainability
- identifies critical success factors
- undertakes an options assessment to identify a limited number of short-listed options for community feedback.

Financial Sustainability

HDC is required to achieve financial sustainability by 30 June 2028, through balancing three key factors:

1. **Revenue sufficiency** – is there sufficient revenue to cover the costs (including servicing debt) of water services delivery?
2. **Investment sufficiency** – is there 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.

Water Services delivery is facing considerable financial pressure over the next 10 years as infrastructure is upgraded in response to changing economic and environmental requirements, increased reporting and improved customer health outcomes. The future state of the Local Water Done Well programme is that consumers can expect the same level of service and quality across all providers, no matter their size.

HDC has always been challenged by economies of scale, in that infrastructure cost is relative to larger rural councils but the rating base is far smaller. This means that an upgrade of any magnitude, costs the HDC ratepayer more than its larger counterpart. Add to this is the inelasticity of residential water pricing and close public interest, it is difficult to raise rates beyond the current national rate.

A smaller council, in theory, will have efficiency gains due to a flatter organisation structure, quicker decision making and institutional knowledge but these gains are often offset by increased costs in supplies.

HDC Policy for funding capital expenditure is to utilise sources of funds in the following order:

1. External subsidies
2. Development / financial contributions
3. Depreciation
4. Reserves
5. Borrowing – Internal
6. Borrowing – External

In recent years, it is becoming more competitive to obtain external subsidies, with project funding limited and needing to be shared amongst other councils. The necessary infrastructure upgrades are compliance based and not related to growth which drives development / financial contributions and in recent year's Water and Wastewater have been running in deficit (expenditure has been greater than revenue) meaning that currently, they do not have reserves.

Waters will borrow from the surplus of other council services and then the main source of borrowing is from the Local Government Funding Agency (LGFA). In August 2024 the LGFA confirmed it will provide financing to support water council-controlled organisations (CCO's) that are financially supported by their parent council or councils, up to a level equivalent to 500 percent of operating revenues. The borrowing will be separate from borrowing by parent council or councils.

Councils are encouraged to acquire a credit rating from S&P Global Ratings or Fitch which HDC did in 2024, enabling borrowing up to 280% of total annual revenue.

Critical Success Factors

Given the fundamental change in water services delivery, it is essential the Critical Success Factors are determined and taken into account. All options that are part of the short-list have passed or are capable of passing the Critical Success Factors and therefore have been considered as a viable option:

1. Provides the best outcome (financial and non-financial) for the Hauraki district.
2. Continues to create capability and capacity within the waters workforce.
3. Improves the health of our catchments, and levels of service for the water services delivery.
4. Provides an enhanced customer experience and ensures that the Hauraki district community will continue to have influence of water services ownership and governance decisions.
5. Involves and respects commitment and obligations to iwi and hapū.
6. Meets all environmental, public health and economic regulatory national compliance requirements.
7. Provides efficiently and risk based gains through collaboration with neighbouring councils.
8. Is not finalised in isolation.

Options Consideration

In summary, the shortlisted presented within this business case include:

1. **Status Quo with regulation** (ESQ) (mandatory)
2. **Sub-regional CCO** (Waikato Water Done Well)
3. **Shared Services**
4. **Commercial**

Each option is analysed in a separate section.

Approach to evaluating options

Evaluation of options is an important guide to elected members on how each option modelled compares to another. Each model is listed in the Evaluation findings and compared using a mixture of both qualitative and quantitative information linked to the critical success factors.

The current LTP and updates from the 2025/26 Annual Plan plus any assumptions from the Waikato Water Done Well modelling was used as a base for financial information. It should be noted that the council's financial situation is changing on a regular basis but that the overall direction set in the LTP and supported by the 2025/26 Annual Plan, remain the same.

Financial Modelling

In order to make an informed decision it is vital for all options are assessed using the same modelling assumptions. Due to the lack of influence over the Waikato Water Done Well assumptions staff and the working have recommended to apply them over the other options available.

These assumptions may be different than those in recent council reporting and are listed below:

FINANCIAL MODEL	BASIS	KEY INFORMATION / NOTABLE DIFFERENCES
Year 1	LTP 2024-34	Includes an updated Capital programme with carry forwards.
Year 2	AP 2025/26	Updated as per AP changes and workshops
Years 3-10	LTP 2024-34	Capital programme – Water Year 8-10 districtwide renewal missing from LTP since added, approx. $900K per year (nominal).
Inflation Rates	BERL (Oct 2024)	Given the ongoing uncertainty around the ownership of water infrastructure, Taituarā provide both the LGCI, as well as an estimate of the water infrastructure component of the LGCI. They also provide an estimate of the LGCI using the legacy basket of goods which is comparable to prior years called the "legacy LGCI". WWDW have used the Legacy Local Government Aggregate Cost Adjustors 2025 – 2035 cumulative change in their modelling.
Increased Levies from Commerce Commission and Taumata Arowai	Currently under consultation. To be introduced 1 July 2025. Water Services Authority levy is estimated at $4.14 per person or $11.17 per household. Commerce Commission (CommComm) levy is estimated at $1.30 per person or $3.51 per household.	Financial modelling **does not** currently include the levies. WWDW did not included the levies in their modelling. The estimated cost per year is $115,000 with recommendation for the Water Services Authority to be split as follows: Drinking Water 75% Wastewater 21% Stormwater 4% The CommComm levy will be split depending on the level of reporting requirements per water service.
Additional staff	Increased compliance	All options except WWDW: $180k added to finance costs in response to increased compliance requirements. 53% water, 47% wastewater. $150K added for a governing body $50K added for additional audit requirements.
Affordability percentage	Council Workshop 26 November 2024	Council agreed to an affordability percentage of 2% median household income. This equates to rate payments of $1,600 - $2,000 over the next two years. The financial modelling has indicated that 2% is not achievable for any option except for the sub regional model when harmonisation may take place.
Median Household Income (MHI)	2018 Census	Based on data provided by census on MHI, HDC estimated a 4.5% growth per year. The WWDW model has estimated the growth to be at a lower

FINANCIAL MODEL	BASIS	KEY INFORMATION / NOTABLE DIFFERENCES
		rate, starting at 2.4% in 2025/26 to 5.1% in 2033/2034.

The base model for all financial modelling is Status Quo, as agreed with the DIA in October 2024. The status quo model was built from the current LTP 2024-2034 with any Annual Plan changes taken into account and has provided HDC the opportunity to understand their financial position in relation to LWDW requirements.

The financial principles for water service providers in the Local Government (Water Services Bill are assessed below:

FINANCIAL PRINCIPLE	CURRENT STATUS (HDC)
Revenue received from providing water services is spent on providing water services (including maintenance, improvements and providing for growth)	✓
The revenue applied to the provision of water services is sufficient to sustain the provider's long-term investment in the provision of water services.	✓
Revenue (including from charges) and expenses must be transparent to the public.	✓
HDC must be accountable for its revenue and expenses to it communities.	✓
HDC must demonstrate its compliance with the financial principles listed in subsection(1) – • In its financial operations and financial policies • In is planning and reporting documents prepared under Part 4 (listed in section 183(2). Its financial strategy is prepared and adopted under section 101A of the LGA 2002.	✓

Key Projects

A key purpose of the Local Water Done Well programme is to replace aging infrastructure to meet increasing compliance requirements through quality and environmental standards. Since the Havelock North incident, HDC realised that significant changes are coming and have taken responsibility, upgrading water infrastructure focusing first on drinking water and are now undertaking wastewater upgrades. The first of the large wastewater upgrades in the 2024/25 and 2025/26 years of approx. $50M is the upgrade of the Paeroa WWTP.

Listed below are additional projects identified as potential compliance projects over the next 10 years. They are potential projects due to the following reasons:

- Wastewater standards are currently under consultation until the end of April 2025.
- Under these standards three (3) HDC plants may be classed as "low risk" in terms of consenting (<1,000 connections). These plants are Kerepehi (527), Turua (518) and Waitakaruru (12).
- Councils have not received formal notification on fluoride requirements and if adding fluoride to drinking water will be made compulsory.

Area	Project #	2024/25 Year1 (2024/25) Spend	2024/25 Year2 (2025/26) Spend	2024/25 Year3 (2026/27) Spend	2024/25 Year4 (2027/28) Spend	2024/25 Year5 (2028/29) Spend	2024/25 Year6 (2029/30) Spend	2024/25 Year7 (2030/31) Spend	2024/25 Year8 (2031/32) Spend	2024/25 Year9 (2032/33) Spend	2024/25 Year10 (2033/34) Spend
Ngātea	Ngātea Upgrading WWTP	0	0								
District	Wastewater Consents, deal with Kerepehi, Ngātea, Turua (mothball) back to Paeroa	0	0	0	0	0	0	0	0	0	0
Whiritoa	Whiritoa Upgrading WWTP	6,549	700,000	350,000	350,000	0	0	0	0	0	0
Kerepehi	Kerepehi sewer	150,000	230,000	0	0	0	0	0	0	0	0
District	Wastewater Consents (District wide)	79,553	730,994	0	0	0	0	0	0	0	0
Paeroa	Paeroa Upgrading WWTP	2,092,909	2,857,329	0	0	0	0	0	0	0	0
Paeroa	Paeroa Upgrading WWTP	18,836,182	25,715,965	0	0	0	0	0	0	0	0
Waitakaruru	Waitakaruru Resource Consents	16,606									
Ngātea	Ngātea New Rising Main from Kerepehi to Ngātea	0	0	0	0	0	0	0	810,000	1,620,000	0
Paeroa	Future sewer connection Plains to Paeroa	0	58,480	0	0	0	0	0	0	0	0
Turua	Turua Upgrading WWTP	0	0	0	0	0	450,000	450,000	1,710,000	1,710,000	0
Kerepehi	Kerepehi Upgrade WWTP	0	189,084	200,000	700,000	3,600,000	3,600,000	3,600,000	0	0	0
Waihi	Waihi Upgrading WWTP	0	0	0	0	0	0	0	990,000	990,000	3,960,000
Waihi	Waihi Upgrading WWTP	0	0	0	0	0	0	0	0	0	0
Ngātea	Ngātea WWTP MFU Trail	0	0	0	0	0	0	0	0	0	0
Waitakaruru	Waitakaruru Upgrading WWTP	0	0								
Kerepehi	Manganese Treatment	33,565	0	1,000,000	6,000,000	5,000,000	0	0	0	0	0
Waihi	Waihi Second Membrane	2,975,010	0	0	0	0	0	0	0	0	0
Paeroa	Plains & Paeroa Water connection	0	49,000	0	91,000	0	0	0	0	3,000,000	3,000,000
Paeroa	Paeroa Raw Water Main	1,733,248	0	0	0	0	0	0	0	0	0
Plains	Steen Road Consent	51,364									
Waitakaruru	Cyanotoxin Treatment for the Waitakaruru WTP	0	389,864	0	0	0	0	0	0	0	0
Waihi	Fluoridation at Waihi WTP	0	0	231,000	0	0	0	0	0	0	0
Paeroa	Fluoridation at Paeroa WTP	0	0	268,000	0	0	0	0	0	0	0
Kerepehi	Fluoridation at Kerepehi WTP	0	0	252,000	0	0	0	0	0	0	0
Waitakaruru	Fluoridation at Waitakaruru WTP	0	0	250,000	0	0	0	0	0	0	0
Waihou	Waihou Intake Consents	0	100,000	100,000	0	0	0	0	0	0	0
Kerepehi	Kerepehi Raw Water Intake	359,505	0								
Water		**5,152,692**	**538,864**	**2,101,000**	**6,091,000**	**5,000,000**	-	-	-	**3,000,000**	**3,000,000**
Wastewater		**21,181,799**	**30,481,851**	**550,000**	**1,050,000**	**3,600,000**	**4,050,000**	**4,050,000**	**3,510,000**	**4,320,000**	**3,960,000**
TOTAL		**26,334,491**	**35,634,543**	**5,702,692**	**6,202,692**	**8,752,692**	**9,202,692**	**9,202,692**	**8,662,692**	**9,472,692**	**9,112,692**

Financial Templates

By September 2025 HDC will need to submit a water services delivery plan to the Department of Internal Affairs with a minimum of 10 (ten) years of financial projections for water services covering the financial years FY2024/25 – FY2033/34.

The projected financial statements will be special purpose financial statements for the purpose of 'PBE FS 42 – Prospective Financial Statements' and must be prepared for Drinking Water activities, Wastewater activities, Stormwater activities and consolidated water activities, being the summation of all three waters.

For the modelling of the various options evaluated in this business case, Stormwater is not included as previously discussed.

Financial Measures

Water Service Delivery Plans must include a council self-assessment of the financial sustainability of their water services delivery and plans should aim to 'achieve' financial sustainability by 30 June 2028.

A CCO model will have a period of up to five years for the application of financial covenants (any request for a longer period would need to be considered by the LGFA Board). This is because the LGFA recognises that not all water organisations will be able to comply with the financial covenants in the first year. A period will be agreed on a bespoke basis with each water CCO with interim targets in place to encourage an improving trend in ratios over time.

When reviewing the evaluation findings the criteria used is explained below:

Rates

Rates are compared between FY2025/26 and FY2033/34 and demonstrate the predicted cost to the ratepayer for each water services delivery option.

The modelling undertaken for the sub regional model, Waikato Water Done Well, is limited in relation to Hauraki District due to our large number of rural connections. 71% of drinking water connections are residential connections and 66% of drinking water operating revenue is residential revenue. This is reflective of drinking water only and the WWDW financial model does not provide the ability to apply different residential percentages to each water, instead it is an aggregate of water and wastewater resulting in skewed rating amounts. To manage this, we have used the total rating figure as the guide and ignored the split between the two waters.

Stranded Overheads

Stranded costs are recurring operating expenses currently allocated to waters delivery that will remain with HDC if Waikato Water Done Well is the preferred option. These costs relate to areas of council such as; finance, customer services, health and safety, human resources, information management, web administration, strategic planning, communications, treasury and payroll.

The initial work undertaken for stranded overheads highlights approximately $1.8 million of potential stranded overheads which equates to approximately $260 per ratepayer. The Local Water Done Well program does not currently take into account what council will look like if the preferred option is to transfer into a CCO. Once the preferred option is confirmed HDC will begin the work involved to understand the future council structure and at this stage any stranded overheads will be calculated.

For this business case, it is estimated that stranded overheads will only apply to the Sub Regional Waikato Water Done Well option.

Percentage of median household income

A key metric of affordability is rates as a percentage of median household income. As previously mentioned at a council workshop held in 2024, elected members estimated that $1,600 - $2,000 or 2% of median household income was affordable for Hauraki District rate payers. Each option lists the percentage for YE 2025/26 and YE 2033/34 and the only option that meets this affordability metric, Option 2, Waikato Water Done Well.

All models excluding WWDW are calculated at the current financial strategy where operating expenses are to be recovered from operating revenue. This means that any increase in operating expenses in the predicted options such as increased audit costs will increase rates to cover that expenditure.

Waikato Water Done Well has used a different philosophy for their rate calculation where they have estimated the following rate increases over the next 10 years.

Revenue Increase per year	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Total Rates	12.3%	11.0%	8.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%

To manage this HDC has applied the same philosophy to Option 1 – Enhanced Status Quo as Option 1 (lower rates). The application of the same philosophy predicts a percentage of median household income of 3% in YE2033/34.

Another advantage WWDW has over other models is the leveraging of all seven councils median household income. The below snip from the WWDW modelling demonstrates the challenge facing Hauraki with the lowest median household income.

Council	2024/20	2025/20	2026/20	2027/20	2028/20	2029/20	2030/20	2031/20	2032/20	2033/20
Matamata-Piako	96,165	100,368	104,754	109,332	114,110	119,096	124,301	129,733	135,402	141,319
Hauraki	72,074	73,948	76,092	78,147	80,179	82,183	84,156	86,175	88,244	90,273
Otorohanga	93,879	96,977	100,371	103,884	107,520	111,175	114,955	118,864	122,905	127,084
South Waikato	84,974	87,778	90,851	94,030	97,321	100,630	104,052	107,590	111,248	115,030
Taupo	111,384	117,017	122,957	129,205	135,760	142,623	149,793	157,571	165,057	173,150
Waipa	107,501	112,199	117,102	122,219	127,560	133,135	138,953	145,025	151,363	157,977
Waitomo	76,190	79,520	82,995	86,621	90,407	94,358	98,481	102,785	107,276	111,964

Operating Surplus Ratio

The operating surplus ratio excludes capital revenues, measure whether operating revenues cover operating expenses. A negative percentage indicates the percentage increase required for operating revenues to fully cover operating expenses.

Water services delivery is to be financially sustainable by 2027/2028 so the operating surplus ratio is shown at this stage and in FY2033/34.

Operating Cash Ratio

This ratio includes depreciation plus interest costs and minus capital revenues, divided by operating revenues. It measures how much cash is generated from operating revenues once cash operating costs are deducted.

A healthy operating cash ratio is greater than 50% and all options are achieving this by 2033/2034.

Asset Sustainability Ratio

An indication of whether project renewals investment is more or less than project depreciation and an indicator as to whether the renewals programme is replacing network assets in line with the rate of asset deterioration.

This metric is not reported for HDC due to the large investment in the Paeroa Wastewater Treatment Plan of $50m skewing the results.

Asset Consumption Ratio

An important ratio for comparing the burden on future consumers to replace network assets. This ratio measures the average remaining useful life of network assets and should be even throughout the years. Any reduction in in this ratio would indicate that the burden on future consumers to replace network assets is increasing.

Borrowing Headroom / (Shortfall)

The maximum allowable net debt at borrowing limit projects the net debt attributed to water services. A positive number equates to the additional amount of borrowings that could be taken on at current revenue levels, without exceeding borrowing limits, a negative number means borrowings exceed the borrowing limit.

In the December 2024 update from LGFA as set out in LGFA's Foundation Policies, financial covenants for councils are measured at the **parent level**, not at the consolidated group, unless otherwise agreed with LGFA. Based on this included in the evaluation findings are the overarching council borrowing headroom / (shortfall).

Free funds from operations to net debt

The calculation in the DIA financial template is using operating revenue as a proxy for simplicity. The LGFA has a different definition in relation to revenue for this calculation – cash earnings from rates, grants and subsidies, user chargers, interest, dividends, financial and other revenue and excludes non-government capital contributions".

At this stage HDC has remained with the DIA's more simplistic calculation. Expectations are that most water CCOs will have a minimum FFO to debt ratio of between 8% and 12%.

Evaluation Findings

A summary of findings for water services delivery is provided below:

Criteria	Year	Water	Base Model	Option 1	Option 2	Option 3	Option 4 (Low)	Option 4 (High)	Comments
			LTP 2024-2034 incl Annual Plan 2025/26 changes	**Enhanced Status Quo with Regulation (ESQ)**	**Sub Regional Waikato Water Done Well (WWDW)**	**Shared services with neighbouring councils**	**Commercial model operations and maintenance no longer undertaken by HDC**	**Commercial model operations and maintenance no longer undertaken by HDC**	
Rates 2025/26	2025/26	Water	933	945	933	959	923	973	
Rates 2025/26	2025/26	Wastewater	786	811	786	837	766	816	
Rates 2025/26	**2025/26**	**TOTAL**	**1718**	**1756**	**1718**	**1796**	**1689**	**1789**	
Rates 2033/34	2033/34	Water	1217	1232		1249	1214	1257	
Rates 2033/334	2033/34	Wastewater	3185	3215		3246	3161	3225	
Rates 2033/34	**2033/34**	**TOTAL**	**4402**	**4447**	**4361**	**4495**	**4375**	**4482**	
Rates 2033/3034	**2033/34**	Collated*	**4402**	**4447**	**2,754**	**4495**	**4,375**	**4482**	***Collated is harmonized across the Waikato**
Stranded Costs	2026/27		0	0	1,800,000	0	0	0	$1.2M - $1.8M
Stranded Costs (per ratepayer)	2026/27		0	0	260	0	0	0	Variable $140 - $260 (Range 4501 - 4621)
Rates 2033/3034	**2033/34**	Total incl SO	**4,402**	**4,447**	**4,621**	**4,495**	**4,375**	**4,482**	
Percentage of median household income	2025 / 2026		2.3%	2.4%	2.3%	2.4%	2.3%	2.4%	
Percentage of median household income	2033 / 2034		4.1%	4.9%	5.1%	5.0%	4.8%	5.0%	

Criteria	Year	Water	Base Model	Option 1	Option 2	Option 3	Option 4 (Low)	Option 4 (High)
			LTP 2024-2034 incl Annual Plan 2025/26 changes	**Enhanced Status Quo with Regulation (ESQ)**	**Sub Regional Waikato Water Done Well (WWDW)**	**Shared services with neighbouring councils**	**Commercial model operations and maintenance no longer undertaken by HDC**	**Commercial model operations and maintenance no longer undertaken by HDC**
Operating Surplus Ratio	2027 / 2028		-6.8%	-6.7%	-10.7%	-6.6%	-6.7%	-6.4%
Operating Surplus Ratio	2033 / 2034		21.7%	21.5%	19.4%	21.3%	22.0%	21.4%
Operating Cash Ratio	2027 / 2028		51.4%	50.7%	47.2%	50.0%	52.0%	50.1%
Operating Cash Ratio	2033 / 2034		65.0%	64.3%	60.8%	63.6%	65.5%	63.7%
Asset consumption ratio	2026 / 2027		54.2%	44.4%	can't supply	44.4%	44.4%	44.4%
Asset consumption ratio	2033 / 2034		48.8%	40.3%	can't supply	40.4%	40.4%	40.4%
Net Debt	2026 / 2027		123058	127062	607625	127049	126868	126868
Net Debt	2033 / 2034		95928	105144	655499	105117	104601	104601
Net debt to operating revenue	2026 / 2027	Waters	527.0%	536.0%	801.0%	527.0%	548.0%	526.0%
Net debt to operating revenue	2033 / 2034	Waters	237.0%	257.0%	234.0%	254.0%	260.0%	253.0%
Net debt to operating revenue	2026 / 2027	Council	189.0%	196.0%	not determined	190.0%	198.0%	195.0%
Net debt to operating revenue	2033 / 2034	Council	103.0%	117.0%	not determined	103.0%	117.0%	116.0%
Borrowing headroom (shortfall) against limit	2026 / 2027	Waters	-6,298	-7.17%	-228,508	-6,494	-11,187	-6,182
Borrowing headroom (shortfall) against limit	2033 / 2034	Waters	106,677	48.65%	747,318	101,984	96,940	102,429
Borrowing headroom (shortfall) against limit	2026 / 2027	Council	76,300	68,700	not determined	74,500	67,300	70,100
Borrowing headroom (shortfall) against limit	2033 / 2034	Council	171,400	155,300	not determined	169,300	154,000	157,100
Free funds from operations (FFO) to debt ratio	2026 / 2027		3.6%	3.5%	2.7%	3.5%	3.5%	3.5%
Free funds from operations (FFO) to debt ratio	2033 / 2034		20.8%	19.0%	21.2%	19.0%	19.1%	19.1%

APPENDIX A:

OPTION 1: STATUS QUO WITH REGULATION (MANDATORY)

Introduction

The *Enhanced Status Quo with Regulation* would see Hauraki District Council retain the ownership and delivery of water services in house, as a water services provider, similar to existing arrangements, via a 'ring fenced' model.

Water services would continue to be delivered directly by Council 'in house' through an internal business unit or division, with planning and budgeting integrated into council planning and budgeting processes.

Revenue would continue to be generated through a combination of volumetric water charges and general and targeted rates and financial/development contributions.

Governance would likely be through existing governance arrangements, being Committee or the full Council. An option to have independent involvement such as an independently chaired committee with iwi representation would be considered as part of triennial committee considerations post elections.

Council would be required to provide services in a cost-effective and financially sustainable manner with improved planning and efficiency gains. HDC would continue to fund all expenditure relating to all water services using targeted rates for Water and Wastewater. All waters revenue would be required to be spent on providing water services.

The Local Government (Water Services) Bill provides for a cycle of planning, performance and reporting requirements making Council accountable to consumers of water services, including:

- preparation and adoption of a water services strategy
- preparation of an annual budget
- annual report

As such no water services information would be included in standard council documentation such as the infrastructure strategy, long term plan, annual plan or annual report.

In addition to the planning framework HDC will be subject to economic regulation in which the Commerce Commission will have a range of tools to use, if required, such as:

- information disclosure
- revenue thresholds (minimum and maximum)
- financial ring-fence
- quality of services
- performance requirement
- price-quality

Reasons for proposing

The 'Status Quo with Regulation' option is a mandatory option that must be consulted on with the community as required through s61 of the Local Government (Water Services Preliminary Arrangements) Act 2024. It is deemed to be an enhanced option as it must also take into account the meeting of the new regulation requirements.

Why Status Quo with Regulation?

HDC is already ahead of many other councils in areas such as universal water metering, compliant water treatment plants and ring-fencing of services. There is over 8,800 drinking water meters installed around the district which are connected to the public water mains. Many of the meters have been in service for more than 10 years and a renewal programme is currently underway to replace the oldest.

Water services are already "ring-fenced" within the financial management system and Council has been working through a capital programme upgrading water infrastructure, starting with drinking water and are now working on an extensive wastewater programme within ongoing reticulation renewals.

A core strength of HDC is its staff, their knowledge and role within the community. Some staff members have been working for HDC for decades with valuable legacy information. Council is a large employer for the district, there is a strong recruitment programme for school leavers and all staff are supported to further their education and skills. There is a successful cadetship and apprenticeship programme that ensures there are future plant operators and enables succession planning.

HDC has a good working relationship with WRC and neighbouring councils, is known to be pragmatic and community based. Council is heavily involved in the community, staff generally live locally, are well known and this is a big advantage for the district.

What is proposed

The proposal is that HDC remains as the Water Services provider as their future water services delivery model. It is mandatory that it is included in the water services delivery plan due to be submitted to the Department of Internal Affairs (DIA) by 3 September 2025.

To remain at status quo with regulation, HDC proposes:

- Update the base (LTP) financial model with the same assumptions as Waikato Water Done Well (WWDW). This is to enable good comparison of information for an informed decision.
- The cost impacts of regulation are considered and added to the model to highlight the effect.
- Establish a committee similar to Audit and Risk Committee that has an independent chair, Iwi representative, industry representative and councillors supported by staff.
- Maintain the current organisation structure within Council. The current structure has most water services staff in the Service Delivery team. The Water Services Manager is responsible for asset management, treatment, and compliance. The reticulation team is an operational team and the responsibility of the Manager Projects & Operations.
- Capital projects are delivered by the Project Management Office. Reticulation renewals delivered through multi-year renewal programmes tendered out and major plant renewals tendered.

The overarching purpose of status quo with regulation option is to:

- Achieve the strategic outcomes of council whilst improving on efficiencies, complying with economic regulation and applying best practice through engineering and industry standards.
- Achieve the required water service delivery objectives, financial and performance based.
- Develop the water services delivery team to take advantage of opportunities in technology and development.

Option Analysis

Financial sustainability

The base model for all financial modelling is Status Quo as agreed with the DIA in October 2024. The status quo model was built from the current LTP 2024-2034 and provided HDC the opportunity to understand their financial position in relationship to LWDW requirements.

There are several financial principles for water service providers in the Local Government (Water Services) Bill that HDC currently addresses through SQR:

Financial Principle	**HDC Current Status**
Revenue received from providing water services is spent on improving water services (including maintenance, improvements and providing for growth)	✓
The revenue applied to the provision of water services is sufficient to sustain the provider's long-term investment in the provision of water services.	✓
Revenue (including from charges) and expenses must be transparent to the public.	✓
HDC must be accountable for its revenue and expenses to it communities.	✓
HDC must demonstrate its compliance with the financial principles listed in subsection(1) – • In its financial operations and financial policies • In is planning and reporting documents prepared under Part 4 (listed in section 183(2). • Its financial strategy is prepared and adopted under section 101A of the LGA 2002.	✓

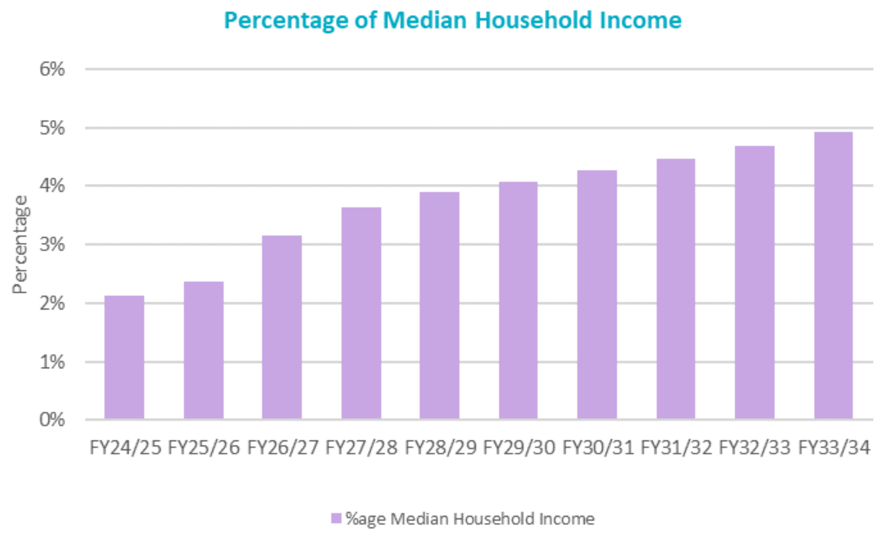
Financial sustainability demonstrates that water services revenue is sufficient to meet the costs of delivering water services including regulatory standards and long term investment. Councils must 'achieve' financial sustainability by 30 June 2028 at the latest. There are three factors related to financial sustainability.

Financial Sustainability **Key Factors**	**Does the Shared Services model meet the Key Factors**	
	Water	**Wastewater**
Revenue Sufficiency is there sufficient revenue to cover the costs (including servicing debt) of water services delivery?	Yes	Yes
Investment Sufficiency is there projected level of investment sufficient to meet levels of service, regulatory requirements and provide for growth?	Yes	Yes
Financing Sufficiency are funding and finance arrangements sufficient to meet investment requirements.	Yes	Yes

Revenue Sufficiency

At the Council affordability workshop in November 2024, elected members determined that strategically, affordability for the region, included water and wastewater rates of between $1,600 and $2,000 per year which equated to approximately 2% of median household income. Status Quo with Regulation rates are already breaching this threshold at 2.4% in 2025/26 and 4.9% by 2033/34. Most of this breach relates to the increase in wastewater rates as HDC works towards compliant wastewater plants.

Rating increases under status quo with regulation are detailed in the 2024-34 LTP plus incorporating changes in the Annual Plan 2025/26 and additional operational expenses. It is determined that the wastewater increases are unavoidable in order to maintain an operating surplus that would be viewed as best practice.



For the first 5 years water services will have a negative operating surplus ratio. This indicates that HDC has had to spend beyond their means to upgrade the Paeroa Wastewater Treatment Plant and plan to spend additional funds on other key projects that relate to improving compliance.

Operating surplus ratio	FY23/24	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29
Operating surplus/(deficit) excluding capital revenues	(3,582)	(5,723)	(6,538)	(4,683)	(1,806)	(215)
Total operating revenue	12,723	16,476	19,083	23,713	26,994	29,353
Operating surplus ratio	(28.2%)	(34.7%)	(34.3%)	(19.7%)	(6.7%)	(0.7%)

The operating ratio is not financially sustainable until FY29/30. HDC has marked it as complaint because the calculation includes key projects that may not come to fruition under the new wastewater standards reducing depreciation costs. The wastewater standards are in consultation at the time of writing this business case and not confirmed.

Investment Sufficiency

Under all options the Asset sustainability ratio is skewed due to the upgrade of the Paeroa Wastewater Treatment plant of a total amount of $50M in Years 24/25 and 25/26. Without being aware of the mentioned upgrade it could look like HDC is not replacing network assets in line with the rate of asset deterioration.

HDC has a robust renewal programme which has been in place for many years. The balance of investment ratios tell the story of a good investment program spread evenly across current and future years.

Financing Sufficiency

In 2024 Council obtained a credit rating which increased their borrowing limit to 280%. In YR2024/25 starting position for overall council debt is the highest level of Net Debt to operating revenue (%) at 246% with $19.6M debt headroom to limit. From this point the projected council net debt to operating revenue improves where maximum headroom in YR2033/34 of $155.3M.

Water services is utilising a lot of council debt to invest in infrastructure and up to 26/27 is over the water borrowing limit (%). By 2027/28 net debt is improving where water services have a net debt to operating revenue (%) of 486% and debt headroom of $3.9M. Whilst the limit of 500% is a CCO borrowing limit, as a whole, council remains in a good financing position.

Leading Workforce

With the status quo regulation option, water services is retained local, managed and operated by local staff. Continuing with the hiring of local staff gives reassurance to the community that the people involved they often know and trust, there is opportunity locally for employment and career development, and the significant local knowledge and experience is not lost. The successful cadetship and apprenticeship programme continues.

Status quo with regulation will predominantly be business as usual for Council, with no / limited changes for operating staff with the continuation of the work programme already set. Council is a large employer in the District, 119 staff currently support water services in some extent and continuing in a similar role means they will have greater guarantee of similar work locations and environments.

Customer Focus

The Status Quo with Regulation model is seen to provide limited, if any, improvement on the current and identified issues such as rates affordability, achieving economies of scale and efficiencies, aging infrastructure and responding to increasing compliance and reporting requirements for proposed economic regulation.

Local Influence

Status Quo is currently overseen by Council and Operational Managers. These people are readily available to the local community and because of this local influence is medium to high. HDC has a sound service request system to manage Non-Financial Performance Targets (NFPTs) and elected members are engaged to follow through any local requests.

In order to respect the intent of the legislation, HDC is exploring an independent person / committee to be formed as an overarching strategic guide for SQR that does not involve staff or elected members. Additional strategic oversight will add cost to water services and the ratepayer, so efficiencies will need to be realised to counteract the cost.

The Local Government (Water Services) Bill outlines requirements for Water Service Providers in regards to reporting. Council will no longer be able to include any water matters in their long term plans, instead a water services strategy will need to be developed, ratified by Council and released publicly. This will increase council accountability to their community.

Delivering on Expectations

Mana Whenua

As part of the Better Off Funding, HDC is working with local iwi on Memorandum of Understandings and Partnership agreements. It is expected that the enhanced status quo option will have better relationships with mana whenua than the relationship of an external agency in a CCO option.

Compliance

Councils are expecting to come under increasing compliance scrutiny with Taumata Arowai drinking water standards, increased focus on wastewater and stormwater environmental compliance; and economic regulation.

The regulatory bodies, Taumata Arowai and the Commerce Commission (excluding regional council), responsible for monitoring councils are also required to be funded by councils, in addition to ongoing expenditure and increasing costs of service, costs of reporting and meeting expectations in regards to audit requirements. The increased costs cannot be absorbed within the current system so Councils have no option than adding a levy to already stretched ratepayers. As such, any required water services investment to meet compliance or due to infrastructure failure will need to be paid for by the communities that will use the service (current and future). To do this, Council will need to finance the investment to pass onto future generations.

Under the new water services delivery model the financial services for water services are to be "ring-fenced" and lending is limited to a debt to water operating revenue ratio of 280%. Currently a large portion of council debt is utilised by water services investing in water infrastructure specifically to meet compliance. Water services will remain in deficit for many years and other Council activities desired by the community will be limited during this time.

Increased costs under the Status Quo with Regulation option reduces the financial debt room available to Council. This affects Council's ability to deliver more capital investment for both water services and non-water services based on the limited ability to access debt or community funding.

Economic regulation

Economic regulation is a significant part of the Local Water Done Well programme and will be monitored by the Commerce Commission, as the economic regulator, in collaboration with Taumata Arowai. It is proposed that each regulator have their own levy and they will be charged to regulated water services suppliers, which will then collect the levies from consumers. The proposed levies will be calculated per head of population which is a disadvantage to HDC as our consumer percentage of water services (approx. 70%) is far lower than other councils due to a large number of agricultural users.

The proposed levies are below and will be charged to water services suppliers from 1 July 2025:

- Taumata Arowai - $4.14 ex GST per person or approx. $11.17 ex GST per average household.
- Commerce Commission - $1.30 per person and per year in 2025/26 and 2026/27

Councils will be levied to cover the cost of both the Commerce Commission and Taumata Arowai and this cost will be passed onto the ratepayer. The Taumata Arowai levy is currently recommended to be charged to all 3 waters with a percentage split of water 75%, wastewater 21% and stormwater 4%. The Commerce Commission levy will depend on the information requests and may be only charged to drinking water in the first instance. The total amount of $115,947 will be billed to council with the first year of charging to be. 2025/26.

Due to the increased reporting and requirement for separated financial reporting from Council, it is suggested that a Quality Control resource is added to the Finance and Risk Group (as part of the revised future state structure) at an estimated cost of $180,000. This and the above levies are not included in the DIA October 2024 financial model.

To begin, economic regulation will be based around information disclosure. It is indicated that smaller councils may be required to undertake less reporting than a larger water services provider so it is proportionate to the entities systems, processes and data.

Disadvantages of Enhanced Status Quo with Regulation

- Wastewater affordability for community. Districts population median income is below national median household income, yet the cost for providing water services is relatively high.
- Limited resources. Additional resources will be required for Information Disclosure to the new economic regulator.
- Does not provide economies of scale and efficiency.
- Ability to respond to increasing compliance and reporting requirements with limited resources.

OPTION 2: SUB-REGIONAL CCO

Note for Elected Members:

The proposal for Option 2 sub-Regional CCO has been prepared separately under the banner of Waikato Water Done Well (WWDW). The WWDW proposal is attached as Appendix B to this business case.

It is to be noted that the financial figures in the attached proposal for Hauraki District have been retracted. This is related to the large proportion of rural drinking water connections that are not well catered for in the model. Any rating figures relating to Hauraki District Council should be taken from the Status Quo with Regulation option.

OPTION 3: SHARED SERVICES OPTION

Enhanced Status Quo with regulation and shared services

Introduction

The *Shared Services option* would see Hauraki District Council continue to own and manage waters assets and services. However, the Supervisory Control and Data Acquisition process (SCADA) monitoring services would be a shared service with a neighbouring Council in a sub-regional control room. Water supply and wastewater operations and maintenance services including treatment, reticulation and routine pipe renewal would continue to be a direct function of Council.

Asset management functions, large capital works and stormwater would be retained by Council and would continue to be delivered by Council 'in house' resources. This would be through an internal business unit or division, with planning and budgeting integrated into council planning and budgeting processes, albeit ring fenced.

Revenue would continue to be generated through a combination of volumetric water charges and general and targeted rates and financial/development contributions. Council would retain control over the development of the policy for providing the relevant water services and the pricing of relevant water services.

Governance would likely be through existing governance arrangements or an option to have independent involvement such as Council currently has in place with the Audit and Risk Committee. The structure would be considered as part of triennial committee considerations post elections and could have independent industry and iwi representation.

As per option 1, no water services information would be included in standard council documentation such as the infrastructure strategy, long term plan, annual plan or annual report. This is to meet the proposed new legislative requirements for water services.

In addition to the planning framework HDC will still be subject to economic regulation in which the Commerce Commission will have a range of tools to use, if required, such as:

- information disclosure
- revenue thresholds (minimum and maximum)
- financial ring-fence
- quality of services
- performance requirement
- price-quality

Reasons for proposing

To provide communities with safe and reliable drinking water and to minimise the impact of the environment from our wastewater networks, the employment of an accurate and efficient monitoring system is essential. It is also important for providing data and reporting to the regulators – currently Waikato Regional Council and the Water Services Authority, Taumata Arowai. The Commerce Commission is being established as the new economic regulator that will require accurate data as part of the Information Disclosure.

Operational problems in real time can be identified and operators have instant access to operational data and digital monitoring. This will ensure that reliable and safe water services are provided to our customers.

Under the Local Government (Water Services) Bill, water service providers may enter into a joint water service provider arrangement with one or more other water service providers including providers operating outside the district, for any aspect of water services in the providers combined areas.

The 'Shared Services' option aligns with this provision, and for purposes of modelling, an assumption is made that between two councils there would be a 50/50 cost share on a 24/7 sub-regional hub (control room). This includes the initial establishment costs, funding of technician staff and the operating of the control room.

It is assumed there is no stranded overhead costs as existing management and corporate support would retain within the individual councils.

What is proposed

Establish a sub-regional control room with a neighbouring council to share operator / technician resources. The operator / technician staff for both councils would remain in house and not contracted out under this option.

The standalone control room would be operational 24/7 and covers network and plant operations. It would be in a separate building or in an area in an existing facility. Both councils would retain their own SCADA systems within the shared sub regional hub.

To proceed with the Shared Services option, HDC proposes the following changes:

- Establish a committee similar to Audit and Risk Committee that has an independent chair, Iwi representative, industry representative and councillors supported by staff.
- Recruit four additional process operators / technicians (50/50 split with a neighbouring council).
- Provide additional training requirements for new technical staff.
- Agree on a location for sub regional hub such as Kerepehi Water Treatment Plant with the neighbouring council or at their existing facility.
- Allow for limited establishment costs such as additional equipment i.e. monitor screens and minor building fit out.

The overarching purpose of the Shared Services option is to:

- Achieve the strategic outcomes of council whilst improving on efficiencies, complying with economic regulation and applying best practice through engineering and industry standards.
- Achieve the required water service delivery objectives, financial and performance based.
- Proactively monitor SCADA alarms 24/7 with adequate people back up with shared sub regional hub.
- Improved operator well being with adequate back up and proactive approach.
- Provide accurate and timely data for the regulators - Waikato Regional Council and Water Services Authority Taumata Arowai, and Commerce Commission (once fully established).

Evaluation Criteria

There are five criteria agreed as detailed in the Economic case:

1. Financial Sustainability
2. Workforce:
3. Customer
4. Local influence:
5. Delivering on Expectation

Option Analysis

The advantages and disadvantages are of the Shared Services Option are summarised below.

Financial sustainability

The base model for all financial modelling is Status Quo as agreed with the DIA in October 2024. The status quo model was built from the current LTP 2024-2034 and provided HDC the opportunity to understand their financial position in relationship to LWDW requirements.

There are several financial principles for water service providers in the Local Government (Water Services) Bill that HDC currently addresses through SQR:

Financial Principle	HDC Current Status
Revenue received from providing water services is spent on improving water services (including maintenance, improvements and providing for growth)	✓
The revenue applied to the provision of water services is sufficient to sustain the provider's long-term investment in the provision of water services.	✓
Revenue (including from charges) and expenses must be transparent to the public.	✓
HDC must be accountable for its revenue and expenses to it communities.	✓
HDC must demonstrate its compliance with the financial principles listed in subsection(1) – • In its financial operations and financial policies • In is planning and reporting documents prepared under Part 4 (listed in section 183(2). • Its financial strategy is prepared and adopted under section 101A of the LGA 2002.	✓

Financial sustainability demonstrates that water services revenue is sufficient to meet the costs of delivering water services including regulatory standards and long term investment. Councils must 'achieve' financial sustainability by 30 June 2028. There are three factors related to financial sustainability.

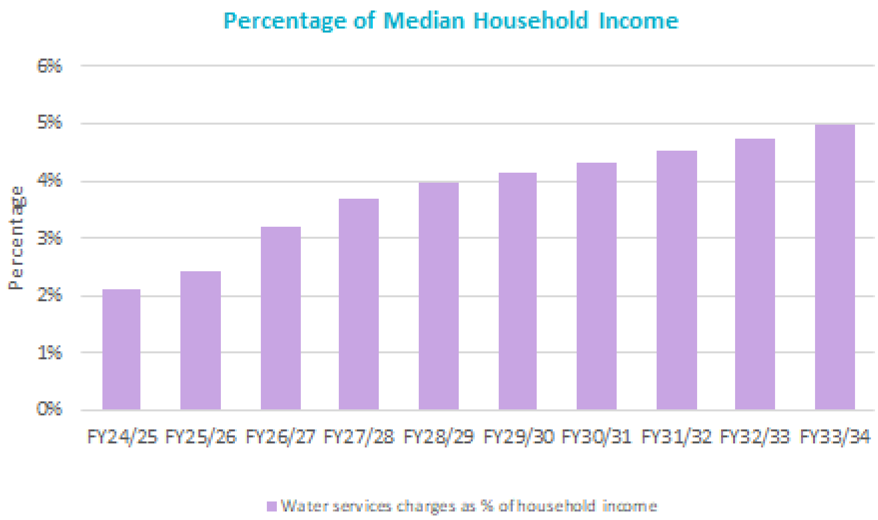
Financial Sustainability Key Factors	Does the Shared Services model meet the Key Factors	
	Water	Wastewater
Revenue Sufficiency is there sufficient revenue to cover the costs (including servicing debt) of water services delivery?	Yes	Yes
Investment Sufficiency is there projected level of investment sufficient to meet levels of service, regulatory requirements and provide for growth?	Yes	Yes
Financing Sufficiency are funding and finance arrangements sufficient to meet investment requirements.	Yes	Yes

There will be some operational savings through a reduction in staff after hour's opex costs. Technical staff will be rostered between the two councils to ensure 24/7 coverage. There are no stranded overhead costs under the Shared Services Option as it is intended to use existing management and corporate support.

Revenue Sufficiency

At the Council affordability workshop in November 2024, elected members determined that strategically, affordability for the region, included water and wastewater rates of between $1,600 and $2,000 per year which equated to approximately 2% of median household income. The Shared Services rates are already breaching this threshold at 2.4% in 2025/26 and 5.0% by 2033/34. Most of this breach relates to the increase in wastewater rates as HDC works towards compliant wastewater plants.

Rating increases under shared services are detailed in the 2024-34 LTP plus incorporating changes in the Annual Plan 2025/26 and option additional operational expenses. The wastewater increases are unavoidable in order to maintain an operating surplus that would be viewed as reasonable financial modelling.



As per the Status Quo with regulation options for the first 5 years water services will have a negative operating surplus ratio. This indicates that HDC has had to spend beyond their means to upgrade the Paeroa Wastewater Treatment Plan and plan to spend additional funds on other key projects that relate to improving compliance.

Investment Sufficiency

Under all options the Asset sustainability ratio is skewed due to the upgrade of the Paeroa Wastewater Treatment plant of a total amount of $50M in Years 24/25 and 25/26. Without being aware of the mentioned upgrade it could look like HDC is not replacing network assets in line with the rate of asset deterioration.

HDC has a robust renewal programme which has been in place for many years. The balance of investment ratios tell the story of a good investment program spread evenly across current and future years.

Financing Sufficiency

In 2024 Council obtained a credit rating which increased their borrowing limit to 280%. In YR2024/25 starting position for overall council debt is the highest level of Net Debt to operating revenue (%) at 240% with $23.2M debt headroom to limit. From this point the projected council net debt to operating revenue improves where maximum headroom in YR2033/34 of $169.3M.

Water services is utilising a lot of council debt headroom and up to 26/27 is over the water borrowing limit (%). By 27/28 water services have a net debt to operating revenue (%) of 478% and debt headroom of $5.9M. Whilst the limit of 500% is a CCO borrowing limit, as a whole, council remains in a good financing position.

Leading Workforce

HDC is currently adequately resourced with full time SCADA technician and asset management specialists plus good external technical support. However, under the Shared Services Option there will be four additional technicians in total for resourcing the control room 24/7 (50/50 split with the neighbouring council).

A key advantage of the Shared Services Option is that operator / technician well-being improves with adequate back up and proactive approach.

Customer Focus

Reliable customer service is enhanced under the Shared Services Option with SCADA alarms proactively monitored 24/7. This allows the technicians to proactively respond to issues at the plants and networks to minimise any unplanned water outages and identify any potential drinking water quality noncompliance. This allows them time to remedy the operational issues and minimise impacts on customers.

The proactive monitoring of alarms with a sub-regional hub provides a greater level of service to mitigate operational risks than the current service delivery arrangements.

A key advantage with the Shared Services Option is that both councils participating in the shared sub regional hub would have a focus on ensuring the SCADA systems and technical training are consistent with industry best practice.

HDC has good external technical support and adequate budgets for software license costs. However, the neighbouring council is not as well-resourced in terms of technical staff and sufficient digital budgets.

Local Influence

The sub-regional hub will be in a separate building or area in an existing facility such as the Kerepehi Water Treatment Plant or at the neighbouring council's facility. This allows the technicians to be relatively local even if it is not necessarily in Hauraki District.

Delivering on Expectations

Strong advantages with the Shared Services Option in relation to service expectations are:

- Providing greater level of service to mitigate operational issues as described above.
- Providing accurate and timely data sufficient for reporting and disclosing to the regulators. This positions and prepares HDC well with the new regime of an economic regulator which is new requirement to water services in local government.

Disadvantages of Shared Services option

The disadvantages of the Shared Services option are described in the sections above but the key points are:

- There are additional operational costs to provide a greater level of service.
- HDC may be providing greater input initially into the sub regional hub as better resourced than the neighbouring council.
- The sub regional hub may not be in Hauraki District Council (but will be in Eastern Waikato sub region).

OPTION 4: COMMERCIAL MODEL

Enhanced Status Quo with regulation under a commercial model

Introduction

The *Commercial* option would see Hauraki District Council continue to own and manage waters assets and services. However, water supply and wastewater operations and maintenance services including treatment, reticulation and routine pipe renewal would no longer be undertaken by Council's in house works unit. Under the commercial option, this would be undertaken 100% by an external contractor via a long term contract.

Asset management functions, large capital works and stormwater would be retained by Council and would continue to be delivered by Council 'in house' resources. This would be through an internal business unit or division, with planning and budgeting integrated into Council planning and budgeting processes, even though financially ring fenced.

This approach is similar to the existing contractual arrangement the Transport activity has in place on the reseal programme.

Revenue would continue to be generated through a combination of volumetric water charges and general and targeted rates and financial/development contributions. Council would retain control over the development of the policy for providing the relevant water services and the pricing of relevant water services.

Governance would likely be through existing governance arrangements or an option to have independent involvement such as Council currently has in place with the Audit and Risk Committee. The structure would be considered as part of triennial committee considerations post elections and could have independent industry and iwi representation.

As per option 1, no water services information would be included in standard council documentation such as the infrastructure strategy, long term plan, annual plan or annual report. This is to meet the proposed new legislative requirements for water services.

In addition to the planning framework HDC will still be subject to economic regulation in which the Commerce Commission will have a range of tools to use, if required, such as:

- information disclosure
- revenue thresholds (minimum and maximum)
- financial ring-fence
- quality of services
- performance requirement
- price-quality.

Reasons for proposing

Under the Local Government (Water Services) Bill, water service providers may enter into contracts with third parties for up to 50 years (instead of the current 35 year maximum). However, there are additional provisions designed to improve the nature of these contractual arrangements and procurement processes. Consultation will be required for significant contracts. Providers will need to include details on how the contracted party has performed during the year in their water services annual report.

The 'Commercial' option aligns with this provision, and for purposes of modelling, an assumption has been made a ten year contract could be arranged, with right of renewal for five years, then another five years. It is acknowledged that longer term is attractive to the market as it will enable the contractors to invest in people, plant, and identify efficiencies.

What is proposed

The proposal is that HDC continue to own and manage waters assets and services with the water supply and wastewater operations and maintenance services, of treatment, reticulation and routine pipe renewal no longer be undertaken by Council's in house works unit. It be carried out by a contractor in a long term contract.

To be able to propose a justified option, interviews were held with two potential commercial suppliers (contractors). This was to gauge fair and reasonable input and to identify potential cost efficiencies to allow comparison of options using financial modelling. For modelling purposes, all costs previously incurred by HDC's internal works unit have been transferred to an external contractor. To reflect uncertainty in market pricing, results are presented as a range of 5% higher to 5% lower than current costs, highlighting the potential variability in service delivery expenses under this option.

To proceed with the Commercial option, HDC proposes the following changes:

- Establish a committee similar to Audit and Risk Committee that has an independent chair, Iwi representative, industry representative and councillors supported by staff.
- Amend the current organisation structure within Council. The Water Services Manager would continue to be responsible for asset management, treatment, and compliance. However the works team would transfer to a contractor, likely still locally or within the Eastern Waikato region.
- Capital projects (excluding renewals) would continue to be delivered by the Project Management Office.

The overarching purpose of the Commercial option is to:

- Achieve the strategic outcomes of Council whilst improving on efficiencies, complying with economic regulation and applying best practice through engineering and industry standards.
- Achieve the required water service delivery objectives, financial and performance based.
- Optimise the workforce overtime so more efficient and flexible to even out workloads.
- Leverage specialist skills nationally to trouble shoot problem infrastructure such as plants.

Evaluation Criteria

There are five criteria agreed as detailed in the Economic case:

1. Financial Sustainability
2. Workforce:
3. Customer
4. Local influence:
5. Delivering on Expectation

Option Analysis

Sub options are:

- Sub option 4a – HDC's own Waters Operations and Maintenance Services Contract.
- Sub option 4b - Joining a neighbouring council's existing Three Waters Operations and Maintenance Services Contract at a later date.

The advantages and disadvantages of the commercial option are summarised below.

Financial sustainability

The base model for all financial modelling is Status Quo as agreed with the DIA in October 2024. The status quo model was built from the current LTP 2024-2034 and provided HDC the opportunity to understand their financial position in relationship to LWDW requirements.

There are several financial principles for water service providers in the Local Government (Water Services) Bill that HDC currently addresses through SQR:

Financial Principle	HDC Current Status
Revenue received from providing water services is spent on improving water services (including maintenance, improvements and providing for growth)	✓
The revenue applied to the provision of water services is sufficient to sustain the provider's long-term investment in the provision of water services.	✓
Revenue (including from charges) and expenses must be transparent to the public.	✓
HDC must be accountable for its revenue and expenses to it communities.	✓
HDC must demonstrate its compliance with the financial principles listed in subsection(1) – • In its financial operations and financial policies • In is planning and reporting documents prepared under Part 4 (listed in section 183(2). • Its financial strategy is prepared and adopted under section 101A of the LGA 2002.	✓

Financial sustainability demonstrates that water services revenue is sufficient to meet the costs of delivering water services including regulatory standards and long term investment under the commercial option. Stormwater has been not assessed as retained in house.

The commercial option has been assessed against the three factors related to financial sustainability.

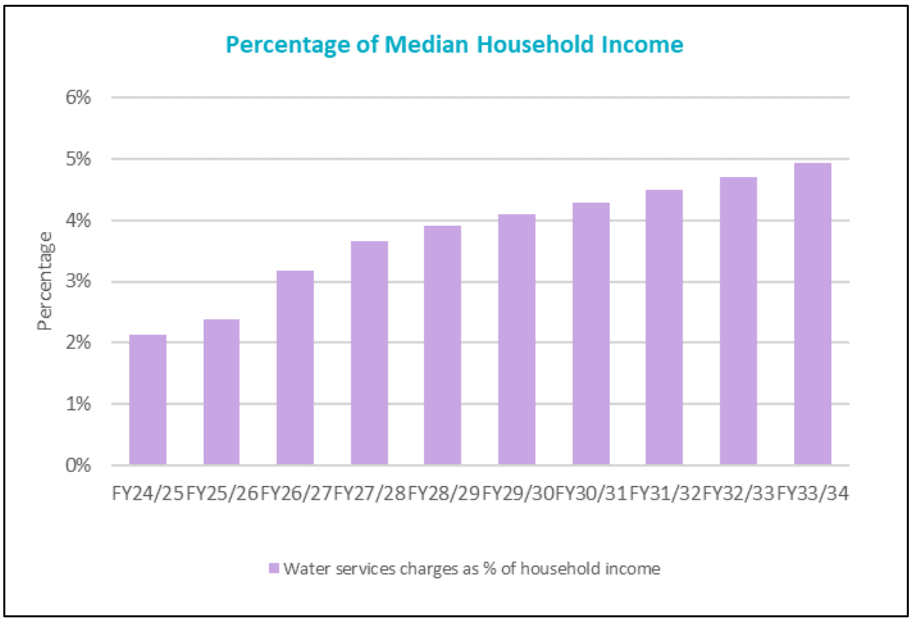
Financial Sustainability Key Factors	Does the Commercial option meet the Key Factors		
	Water	Wastewater	Stormwater
Revenue Sufficiency is there sufficient revenue to cover the costs (including servicing debt) of water services delivery?	Yes	Yes	Yes
Investment Sufficiency is there projected level of investment sufficient to meet levels of service, regulatory requirements and provide for growth?	Yes	Yes	Yes
Financing Sufficiency are funding and finance arrangements sufficient to meet investment requirements.	Yes	Yes	Yes

The cost efficiencies with the commercial option will not be achieved in the short term as takes time to transfer Council work staff and to invest in skills and plant. There may not necessarily be cost savings with the rolling renewal programme but more physical works will be completed.

There is greater chance of achieving efficiencies with a combined contract (option 4b) due to the scale. This option was modelled as a low model and high model which equated to 5% lower or higher due to variances in contract pricing. For the business case HDC has selected the high model for comparison.

Revenue Sufficiency

At the Council affordability workshop in November 2024, elected members determined that strategically, affordability for the region, included water and wastewater rates of between $1,600 and $2,000 per year which equated to approximately 2% of median household income. The Commercial Option rates are already breaching this threshold at 2.4% in 2025/26 and 5.0% by 2033/34. Most of this breach relates to the increase in wastewater rates as HDC works towards compliant wastewater plants.



As per the Status Quo with regulation options for the first 5 years water services will have a negative operating surplus ratio. This indicates that HDC has had to spend beyond their means to upgrade the Paeroa Wastewater Treatment Plan and plan to spend additional funds on other key projects that relate to improving compliance.

Investment Sufficiency

Under all options the Asset sustainability ratio is skewed due to the upgrade of the Paeroa Wastewater Treatment plant of a total amount of $50M in Years 24/25 and 25/26. Without being aware of the mentioned upgrade it could look like HDC is not replacing network assets in line with the rate of asset deterioration.

HDC has a robust renewal programme which has been in place for many years. The balance of investment ratios tell the story of a good investment program spread evenly across current and - future years.

Financing Sufficiency

In 2024 Council obtained a credit rating which increased their borrowing limit to 280%. In YR2024/25 starting position for overall council debt is the highest level of Net Debt to operating review (%) at 244% with $20.9M debt headroom to limit. From this point the projected council net debt to operating revenue improves where maximum headroom in YR2033/34 of $157.1M.

Water services is utilising a lot of council debt headroom and up to 26/27 is over the water borrowing limit (%). By 27/28 water services have a net debt to operating revenue (%) of 477% and debt headroom of $6.2M. Whilst the limit of 500% is a CCO borrowing limit, as a whole, council remains in a good financing position.

Leading Workforce

With the commercial option, asset management staff and large capital works would be retained by Council. However changes will be required for existing operating staff. Our works staff would have opportunity for local sub-regional employment with a new external contractor under this option.

Commercially an external contractor is expected to use less labour overtime through versatile frontline staff covering different specialist areas i.e. electrician and technician. Base salaries are likely to be higher than the existing Works Unit as it covers normal and rostered over hours. After hour costs can be predominantly eliminated under this arrangement except for major incidents / events.

Through the commercial option, there is flexibility in the workforce, with resources being able to be moved around to even out workloads and to meet different work demand, particularly as work demand can be seasonal.

There will likely be no efficiencies with direct labour even under a combined contract (option 4b). However, it is expected that there will be efficiencies with operational management (i.e. contract manager, admin support and maintenance planner) as these resources can be shared across two councils.

Customer Focus

The transition to an external contractor under the commercial option will need a rigorous process to ensure they are consistent with HDC's policies, processes and systems. HDC and the contractor will need to work together to ensure there are clear roles and responsibilities defined for great customer management.

There can be challenges with an external contractor and HDC staff not working as one team or being customer centric. This will require ongoing and active management through effective contract management.

A distinct advantage with an external contractor is the ability to access new technology nationally and, in some cases, internationally. They can leverage new technology that has been tested in other districts. They will bring smart solutions and technology to a small district council. This is important with greater requirements with economic regulation and Information Disclosure.

However, it is likely that this will only occur under a long term contract. The contractor will also more likely to invest in new technology under a combined contract (option 4b).

Local Influence

The external contractor will be based locally using Council's existing depots and / or treatment plants. This will allow the frontline staff to respond to operational water services issues within reasonable response times. With the combined contract, a sub-regional base may be set up which may not necessarily be in Hauraki District. The rolling renewal programme will still be delivered for both councils under the combined contract.

Delivering on Expectations

A strong advantage with the commercial option is that there is transparency with an external contractor's performance to deliver water services. This is measured through a comprehensive suite of performance measures, management reporting and contract relationship health.

The fully contracted out / commercial option requires HDC to have strong internal contract management capability to ensure that there is good delivery.
Although an external contractor can bring a lot of smarts to improve treatment plant performance, there is also alot of risk for Council. Poor contractor performance may result in environmental and / or drinking water compliance issues with the regulator(s).

Disadvantages of Commercial option

The disadvantages of the commercial option are described in the sections above but the key points are:

- The cost efficiencies with the commercial option will not be achieved in the short term, and may only be realised under the combined contract due to scale.
- There will likely be no efficiencies with direct labour even under a combined contract.
- There is a lot of work to ensure consistent policies, processes and systems between the contractor and HDC.
- There may be challenges with an external contractor and HDC staff not working as one team or being customer centric.
- The contractor will be more likely to invest in new technology under a combined contract (option 4b) than HDC's own contract.
- The fully contracted out / commercial option requires HDC to have strong internal contract management capability.
- Poor contractor performance may result in environmental and / or drinking water compliance issues with the regulator(s).