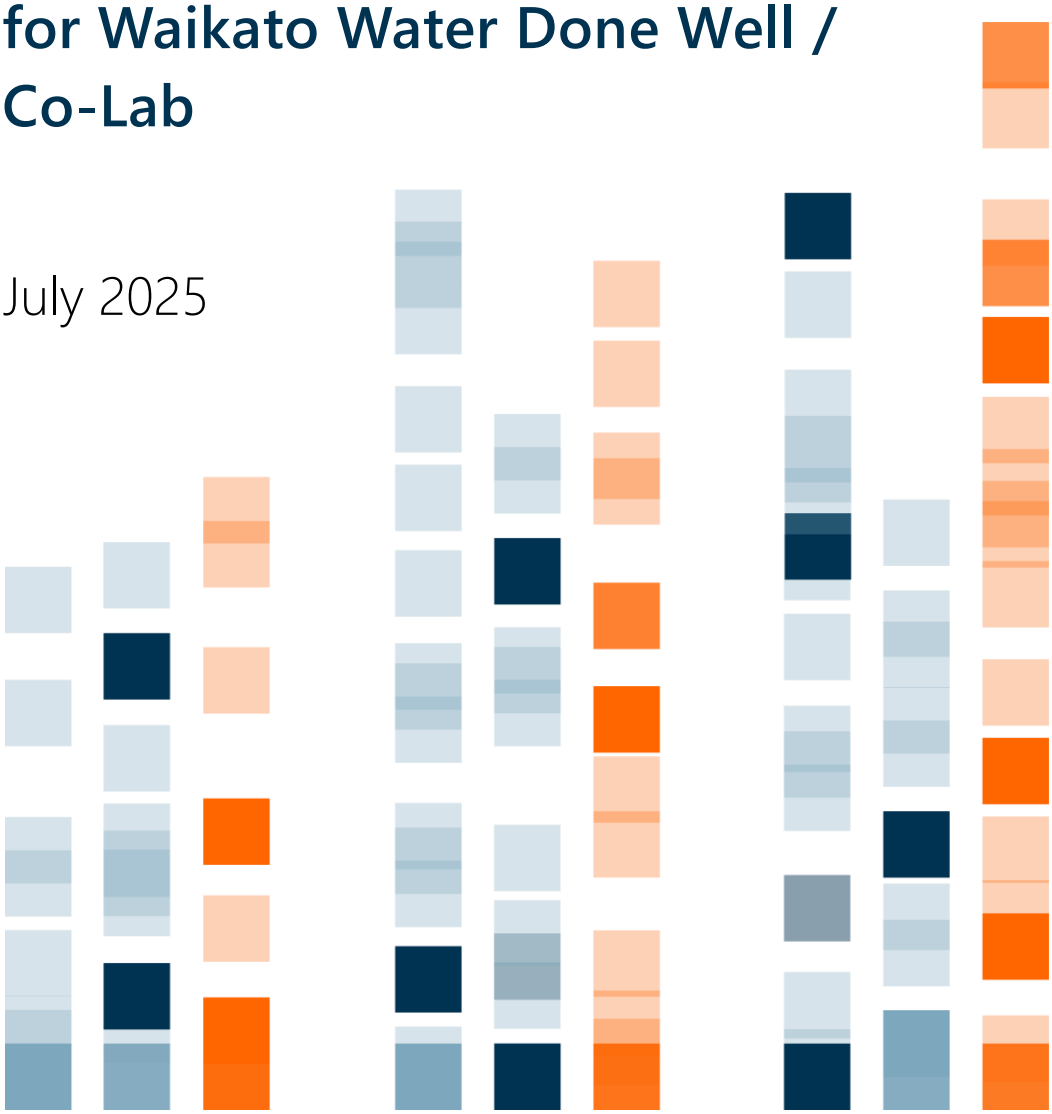
Economic Review of Waikato Water Done Well Modelling and Approach

for Waikato Water Done Well / Co-Lab

July 2025



Infometrics

Economics put simply

Authorship

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Table of contents

Overview

Infometrics has been commissioned by Co-Lab and the Waikato Water Done Well project group to provide an independent economic review of the economic benefits of Waikato's "Waikato Water Done Well" (WWDW) model, compared to individual councils "going it alone" – effectively the status quo, where individual councils continue to be directly responsible for water services.

As outlined from Co-Lab, the modelling for WWDW has been undertaken in-house, and an external economic review of the modelling and the generated economic outcomes are required. Infrastructure systems, like for water services, and their finances, can be complex. Infometrics has also been asked to provide an independent, understandable, overview of the WWDW approach.

Key Findings

This report provides a comprehensive economic review of the Waikato Water Done Well (WWDW) proposal as presented to elected members at the hui on 7 May 2025. The WWDW initiative proposes a Council-Controlled Organisation (CCO) model to deliver two waters services (water supply and wastewater) for participating councils in the Waikato region. Infometrics was tasked with undertaking a high-level, sense-check economic review of the financial modelling underpinning the proposal, the assumptions used, and the broader implications for infrastructure delivery and intergenerational equity.

Our review finds the WWDW proposal to be financially sound, strategically advantageous, and preferable to the status quo. The current model of individual council delivery is unlikely to remain viable given escalating costs, regulatory pressures, ageing infrastructure, and the need to manage population growth and climate resilience. The proposed CCO model offers financial sustainability, operational efficiencies, cost savings for households, and improved capacity to manage long-term infrastructure investment.

The status quo is increasingly untenable and will likely lead to higher costs, lower resilience, and missed opportunities. Cost increases are inevitable under both options, but significantly higher under the status quo.

There are clear financial benefits to households over the long term under the WWDW proposal, and a joint CCO approach would enhance collaboration and reduce duplication, future-proofing water service delivery across the Waikato region.

Background to the proposal

The WWDW proposal emerges from reform requirements laid out by the government under its Local Waters Done Well policy. This policy seeks to reform water service delivery, in light of numerous challenges. These challenges include the standards and quality of water services across New Zealand and resulting higher compliance obligations, rising infrastructure costs, and constraints on local councils' ability to raise revenue or debt.

Amid this backdrop, regional groupings have been strongly signalled as preferred options by central government, to ensure more rational and lower cost services, and to better utilise debt to fund long-term asset investment. WWDW represents a regionally-led response to these challenges and expectations from central government, representing the largest grouping of councils across the country.

For clarity, the following areas and councils have been involved in the WWDW process, although timings and inclusion of all councils is subject to consultation and decisions by individual councils:

- Waipa District
- Taupo District
- Matamata-Piako District
- South Waikato District
- Hauraki District
- Otorohanga District
- Waitomo District

Infometrics was asked to undertake an economic review that essentially addresses the following key questions:

- Do the financial models and assumptions used in the WWDW proposal make economic sense?
- Are the proposed outcomes financially sustainable and achievable?
- What are the long-term implications for ratepayers, asset management, and service delivery?

The purpose of this review was not to validate line-by-line financials but to evaluate the credibility, reasonableness, and robustness of the model overall.

This analysis draws on modelling undertaken by WWDW, and should be read in conjunction with various documents provided alongside consultations undertaken by individual councils in deciding the future direction of water service provision in the region.

Key Economic Drivers of Reform

Central Government Mandates

Government has signalled that water reform is required. Councils choosing to "go it alone" face significant financial and regulatory risks. The scale of infrastructure investment required makes collaboration more viable.

Financial Sustainability and Compliance

Water regulations have changed. Councils must now comply with more rigorous environmental, health, and economic standards. This requires greater investment and better asset management.

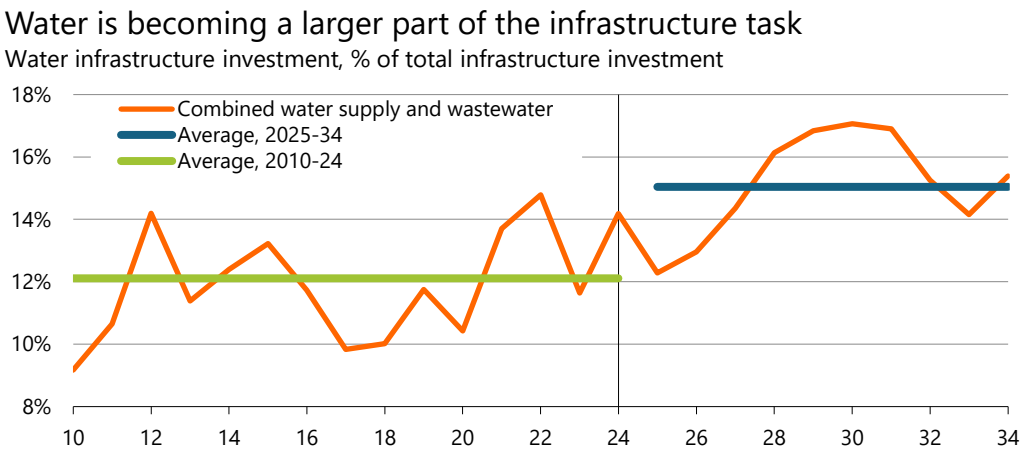
Growing Demand and Infrastructure Deficits

Population growth is adding pressure on existing water infrastructure, while much of the current network is reaching end-of-life. Without reinvestment and renewal, many areas risk losing growth capacity and even service continuity.

Not only is water infrastructure investment rising, but it is becoming a larger share of overall infrastructure investment. Although critically important to ensure the continued high-quality deliver of water services to New Zealanders, higher spending, and greater focus on water investment will likely drive pressures in the sector.

As Chart 1 shows, the share of overall infrastructure investment in New Zealand going towards water projects averaged 12% of total infrastructure investment over 2010-2024. However, this is forecast, on current local council Long Term Plan forecasts, to rise to average 15% over the decade to 2034.

Chart 1



Source: Infometrics, based on various data sources in the Infometrics Infrastructure Pipeline Profile

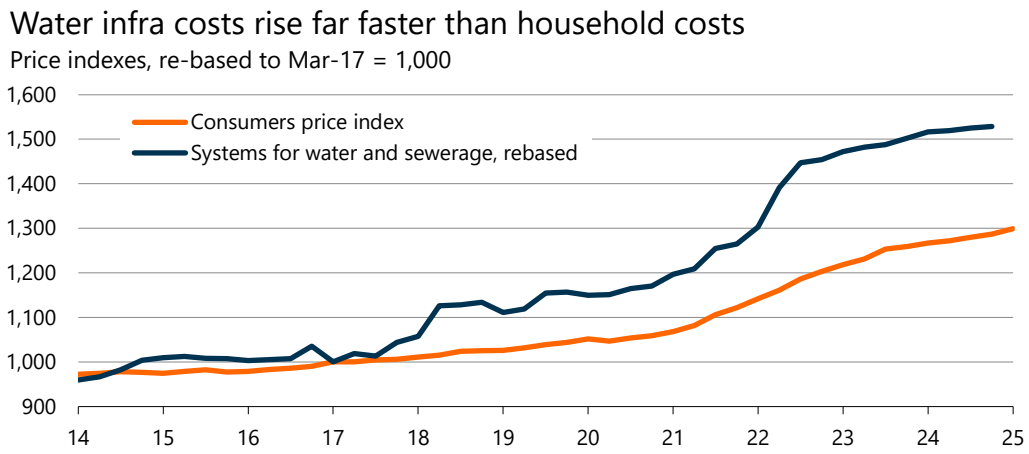
With more work to do to deliver more water investment, capacity from the water sector – both for new assets and for ongoing maintenance – will constrain service providers and the ability to secure direct staff and contractors. The usual economic response to demand outstripping supply for a service is that prices for that service rise, exacerbating cost pressures in the water sector. With more limited supply of staff relative to demand,

smaller areas, who are less valuable in a relative sense to water service contractors, may struggle to attract and retain talent, and to access reasonable terms for water contracted services.

Infrastructure inflation

The cost to deliver water infrastructure have escalated significantly faster than general inflation over time. Chart 2 shows that from 2013 to 2023, water infrastructure costs rose by 52%, compared to 32% for general household inflation (the headline Consumers Price Index).

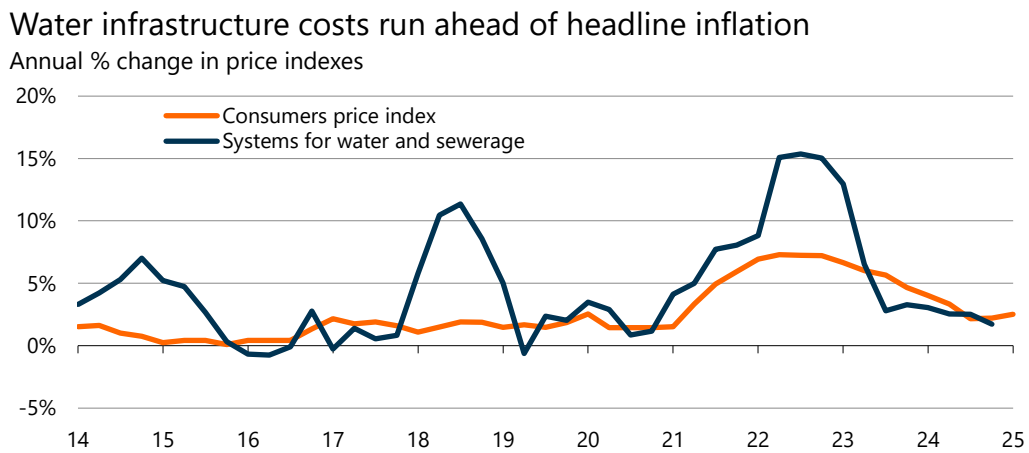
Chart 2



Source: Stats NZ, Consumers Price Index and Capital Goods Price Index

These considerably higher infrastructure cost pressures for delivering water infrastructure also underscore the difficulty around continuing to rely on rates to fund water services. Household costs are rising, on average, at a slower pace than the cost to deliver water. Concerns over both affordability of water services, but also about the ability to fund the level of water investment and cover water infrastructure cost escalation, are both clear and pressing concerns.

Chart 3



Source: Stats NZ, Consumers Price Index and Capital Goods Price Index

Chart 3 shows that annual water infrastructure cost escalation peaked at around 15%pa in 2022, well above the 7.3%pa rate seen for household inflation. These inflationary pressures in the water infrastructure area are expected to continue to remain higher than headline inflation, particularly with higher investment into water services forecast.

Waikato Water Done Well Model Review

Infometrics has reviewed the various documents relating to the financial modelling of the WWDW proposal, and the underlying financial model itself. Having reviewed the assumptions and broad operations of the model, the approach, assumptions, and outputs appear reasonable and valid.

Key assumptions and caveats

We have assessed various key assumptions and caveats contained in the WWDW model for reasonableness and validity. Key assumptions reviewed by Infometrics include:

- **Setup Costs**: The WWDW model contains establishment costs to set up a Joint CCO operation, including costs for staff, a Board, office space and computers, IT systems for asset management, and other costs. There is a reasonable basis for each of the costs, although some costs might be larger than reality, with some costs expected may already be fully or partially within current baselines as overheads, that would reduce the specific amount needing to be set aside for establishment costs. Establishment costs are therefore reasonable, but could also come in lower in reality.
- **Efficiency Gains**: The WWDW model assumes a 15% efficiency is gained over 15 years, based on real-world examples and expert opinion of reasonable efficiencies and savings from Australian water service experiences shared with WWDW, and based on previous modelling for DIA. The efficiencies assumed are similar to other efficiency assumptions for water service changes provided in other parts of the country, and only appear incrementally, a reasonable approach where efficiency cannot be gained overnight.
- **Debt Peak**: Debt levels are set to peak within safe levels, below anticipated caps, leaving room for unforeseen events.

These assumptions are reasonable and slightly conservative in some areas, reflecting a cautious, responsible modelling approach. Importantly, outcomes remain positive even under adverse variations.

Model operation

Infometrics has examined the model operations at a high level, and assessed the model to ensure it generates plausible outcomes, which it does. We have not undertaken a line-by-line audit of the financial model.

The model is necessarily large and complex, with various scenarios, assumptions, and individual councils all reflected in the model. The variety of model options to choose from, and the various potential incorporation dates of different waters and different areas, can cause some calculation issues with certain selections of options, but these issues are easily picked up as they generate clearly implausible results. Our experience communicating with the model operators showed that they understand these edge cases too, providing further confidence in the model operation.

The model has various settings to vary inputs and assumptions. Although we have reviewed different iterations of the model outputs, our analysis focused on the outputs consistent with the outputs discussed with Elected Members from constituting councils, and which formed the modelling contained in consultation documents for the constituent councils, dated March 2025.

Data inputs for the model are generally based on published data from individual council Long Term Plan documents, with additional information sometimes supplied by councils on connection numbers or the splits of various water types. Data from councils is being updated periodically as councils adjust their own internal water requirements. Importantly, the model operates off the more reliable information provided by each council at the given time, and means that results on the CCO approach are able to be compared on a like-for-like basis with individual council spending baselines.

Model outputs

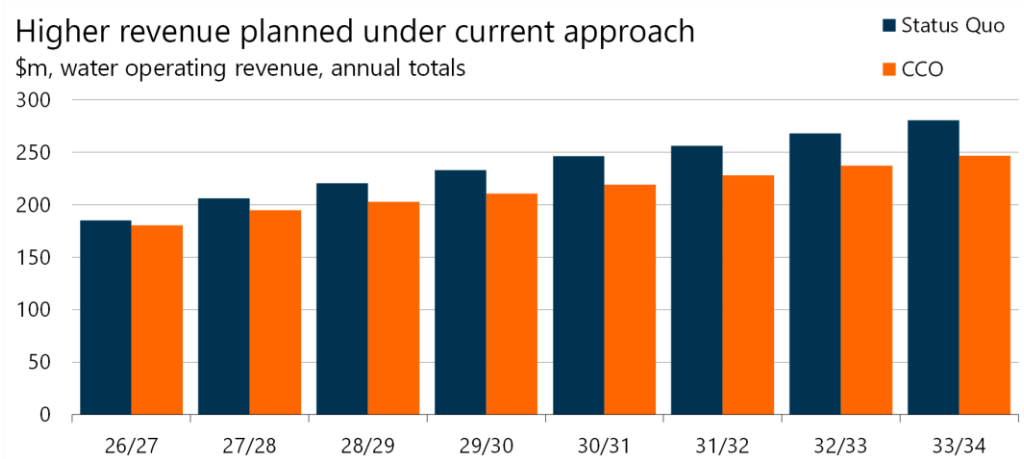
The model essentially provides comparisons between the current status quo, of in-house water services provision by individual councils under LTP baselines, and a joint CCO approach. The councils included in the modelling, and the timeframe for operations, can both be varied if required. Below we discuss a number of outcomes generated from the model and the reasonableness of these outcomes.

Revenue Requirements

Large and persistent rate rises across the country recently have further highlighted the financial difficulty in managing higher water investment with limited revenue options available.

Modelling shows that the CCO can operate with lower immediate revenue requirements than councils acting alone (see Chart 4). This eases pressure on current ratepayers (and tenants, indirectly). Instead of requiring direct revenue (through rates or other water charges), pooled debt-funding of water assets, and efficiency gains over time, limit the revenue that needs to be collected.

Chart 4



Source: Infometrics analysis of WWDW Modelling

Debt Capacity and Intergenerational Equity

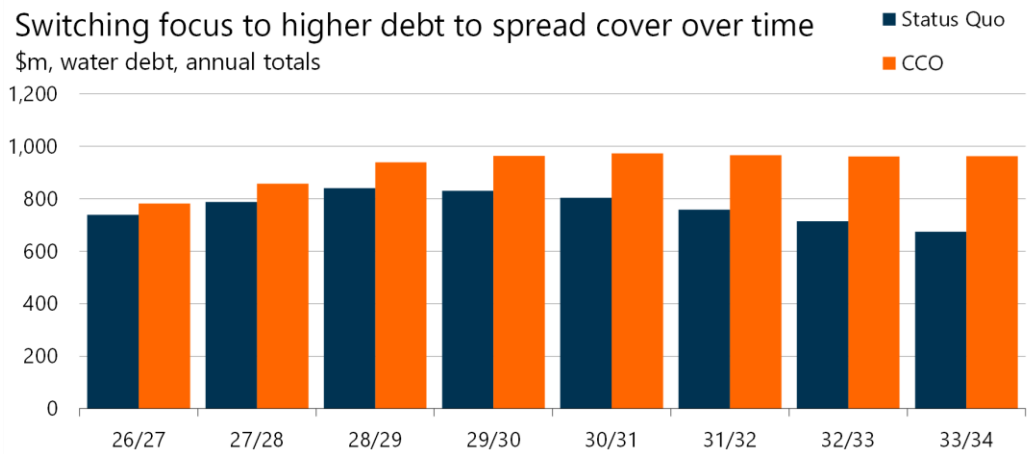
Water assets are long-term assets, rather than items that are rapidly used up. The long life of water assets means you need to account for intergenerational equity in how these investments are funded. Importantly, you also need to view the cost of these assets over that longer period too.

Reviewing a number of Long Term Plans published by Councils within the Waikato Region, and across the country, and the long term nature of water asserts become clear. Statements of Accounting Policies include tables of the useful lives of major classes of assets. In general, water assets have a useful life of generally at least 40 years depending on the asset, up to 100 years of useful life.

Funding these long term assets through short-term rates would place an undue burden on current ratepayers. The WWDW model enables a more balanced approach through debt financing, allowing future users to contribute fairly to the cost and use of these long term assets.

Higher debt under the proposed model allows the cost of assets to be spread over a longer period of time, achieving better intergenerational equity as users of the assets help repay the debt over time. As a result, debt is higher under the CCO model (see Chart 5), although it still starts to decline, slowly, over time. The higher debt levels are the corollary of the lower direct revenue needing to be raised from current users.

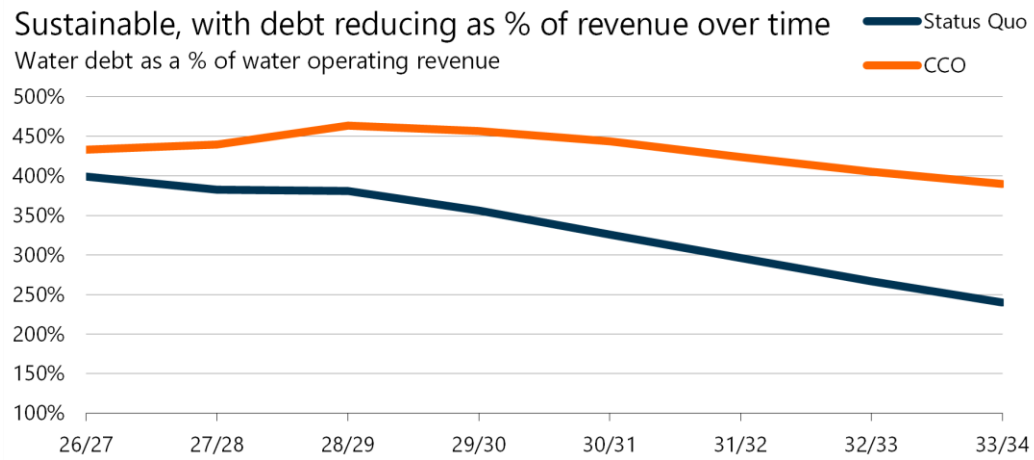
Chart 5



Source: Infometrics analysis of WWDW Modelling

The proposed model anticipates a peak debt-to-revenue ratio of approximately 460%, under the LGFA's implied 500% ceiling (see Chart 6). This peak debt ensures capacity to invest while maintaining financial resilience, and ensuring a debt buffer is available for unknown investment arising.

Chart 6



Source: Infometrics analysis of WWDW Modelling

The modelling also shows that the financial outcomes sought, of using higher debt funding to spread the cost of investment into the future, and limit current rate payments, can be achieved under the Free Funds from Operations (FFO) limits expected to be imposed by LGFA.

Sensitivity Testing

The financial model includes robust sensitivity testing, to show the financial outcomes if assumptions in reality were different from those assumed. The two areas of sensitivity testing performed were around efficiency assumptions and setup costs.

- Efficiency assumptions were tested from +5% above baseline efficiency assumptions to -10% below. Sustained lower efficiency gains does appear to put pressure on the ability to achieve required FFO rates, requiring adjustments to investments, although these adjustments would be needed under a status quo scenario too to meet FFO requirements over the longer term.
- Setup costs were stress-tested up to 60% higher than expected, and were still able to see the CCO option absorb these higher costs without a material impact on the debt profile or ongoing operations.

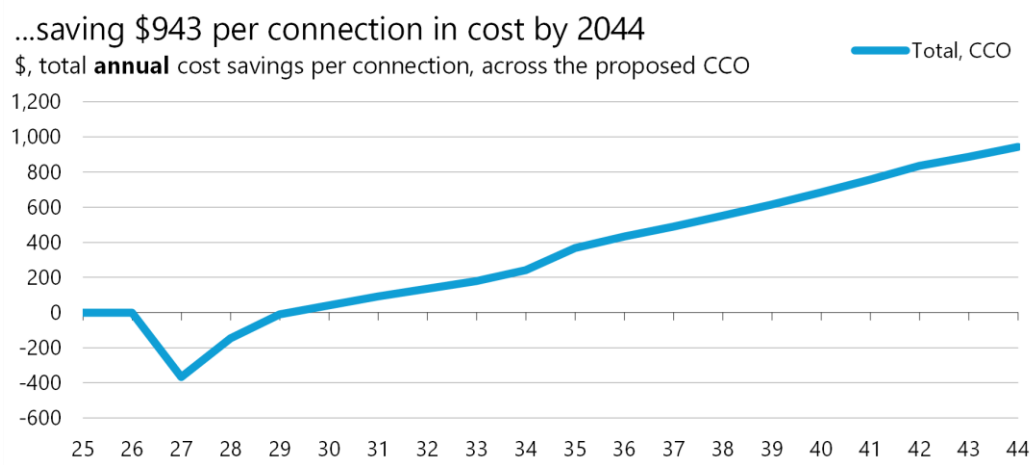
The sensitivity results still showed sustainable outcomes with material savings, although some adjustments would of course be necessary if the reality around efficiency gains were different from assumptions.

Household Impact and Cost Savings

Long-Term Household Savings

Under the modelling reviewed, by 2044, average per-connection savings under the WWDW CCO model are projected at $940/year, compared to the status quo with individual councils delivering water services (see Chart 7). To put these figures in context, by 2044 average per-connection charges annually under a "do nothing" scenario are around $5,000 per connection.

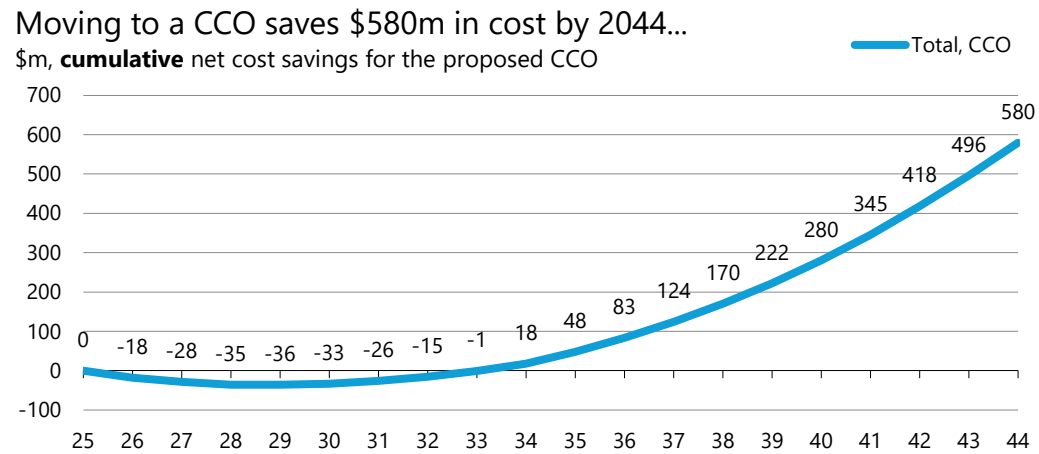
Chart 7



Source: Infometrics analysis of WWDW Modelling

In total, by 2044, cumulative regional savings could exceed $580m for the combined WWDW area (see Chart 8). Setup costs for the WWDW organisation contributes to negative savings (costs) over the starting years of the comparison, coupled with the fact that efficiencies aren't achieved in full for 15 years. The financial benefits of WWDW are harder to see over a 10-year horizon, which is reasonable if efficiencies don't immediate occur. That is a reasonable and valid assumption.

Chart 8



Source: Infometrics analysis of WWDW Modelling

The value of a joint water approach provides a much stronger financial payback over a longer period of time, aligned to the slow but steady increase in efficiency able to be archived for long term (40-100 year) assets. This longer timeframe for financial payback isn't unusual for large capital investments, but also shows that the sooner a change is made, the sooner benefits are realised.

Over 20 years, these regional benefits equate to approximately $8,000 in savings per household. These savings are significant and confirms that the WWDW model not only delivers service improvements but also financial relief for households.

Collaboration and Negotiating Power

Economies of Scale

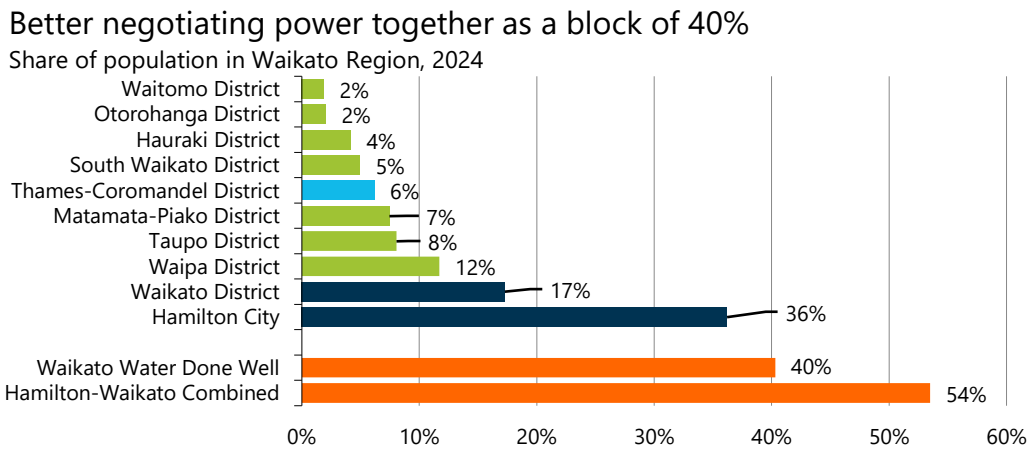
A WWDW CCO would allow for greater economies of scale, alongside staggered investment, coordinated workforce planning, and streamlined procurement. These reduce duplication and enhance value for money.

Negotiation Leverage

Chart 9 shows that councils within the WWDW group operating alone only represent 2–12% of the region's population, providing less bargaining power within the region individually. This less bargaining power is particularly true in the context of the Hamilton-Waikato District joint water CCO proposed, which will contain around 54% of the region's population.

Individually, smaller areas are likely to struggle to secure favourable terms from contractors, and will be less able to compete on similar terms to attract and retain staff. Any future joined up water approaches in the Waikato Region, such as the Hamilton-Waikato District CCO integrating other areas, would also place smaller areas in a more vulnerable position without as much bargaining power. WWDW contains around 40% of the Waikato population participating, providing the CCO with much more substantial negotiating power, across various areas including contractor negotiations, staff attraction and retention, and any possible future joining of water service providers.

Chart 9



Source: Stats NZ, Infometrics – based on latest subnational estimated resident population

In the future, if water services in the region were to join up further, WWDW can negotiate from a stronger position, with the 40% share of population providing a larger base from which to bargain.

Risk of isolation

Without a joint approach, individual councils may face higher procurement costs from less bargaining power with suppliers, workforce shortages, less investment capacity, and overall poorer service outcomes.