

An Economic Review

Waikato Water Done Well Hui

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Water services need to change

Government requirement

Needs to be financially sustainable and compliant with rising regulations

Rates affordability is getting stretched

Costs are rising to deliver

Region has a growing population – needs to be able to fund both expansion and renewals



TL;DR: The status quo won't cut it anymore

Or, if it does, it'll become increasingly expensive!



Stronger water spending forecast

Water is becoming a larger part of the infrastructure task

Water infrastructure investment, % of total infrastructure investment



Infometrics

Long term funding for a long term asset

Water assets are long-term assets – usually lasting 40-100 years.

For inter-generational equity, these assets should be funded over time by users, rather than paid upfront by current users

Debt-funding most appropriate, as it spreads the cost over time (and users over time)



Councils engaged in the Waikato Water Done Well discussion have debt headroom available – so you can grow over time

Other, often high-growth areas, are debt constrained. They've already got a lot, and to take on any more they need further (large) revenue increases



What's possible

Separate water entities enable greater borrowing capabilities – up to 500% of revenue

Higher debt ceiling means more debt available from same revenue

Growth can then be achieved with higher borrowing, but also more limited revenue increases

Higher cost escalation recently makes projects cost more





Infometrics

Finances Status Quo Switching focus to higher debt to spread cover over time \$m, water debt, annual totals CCO 1,200 1,000 800 600 400 200 0 26/27

27/28 28/29 29/30 30/31 31/32 32/33 33/34







Water investment costs rising faster than household costs

Water infrastructure costs rise faster than household costs Price indexes, re-based to Mar-17 = 1,000





Costs

	Consumers price index (CPI)	Systems for water and sewerage
Increase over 10 years	32%	52%
Annual average increase	2.8%	4.3%

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Collaboration

Collaboration critical for ongoing success

Taking a group approach, and being able to draw in and use a catchment of assets – is most efficient.

Collaboration means the value of work on offer is larger, giving a CCO more leverage to negotiate with suppliers



Bargaining Power

Better negotiating power together as a block of 40%

Share of population in Waikato Region, 2024





Collaboration means

investments can be best staggered as they're needed, and

assets can be pooled together to be best used (instead of having various different assets serving different communities without coordination)

Working together to best use resources available



Modelling shows that a CCO approach, bringing together water services across much of the region, can deliver water services at a lower per-household cost than going it alone



Modelling approach is sound

Infometrics has examined the Waikato Water Done Well modelling, and reviewed the model for reasonableness.

It is reasonable

We haven't undertaken a line-by-line model review

Assumptions appear reasonable and robust

The model is a forecast at a point in time – inputs, forecasts, and other factors will change, but the underlying approach and outcomes will remain

Some key assumptions

Costs – could be overly conservative, given some might be covered by baseline revenue (appropriate to be conservative)

Takes debt to a peak of ~460% of operating revenue - below 500% LGFA confirmed cap, to enable a buffer (very sensible to maintain a buffer)



Efficiencies are reasonable

Assumes peak of 15% efficiency over time Not straight away, takes 15 years Based off feedback from experts

Data from Councils

Modelling is at a point in time Assumes financial settings as per Council documents + supplied forecasts (which will continue to change over time)



Sensitivities tested

Assumes peak of 15% efficiency over time Also tests if efficiency is lower (or higher) +5% to -10% efficiency level

> Still provides strong results

Assumes costs as outlined in assumptions Also tests if costs are higher (or lower) -20% (lower) costs to +60% (higher) costs

> Still provides strong results



Savings

Key focus is often on total costs/savings

The public, and especially ratepayers, are most interested in their personal bills

Per-connection (household) costs are modelled to be around \$940 lower in 2044 compared to BAU*

* Actual decisions on how household bills change are for the organisation to decide operationally over time



Savings over time, for the CCO

Moving to a CCO saves \$580m in cost by 2044... \$m, **cumulative** net cost savings for the proposed CCO



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Total, CCO

Savings over time, per connection





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A Waikato Water Done Well CCO Model:

- **1. Meets government requirements**
- 2. Allows for better collaboration
- 3. Means stronger negotiating power
- 4. Enables costs to be spread over time (and users over time)
- 5. Allows water infrastructure to be debt financed

Most importantly: it saves money

This is a tough and complex conversation

Congratulations on coming together to look to the future

