


Proposal for Waikato Water Done Well

As a Water Service Delivery Option

20 March 2025



Te Mana o Te Wai,
Te Mana o Te Tangata
Healthy Water,
Healthy People

Waikato Water Done Well



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Executive Summary

Background

Over the last 18 months Waikato councils have demonstrated leadership by working together to identify common challenges and opportunities for water services delivery. Under the banner, *Waikato Water Done Well*, councils have reflected on how they can strategically approach the delivery of water services to maximise both local and regional benefits.

Concurrently, under Local Water Done Well, all councils in New Zealand have been mandated to develop a financially sustainable and regulatory-compliant model for delivering water services to their communities. The focus is on addressing long-standing issues with water infrastructure across the motu.

Against this background, the Waikato councils engaging in Waikato Water Done Well identified workforce availability and the ability to deliver large capital infrastructure projects as common challenges. An additional challenge for many councils is the ability to fund the growing need for water services infrastructure (be it to meet growth or other requirements). For a mixture of reasons, councils are having to increase rates significantly to do what needs to be done. This is leading to affordability concerns across councils for their communities.

Common objectives

To address these challenges, Waikato councils have co-designed a proposed model for the delivery of water services. This model is centred around the vision of *Te Mana o Te Wai, Te Mana o Te Tangata | Healthy Water, Healthy People*. The vision establishes a foundation for strategic, results-oriented water services governance and delivery under which everyone benefits in the long term. To achieve it, Waikato Water Done Well focuses on delivering five strategic outcomes:

1. Financial sustainability – to address the access to funding challenge and create efficiency savings by working together
2. Leading workforce – to address the workforce availability challenge by offering the vision, scale and geographic reach to be a compelling proposition for existing and prospective employees and third-party contractors
3. Customer focus – to improve services to customers by delivering water services more efficiently and thereby addressing the affordability challenge
4. Local influence – to address community and council concerns about lack of control and influence in local matters
5. Delivering on expectations - to address concerns about meeting treaty settlement obligations and delivering on council expectations and those of key partners.

The proposed model is documented in a non-binding Heads of Agreement (**HoA**) that has been signed by seven councils:

1. Hauraki District Council

2. Matamata-Piako District Council
3. Ōtorohanga District Council
4. South Waikato District Council
5. Taupō District Council
6. Waipā District Council
7. Waitomo District Council

At the time of writing, Waipā District Council has unanimously identified the Waikato Water Done Well model as its preferred option. The remaining councils are considering whether this is their preferred option at various dates over March 2025 and early April 2025. Before deciding to formally adopt the model, councils will consult with their communities. To support decision making, this proposal sets out how Waikato Water Done Well can deliver on its vision and achieve the strategic outcomes sought by councils.

What is proposed

It is proposed that a water services company owned by councils is established. The initial name of the company will be Waikato Waters Limited. As the company will be council owned, it will be a council-controlled organisation (**CCO**) and is referred to as the **Waikato Water Done Well CCO** in this proposal document.

This model will mean responsibility for providing drinking water and wastewater services will transfer from councils to the Waikato Water Done Well CCO. This will involve the transfer of specified infrastructure, related assets and liabilities together with offers of employment to identified employees. A detailed transition plan will support the transfer from each council to the Waikato Water Done Well CCO to ensure seamless service delivery for customers in the short term and better outcomes for customers in the long term. Stormwater will remain with individual councils but the Waikato Water Done Well CCO will provide management services to those who wish to receive them.

The transfer of responsibility does not mean councils will no longer be involved in water services. Council will continue to set the strategic priorities and direction for the Waikato Water Done Well CCO and, under developing legislation, will retain responsibility for matters such as drinking catchment plans and by-laws. The Waikato Water Done Well CCO will be the water services provider and, as such, will be the regulated party under new regulation which includes safeguards for consumer interests and protection.

At the core of the model is a move towards a catchment-based approach to the health of water. This is referred to as Smart Consenting in this proposal. By working together, there is the opportunity to get a better return on financial investment and achieve better outcomes in terms of the health of water bodies.

A significant factor in the design of the model has been its ability to address local concerns and to be customer focused – this includes making water services comparatively more affordable for the community. Two key components to managing affordability are:


1. the long-term efficiencies that can be generated across operating and capital costs by aggregating several councils' water activities together. The efficiencies that can be achieved from scale are greater than those that a standalone council can generate
2. the ability of the Waikato Water Done Well CCO to access greater borrowing and so unlock additional financing over and above what a standalone council can unlock. The access to higher debt levels enables the cost of investments to be spread over long life assets (some of which have a lifespan of 75-100 years) and across the generations who use them. This is like paying your mortgage off over 30 years rather than 20 years - it is cheaper per month. Forecasts show that the Waikato Water Done Well CCO can be financially sustainable with operating revenue increasing by 4.0% per annum once all councils have transferred their water services business into the CCO¹. This is less than that proposed by most of the councils acting alone.

Achieving statutory objectives is expected of all water services providers (whether it be a council or a CCO). The design of the Waikato Water Done Well CCO aligns with the new water service delivery model under Local Water Done Well. This means the Waikato Water Done Well CCO is well positioned to meet the statutory objectives of a water service provider and operate under the new water services system in a transparent and accountable manner.

All councils will have to invest in operational change to align with the new water services system. The Waikato Water Done Well CCO allows councils to strategically plan for this change in a way that meets regulatory requirements but more so, enables the councils to collectively borrow more², combine long-term work programmes to create efficiency and invest in infrastructure that is needed now without having to increase rates significantly.

Despite varying needs, all Participating Councils will benefit from the Waikato Water Done Well CCO.

The Waikato Water Done Well CCO provides a future-focused opportunity that transcends boundaries, allowing Councils to show leadership in water services delivery for generations to come, with a unified voice and scale. This strategic opportunity to work together for the benefit of communities and the wider region was recognised during negotiations with reference to the whakatauhā by King Tāwhiao:



“Ki te kotahi te kākaho, ka whati; ki te kāpuia,
e kore e whati.”

When a reed stands alone it is
vulnerable, but a group of reeds together is
unbreakable.

¹ The model is based on all councils having transferred their activity by 1 July 2028. The increase in charges is greater than this in the first two years. The increase in **average water charges** (cf revenue growth) will be less than 4% because the population is growing (~\$1.8k increasing to ~\$2.8k per residential connection by 2034)

² A water company with council financial support will be able to borrow up to the equivalent of 500% of operating revenue (around twice that of existing councils) through the Local Government Funding Agency (LGFA), subject to prudent credit criteria.

Wider Waikato context

Hamilton City Council, Waikato District Council and Thames Coromandel District Council are not part of the Waikato Water Done Well model.

Hamilton City Council and Waikato District Council have formerly resolved to set up a separate CCO (subject to public consultation). This is to respond to specific challenges and timings they face. Notwithstanding this, both councils have acknowledged that a single regional model will be of benefit to all councils in the future. It will be a matter for each council to decide whether any further consolidation of water services creates long-term benefits. By coming together now, the seven councils position themselves to unlock short to medium benefits while also creating a strong foundation to investigate long-term opportunities.

Purpose of this document

This proposal is presented to councils to support decision-making on how water services should be supplied in the future. As such, it forms the first key milestone decision for councils to make as part of Local Water Done Well.

The focus of this proposal is the Waikato Water Done Well CCO and so it does not address the separate analysis of existing council arrangements (or other any other options councils may be considering).

Terms are defined in bold throughout this proposal document. However, to assist the reader, a glossary of key terms is also included at the end.

Proposal

1. Why Waikato Water Done Well?

- 1.1. Since mid-2023, under the banner of *Waikato Water Done Well*, Waikato councils have been working together to find a pragmatic solution to common challenges in delivering water services³. These common challenges include:
- a) workforce availability
 - b) responding to an increasingly regulated environment
 - c) delivering capital works on time and within budget
- 1.2. Guided by the vision of Te Mana o Te Wai, Te Mana o Te Tangata | Healthy Water, Healthy People, **Participating Councils** have worked together to identify and co-design a water services delivery option that can achieve the following agreed strategic outcomes (further detail on each is included in sections 7 to 11 below).

Financial sustainability	Create scale & change to enable significant investment required to deliver efficient and financially sustainable services that comply with regulatory requirements & enable urban development.
Leading workforce	Create the conditions to build and sustain a highly skilled, adaptable and world-leading water workforce that can innovate and collaborate to drive outcomes for Waikato.
Customer focus	Be customer focused, leveraging new technologies, while also building customer awareness of their role in the water system and the value of water.
Local influence	Ensure local voice is represented in critical decision-making around water investment and management across the region, including decisions in relation to water takes and water discharges.
Delivering on expectations	Meet the expectations of key partners and stakeholders including those represented in Treaty settlements. Protecting public health and the environment.

- 1.3. The output of the above mahi is the proposed Waikato Water Done Well CCO. This CCO option aligns with and leverages the water service delivery model of a water organisation made available under Local Water Done Well. As such, the Waikato Water Done Well CCO is well placed to meet the statutory objectives of a water services provider (as currently set out in the Local Government (Water Services) Bill (**Bill#3**)). These objectives are listed in **Appendix 1**. The joined-up approach will enhance resilience for the benefit of communities.
- 1.4. Despite varying needs, all councils will benefit in some way from the Waikato Water Done Well CCO.

³ The challenges particular to each Participating Council are set out in section 6 of this Proposal.

2. What is proposed

- 2.1. The proposal is that each Council adopt the Waikato Water Done Well CCO as their future water services delivery model and include this in the water services delivery plan due to be submitted to the Department of Internal Affairs (**DIA**) by 3 September 2025.
- 2.2. In summary, Waikato Water Done Well proposes:
- a) The establishment of a water services company owned by councils as shareholders (**Shareholding Councils**). As a council owned and controlled company, the water services company will be a CCO. It will have the initial name of Waikato Waters Limited.
 - b) The establishment of the Waikato Water Done Well CCO will provide the legal structure into which the relevant people, processes and systems will transfer from each council and start working together to operationally deliver water services.
 - c) The transfer of council businesses into the Waikato Water Done Well CCO will be staggered in a manner that will be pre-agreed by the Shareholding Councils in formal governance documents (**Agreed Transfer Date**).
 - d) On the Agreed Transfer Date, a council will transfer responsibility for its drinking water and wastewater services into the CCO (see below re stormwater). The transfer of responsibility will be implemented through a transfer agreement setting out the infrastructure, related assets and liabilities (including debt) transferring from the council. There is also a process to transition identified employees.
 - e) To ensure a smooth and safe transition of each council's business into the CCO, planning for each transfer will be undertaken in accordance with agreed principles and processes.
 - f) Assets and debt associated with stormwater will remain with councils but it is expected that the Waikato Water Done Well CCO will undertake stormwater management functions under a service agreement with those councils who seek this.
 - g) The transfer of responsibility does not mean that councils will no longer be involved in water services. Although the Waikato Water Done Well CCO will become the provider of drinking water and wastewater services in the service area of a council from the Agreed Transfer Date, councils will still own the CCO and will set the strategic priorities and direction for it. These matters will be captured in the Shareholding Councils' Statement of Expectations.
 - h) The Waikato Water Done Well CCO will have the following structural requirements (which also align with legislative requirements):
 - Shares in the Waikato Water Done Well CCO can only be held by a council: they cannot be sold or transferred and so the CCO cannot be privatised.
 - A visual of the ownership structure and how Shareholding Councils will hold the Waikato Water Done Well CCO to account is included in **Appendix 2**, together with further information on the shareholding arrangements.
 - The Waikato Water Done Well CCO will be governed by a professional board of directors with the necessary skills, knowledge and experience to guide the CCO and contribute to the achievement of its strategic outcomes and objectives.

- All board appointments will be competency based informed by a board skills matrix. A copy of the matrix agreed by councils in the HoA⁴ is included at **Appendix 3**.
- The Chair of the Board will be appointed by the Shareholding Councils and will then support the Shareholding Councils in appointing the remaining directors.
- Directors cannot be an elected member or a member of staff of any of the Shareholding Councils⁵.
- All decisions of the board must be made in accordance with the Waikato Water Done Well CCO constitution and informed by the Statement of Expectations. The board will also be guided by each council's long-term planning. The board will be accountable to shareholders.
- A Shareholder Representative Forum will be established at which each council has a voice. This forum will also work with Iwi chairs to develop a proposal regarding their role in shareholder decision-making for each council's approval.
- A decision-making framework has been developed to ensure there is clarity on:
 - a. decisions that will be brought to Shareholding Councils for decision making
 - b. how the shareholders will make those decisions at the Shareholder Representative Forum. Further detail on this is included in **Appendix 2**.
- The Waikato Water Done Well CCO sees the value in working with others at the right time. There is an agreed process for other councils to join the CCO as shareholders where all existing Shareholding Councils agree.

2.3. Activities of the Waikato Water Done Well CCO must be carried out in accordance with the new planning, reporting and financial management requirements which apply to all water services providers. This includes providing annual and half-yearly reports to Shareholding Councils and responding to the new economic regulatory regime that will be progressively introduced from January 2026.

2.4. The overarching purpose of the Waikato Water Done Well CCO is to:

- a) achieve the water service delivery objectives of the Shareholding Councils, both commercial and non-commercial
- b) enable Shareholding Councils to ensure the strategic outcomes for water services are collectively achieved in their respective service areas in the long term. These strategic outcomes are addressed individually in section 7 to 11
- c) be the vehicle through which Shareholding Councils can ensure the delivery of water services in their service area complies with legislative requirements, including meeting water and wastewater standards (Taumata Arowai), and economic regulation (Commerce Commission).

⁴ Schedule 7 to the HoA

⁵ Nominal directors may be appointed for a very short period pending the professional board being in place and well before the CCO is operational. It is possible that nominal directors will be staff or elected members.

3. Which councils are part of the proposal

- 3.1. Waikato councils have co-designed a model for the delivery of water services and documented this in a HoA. This is a non-binding document that captures the good faith intention of the parties. The status of each council's involvement in Waikato Water Done Well as at 28 February 2025 is as follows:

Council	Signatory to Heads of Agreement	Waikato Water Done Well considered as an option
Hauraki District Council	✓	✓
Matamata-Piako District Council	✓	✓
Ōtorohanga District Council	✓	✓
South Waikato District Council	✓	✓
Taupō District Council	✓	✓
Waitomo District Council	✓	✓
Waipā District Council	✓	✓
Thames-Coromandel District Council	X	Being considered as an option but no decision made
Waikato District Council	X	Considered as option but not consulted on (referenced only)
Hamilton City Council	X	X

- 3.2. By signing the HoA, the seven councils agreed to continue to be part of the development of the Waikato Water Done Well CCO option. These seven councils are the **Participating Councils**.
- 3.3. Hamilton City Council and Waikato District Council have formerly resolved to set up a separate CCO (subject to public consultation) due to specific challenges and timings these Councils are responding to. However, the position of Hamilton City Council and Waikato District Council has been clear that they see a single regional model being of benefit to all councils in the region at some point in the future. This will be a matter for the shareholding councils of each CCO to negotiate at the relevant time.

4. Proposed timing

- 4.1. **Decision making on preferred option:** On 26 February 2025, Waipā District Council unanimously voted on the Waikato Water Done Well CCO as its preferred option for consultation with its communities. The remaining Participating Councils are due to make a formal decision on their preferred option over the course of March 2025 and early April 2025.
- 4.2. **Formal decision making:** Councils will consult with their communities on the preferred option; some councils will commence consultation in March 2025 and others in April 2025. Councils considering this option must confirm their commitment to it by June 2025. This is to ensure the scope of the delivery option and implementation plan is finalised in advance of water services delivery plans being submitted to DIA in September.

- 4.3. **Implementation:** it is proposed that the Waikato Water Done Well CCO will be created as a legal entity on 1 July 2025. This is referred to as **Day Zero**. However, the earliest date any council will transfer its business into the CCO will be 1 July 2026 (this is referred to as **Day One**). To mitigate risk, it is proposed that the transfer of each council's business will be staged with the 'first movers' transferring on 1 July 2026 and the remaining councils transferring in tranches that are pre-agreed in the formal documentation establishing the Waikato Water Done Well CCO. It is proposed that all councils who wish to adopt this option will have transferred within 5 years of the Waikato Water Done Well CCO becoming operational.

Context

5. What is Local Water Done Well?

- 5.1. Local Water Done Well is the Government's policy to address New Zealand's long-standing water infrastructure challenges. This policy replaces the previous three waters reform and instead requires councils to decide how they will deliver water services to their communities in a way that is financially sustainable and meets increased regulatory requirements (economic, public health and environmental)⁶.
- 5.2. The aim of the Local Water Done Well water services system is to ensure water services are safe, reliable, environmentally resilient, customer responsive and delivered at the least cost to consumers and businesses⁷.
- 5.3. When considering how to do local water well, the Government is encouraging councils to work together and create jointly owned water organisations. As stated in a Ministerial announcement in August 2024:

*"The new water service delivery models will also ensure sustainable water services across New Zealand by providing councils with the flexibility and tools they need to meet their unique needs. **By working together, councils can achieve greater efficiency and access the borrowing they need to keep water services affordable for their communities.** Our expectation is that councils will now use this certainty and the additional borrowing capacity to reduce pressure on ratepayers while being able to invest in the critical water infrastructure New Zealand needs."*⁸

What does Local Water Done Well mean for councils?

- 5.4. Every New Zealand council is required to provide water services in its service area in accordance with applicable legislation.
- 5.5. Councils must choose a fit-for-purpose delivery model that best positions the supply of water services under the new settings. The model that they choose will be included in a one-off water services delivery plan (**WSDP**) that is then submitted to the DIA by 3 September 2025 for approval. Options that are open to councils include:
 - a) **Option 1:** in-house i.e. providing water services itself directly to customers
 - b) **Option 2:** transferring responsibility to a water organisation (owned by the council, together with other councils or a consumer trust)
 - c) **Option 3:** under a contract for services with a third party or other a joint water service provider arrangement

⁶ Local Government (Water Services Preliminary Arrangements) Act 2024 (**Preliminary Arrangements Act**)

⁷ The enduring settings for Local Water Done Well are set out in the Local Government (Water Services) Bill which was introduced into Parliament in December 2024. This Bill is working its way through the legislative process and the intention is for it to be passed into law mid-2025.

⁸ [Unlocking Local Water Done Well: New water service delivery models | Beehive.govt.nz](#)

- d) **Option 4:** becoming a shareholder in a water organisation established by another council
- e) **Option 5:** some other form of arrangement

5.6. The option chosen must meet stipulated minimum requirements⁹. These include:

- a) meeting a set of statutory objectives, including that water services are managed in a cost-effective and financially sustainable manner;
- b) complying with financial principles, including a requirement that revenue received from providing water services must be spent on those services¹⁰;
- c) operating within the new planning and reporting framework that will apply to water services; and
- d) restrictions against privatisation.

5.7. Before finalising its WSDP, each council must publicly consult on the delivery model it intends to choose. Before making the decision on what it will consult on, councils (as a minimum) must:

- a) assess the advantages and disadvantages of at least two options. One of these must be retaining existing arrangements (as restructured to meet the new water services settings), and the other option must be joining, establishing or amending a CCO or another form of joint arrangement
- b) compare the two options against each other having regard to the impact of each on rates, debt, levels of service and water charges
- c) from the above, identify a **preferred option** and consult with the public on that option. As part of the consultation process, the analysis of the other option must be made publicly available
- d) take into account the feedback from public consultation in order to make a final decision on the future model to include in its WSDP

5.8. This proposal sets out the analysis for establishing the Waikato Water Done Well CCO as a service delivery option.

6. Common challenges of Waikato councils

6.1. Participating Councils have identified the following challenges in being able to comply with the requirements of Local Water Done Well over the next 10-year period:

Council / key problem	Debt capacity	Community affordability	Workforce availability	Capital works delivery	Business continuity	Compliance	Consenting
Waipā	✓	✓	✓	✓			
Taupō		✓	✓	✓		✓	✓

⁹ Additional requirements apply where a water organisation is established including that it has an independent, competency-based board, be a company and limit its activities to the provision of water services (exemptions apply for some of these)

¹⁰ This 'ring- fencing rule' will be monitored and enforced by the Commerce Commission under the new economic regulation regime

Council / key problem	Debt capacity	Community affordability	Workforce availability	Capital works delivery	Business continuity	Compliance	Consenting
Matamata-Piako		✓	✓	✓		✓	✓
Hauraki		✓	✓	✓	✓	✓	✓
South Waikato		✓	✓	✓		✓	✓
Waitomo		✓	✓	✓		✓	
Ōtorohanga		✓	✓	✓		✓	✓

- 6.2. The interconnection between all the above challenges has been summarised in the diagram below. For water services to be delivered effectively, all component parts of the circle must be functioning. To focus on one alone (e.g. financial sustainability without regard to ability to attract and retain key workforce) does not create an ecosystem for long-term water services delivery success.
- 6.3. Based on the analysis of the challenges prepared by councils, every one of the seven councils has a challenge in completing the circle. Change is necessary to address this and deliver the best outcome for ratepayers and the wider community.



Advantages of proposed CCO

The Waikato Water Done Well CCO provides a future-focused opportunity that transcends boundaries, allowing councils to show leadership in water services delivery for the benefit of generations to come, with a unified voice and scale.

The focus of the Waikato Water Done Well CCO in the first decade will be on building capability, capacity, resilience and stability for future success. This CCO option positions councils to work smarter for customer and environmental benefits by changing how things are currently done to achieve better outcomes for their communities.

The purpose of the Waikato Water Done Well CCO is to deliver on the agreed strategic outcomes (while also meeting the objectives required by legislation). In the following sections, we set out how the Waikato Water Done Well CCO can achieve the strategic outcomes agreed by Participating Councils.

In summary, the Waikato Water Done Well CCO is better for our people, our places and our communities:

1. better water and wastewater delivery
2. better environmental outcomes
3. better affordability
4. better data and analysis
5. better value for investment
6. better work planning

7. Financial Sustainability

Waikato Water Done Well strategic outcome sought: *Create scale and change to enable the significant investment required to deliver efficient and financially sustainable services that comply with regulatory requirements and enable urban development.*

Creating scale

- 7.1. Water services can be delivered more cost-effectively if councils leverage scale. Together, the scale of the seven councils is significant with:
 - a) Over 205,000 people or 41% of the region's population
 - b) Growth over the last five years ranging from 3% to 10.2%, higher than the national average of 2.07%
 - c) About 129,000 water and wastewater connections (40% of the region's connections)
 - d) About 45% of the region's water services annual revenue (excluding development contributions).
- 7.2. By multiple councils transferring their water services business into the Waikato Water Done Well CCO, offers the collective opportunity (through the proposed CCO) to:

- a) have greater access to finance at efficient interest rates¹¹
- b) invest in infrastructure that is needed now, efficiently and without delay
- c) combine long-term work programmes across the total service area (supporting longer-term procurement arrangements), plan for long-term financing and so stabilise financing costs, reduce risks and provide a more consistent pipeline to infrastructure contractors.

Delivering efficient and financially sustainable services

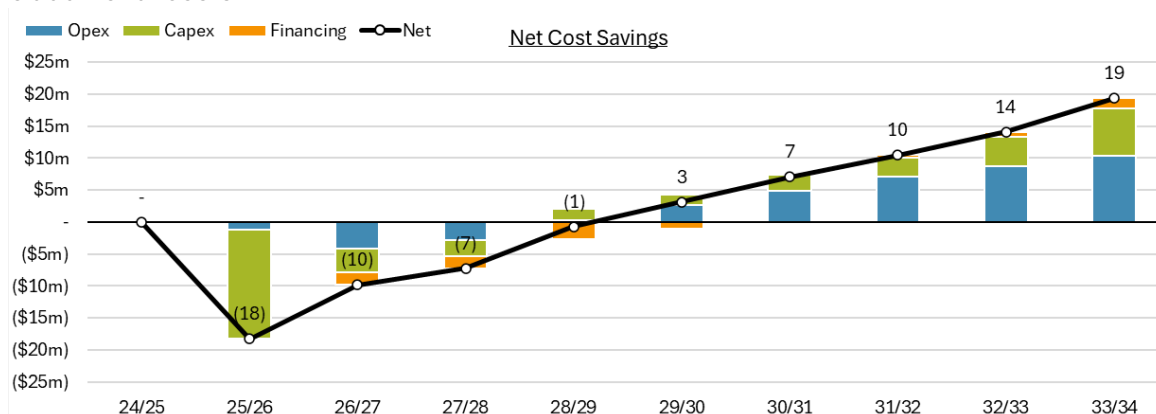
- 7.3. As noted above, DIA must approve all WSDP that are submitted. When assessing the service delivery model identified by a council in its WSDP, the key measures that DIA will apply are:
- a) financing sufficiency: is there sufficient financing to meet the investment required?
 - b) revenue sufficiency: is the projected revenue enough to cover costs?
 - c) investment sufficiency: is the projected level of investment sufficient to maintain assets, meet regulatory requirements and provide for growth?
- 7.4. The way the Waikato Water Done Well CCO is projected to perform against these measures is set out in detail in **Appendix 4**. In short, the Waikato Water Done Well CCO is projected to be able to meet all the above measures and operate in a financially sustainable manner while delivering comparable or better levels of service at, for most Participating Councils, relatively lower charges than a standalone council. This means waters services can become (comparatively) more affordable, for some in the short-term but for others in longer term.
- 7.5. The findings in relation to affordability are set out in paragraphs 9. 5 to 9.10 below. These are based on the period out to 2034. Because expected efficiencies of the Waikato Water Done Well CCO are not projected to be fully realised until 2042, the impact of the Waikato Water Done Well CCO on affordability needs to be considered through a long-term lens. While some may think that deferring joining the Waikato Water Done Well CCO until affordability becomes an issue for a council is a solution, it needs to be kept in mind that any deferral of joining the CCO also defers the timeframe in which the full efficiencies from scale can be realised.
- 7.6. **Appendix 5** explains the Waikato Water Done Well financial model and the underlying assumptions used to project the financial position of the Waikato Water Done Well CCO. The model recognises that upfront costs will be incurred in setting up the CCO reflecting:
- a) an initial spend to get the right infrastructure in place for the CCO to operate effectively (e.g. IT systems)
 - b) the additional operating costs the CCO must carry (e.g. board fees, executive and support team members and premises)
 - c) early work to realise savings in subsequent years (i.e. ~\$4.4m annual spend to save). This recognises that savings will not materialise without a concerted effort and investment to realise them.

¹¹ A water company with council financial support will be able to borrow up to the equivalent of 500% of operating revenue (around twice that of existing councils) through the Local Government Funding Agency (LGFA), subject to prudent credit criteria

- 7.7. There are also assumed efficiencies created from the scale of the Waikato Water Done Well CCO. These efficiencies are achievable when supported by an operating model and a board that is held to account to achieve them. **Appendix 5** provides details of the assumed efficiencies together with examples of how efficiencies have been realised overseas.
- 7.8. Based on the above, the model projects net cost savings by the Waikato Water Done Well CCO compared to the cost across councils going alone¹².
- 7.9. The financial projections, including the impact of this on charges to water users, are in part dependent on how the Waikato Water Done Well CCO will utilise these net savings. As savings continue to grow, they provide the Waikato Water Done Well CCO with options on how to apply the savings. It could choose to:
- bank the savings;
 - use the savings to bring forward planned infrastructure investment; and/or
 - 'return' the savings to customers by keeping water charges comparatively lower than a council could on a standalone basis.
- 7.10. The next section explains the impact of the first option of using savings to pay down debt.

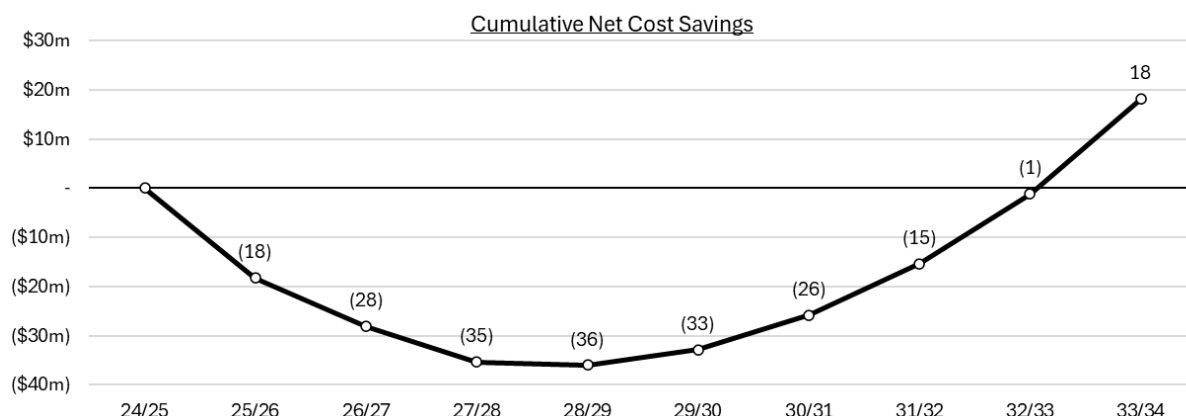
Using savings to pay down debt

- 7.11. The below charts show the net cost savings (in nominal dollars) over the forecast period if profits are used to pay down debt.
- 7.12. As the Waikato Water Done Well CCO is assumed to be incorporated on 1 July 2025 and not be operational until 1 July 2026, it will not derive any income from waters charges in the financial year 2025-2026. The 'first mover' councils will transfer their water services business with effect from 1 July 2026 and so the Waikato Water Done Well CCO will only be operational and entitled to water charges from 1 July 2026.
- 7.13. From the end of its first operational year (FY2026-27), the Waikato Water Done Well CCO is projected to start realising savings. This may occur earlier but conservatively has been assumed not to. As these efficiencies are progressively realised, from FY2029-30 savings start to outweigh the additional costs.

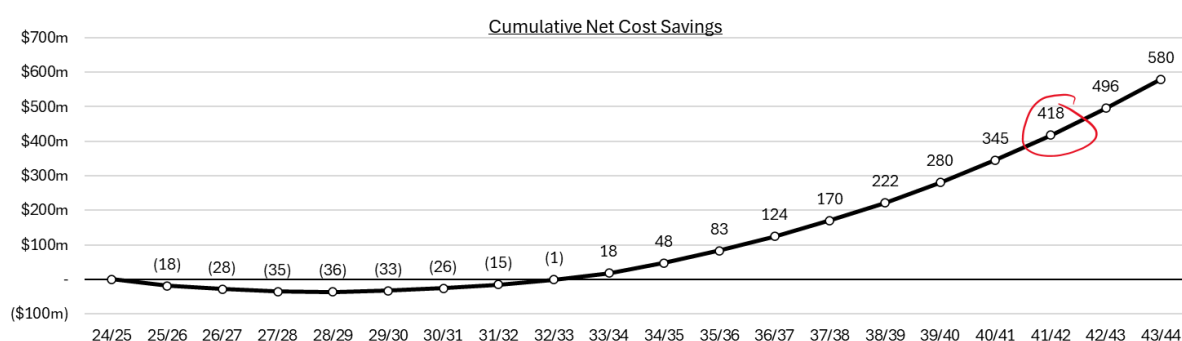


¹² The financial forecast of 'Councils going alone' is based on the aggregation of their 2024 LTPs, in some cases updated to reflect latest estimates of capital works. It **may not** be the financial forecast of councils' cost of an 'enhanced business unit'. We are aware several councils are doing work to identify the costs of these units, which may be greater than what is reflected in their LTPs (meaning the relative financial benefit of the proposed CCO will be greater than what is shown here)

7.14. Because of the upfront costs and ‘spend-to-save’ incurred in the early years (refer paragraph 7.6 above), the cumulative net cost savings during the forecast period to 30 June 2034 are modest at only \$18m (see below). The payback period for these costs is eight to nine years.



7.15. The financial model reflects savings only peaking in FY2041-42. At this time, the cumulative net cost savings is projected to be approximately \$418m (in nominal dollars), split between operating, financing and capital costs.



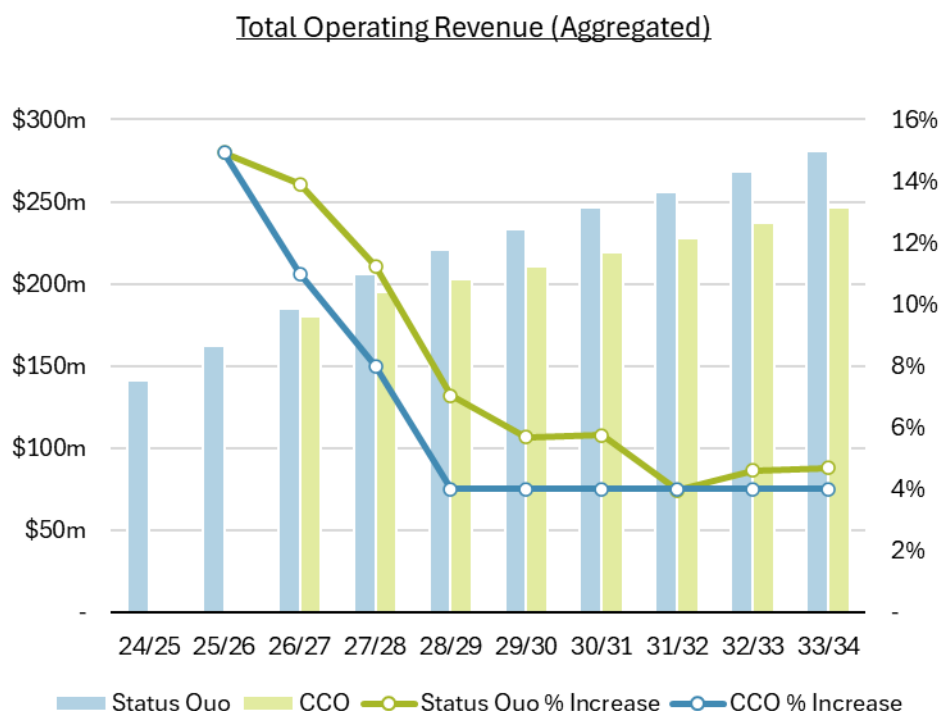
Leveraging borrowing capacity to keep water charges lower

7.16. The Waikato Water Done Well CCO will operate at arm’s length from the Shareholding Councils. Under this structure, LGFA has confirmed a water services CCO will be able to access debt up to 500% of its annual revenue, subject to prudent credit criteria¹³. This creates significant debt capacity for the Waikato Water Done Well CCO if it wanted (or needed) to utilize it.

7.17. When several councils with different debt profiles come together, the increased borrowing capacity available to the CCO can be leveraged. Councils on a standalone basis do not have access to such high debt ceilings and must retain lower debt to revenue ratios. The debt headroom available to the Waikato Water Done Well CCO means it does not have to raise revenue as high as a council to access the same amount of debt. Because of this, the CCO can keep water charges comparatively lower to that currently projected by councils. When using greater debt

¹³ For example, Funds from operations (FFO) to debt ratio. The FFO applicable to a CCO will be negotiated on a bespoke basis. LGFA has stated that it expects most water CCOs will have a minimum FFO to debt ratio of between 8% and 12%.

capacity to fund infrastructure over the forecast period is modelled, it projects a reduced *need* for water charges revenue (compared to status quo) of approximately \$176m.



- 7.18. What this shows is that once councils transfer their water services business into the Waikato Water Done Well CCO, even with very modest increases in charges, it will be able to operate within expected debt covenants. That is not to say it *will* set charges as low as it can. More likely, charges will be set higher than the 4% p.a. revenue increase to give greater financial security so the CCO, councils and communities, are assured it will have the bandwidth to invest in what districts need (based on data provided by councils). The CCO will also have the resilience to respond in the event of an emergency (e.g. natural hazard).
- 7.19. The model attributes the financial impact of the Waikato Water Done Well CCO to each of the councils as a proxy for the financial benefit their communities will receive. This is set out in a supplementary financial report specific to each council which has been shared separate to this proposal and includes detail on each council's 'share' of the benefits of aggregation.

Sensitivities

- 7.20. A sensitivity analysis in relation to some of the assumptions for the purpose of the Waikato Water Done Well financial model is included in **Appendix 6**.

Target operating model

- 7.21. The establishment target operating model refers to the operating model that will be in place on the day the Waikato Water Done Well CCO becomes operational (1 July 2026). What needs to happen to ensure this operating model is in place is part of the detailed transition planning to ensure councils can transfer their water services business into the Waikato Water Done Well CCO in a way that lands safely for the CCO and each council alike. In the short to medium term, it is likely that the CCO will contract with councils for services the CCO is not yet mature enough to carry out itself.

7.22. Ensuring the Waikato Water Done Well CCO and each remaining council is successful requires collective leadership to navigate the transition. A pillar of Waikato Water Done Well transition work is to understand the interdependencies of the future Waikato Water Done Well CCO operating model and the remaining council so both are sustainable and operationally optimised. The way the CCO will interact with each council after the Agreed Transfer Date for that council will be set out in an interface agreement between the two parties.

Enabling significant infrastructure investment

7.23. In addition to financing, significant infrastructure investment requires resources to be in place that can deliver. The Waikato Water Done Well CCO can address the capital works delivery challenge all councils face by:

- a) **Efficient and cost-effective capital works delivery:** having a single combined capital works programme driven by a professional board and single management team. This will remove an otherwise ‘peaky’ capital works programme, placing a more evenly distributed demand on the market and softening pricing pressure. Through a single team focused on water services, procuring contractors and delivering projects on time and in budget, the Waikato Water Done Well CCO will have greater bargaining power to obtain better pricing than multiple councils engaging separately with the same service provider. While Waikato councils have been able to progressively increase capital work delivery over the last decade¹⁴, this does not necessarily reflect better value and outcomes¹⁵. Capital delivery by dollar amount is not necessarily the same as capital delivery of outcomes.
- b) **Resilience:** enabling infrastructure to be planned through a single Asset Management Plan (AMP) informed by a long-term infrastructure strategy. The strategy will reflect council spatial plans and also the relevant content of the Statement of Expectations agreed to by Shareholding Councils and their strategic priorities.
- c) **Greater ability to identify opportunities for additional cost savings:** by having a line of sight across the region, rather than district-by-district (for example, management of water allocation across councils), a more holistic planned approach to delivery can be taken (again, reference is made to **Appendix 5** and the opportunities outlined there).
- d) **Smart consenting:** evolve from ad hoc consent applications to integrated consents that address the health of the whole of an awa or waterbody. More detail is included in **Appendix 7**.
- e) **Better data:** a consolidated system capturing standardised data will enable better decision-making regarding infrastructure investment as there will be a better understanding of the challenges and opportunities across the region.

Enabling urban development and responding to growth

7.24. The Waikato Water Done Well CCO will be required to provide water infrastructure to help deliver spatial plans prepared by councils, including the Future Proof strategy. Councils will remain plan

¹⁴ In the three years ending 20/21, an average of 78% of actual capex budgets was spent. More recent reports on capex budgets versus actual spend indicate this gap continues to close.

¹⁵ Water services infrastructure is estimated to cost 30% more to build than three years ago (Infometrics).

makers. It will be important that councils continue to work well together to plan for future growth, providing clear direction to all infrastructure providers (e.g. electricity, transport, water, health, education). To the extent further investment is required to support growth, the additional borrowing capacity of the Waikato Water Done Well CCO will allow it to better respond to this.

- 7.25. The ability to respond to growth and community needs transgresses not just water services but also includes the ability to work with central government in their initiatives, including the current Regional Deals Strategic Framework. The intention is for such deals to address a regions' most pressing needs, from infrastructure to economic development and housing affordability, while promoting long-term sustainability. By working together, councils can unlock Regional Deals as these deals are predicated on waters being sorted.
- 7.26. The Waikato Water Done Well CCO enables a single development contribution policy to be developed over the service area over time. During the transition period it is expected that existing development contribution policies will continue to be applied, and revenue collected by the CCO or relevant council¹⁶. This will ensure that growth pays for growth and that the consequences of growth are considered without boundaries and planned accordingly.

8. Leading Workforce

Waikato Water Done Well strategic outcome sought: Create the conditions to build and sustain a highly skilled, adaptable and world-leading water workforce that can innovate and collaborate to drive outcomes for Waikato.

- 8.1. Workforce availability is a challenge for all Participating Councils. In terms of attracting and growing a highly skilled workforce, the following is noted:
- a) The Waikato Water Done Well CCO brings together like councils i.e. rural and provincial councils. The fact the Chief Executives of the seven councils have successfully negotiated a non-binding HoA between them, and the support and direction from the Waikato Water Done Well Mayoral Governance Group, demonstrates existing leadership and commonality. This is critical in the establishment of the multi-council owned CCO.
 - b) The Waikato Water Done Well CCO will be a completely new entity with a freshly appointed board and Chief Executive. The entity has the golden opportunity to create the right culture from the outset and attract the best people to deliver on the agreed strategic outcomes.
 - c) Specialist waters staff across the region will work together in the Waikato Water Done Well CCO, sharing knowledge, building capability, enhancing future service delivery and better local career paths for the waters workforce. A continued local presence to support local delivery is an expectation of the establishment target operating model.
 - d) The Waikato Water Done Well CCO gives staff across the councils line of sight of councils' collective intentions and so confidence as to their future career pathway. This is important as uncertainty created by various reforms has gone on for too long. This also makes service delivery more resilient, particularly for smaller councils where operations can be highly dependent on a few individuals. The need to create an attractive proposition for staff remains even more important as other CCOs are established and engage in a recruitment drive to

¹⁶ Part of the Joint Submission in relation to Bill#3 is to seek clarification on this.

attract the most skilled. A newly created CCO with an inspiring vision and having the geographic reach and scale to achieve that vision is likely to be a compelling proposition for personal growth for prospective employees.

- 8.2. In addition to internal staff, it is also necessary that any proposed CCO is an attractive business partner from a supply chain perspective. The aggregated approach to capital works through a single focused team, together with the creation of a consolidated AMP informed by spatial plans and strategic AMP, will provide the supply chain with longer term certainty of pipeline and give it confidence to invest in resources to support the Waikato Water Done Well CCO. This will both lower and smooth costs as councils will no longer be competing for the same suppliers.

9. Customer Focus

Waikato Water Done Well strategic outcome sought: *Be customer focused, leveraging new technologies, while also building customer awareness of their role in the water system and the value of water.*

Customer experience

- 9.1. All references to customers are to those who consume, use, or are provided with water supply and / or wastewater services across the service area of the Waikato Water Done Well CCO¹⁷.
- 9.2. A fundamental expectation of the councils participating in Waikato Water Done Well is that the transfer of responsibility for water services to the Waikato Water Done Well CCO from each council will be seamless for customers. As the CCO will be the provider of water and wastewater services, its primary relationship will be with its customers and so, in time, it will bill them directly for this. However, in the early days of the CCO, there is likely to be a transition period (particularly for 'first movers') during which councils will bill on behalf of the CCO. However, regardless of who issues the bill, the customer will have full visibility of how much they are paying for water.
- 9.3. Councils will continue to have input into the relationship they expect the CCO to have with customers as although the management of the Waikato Water Done Well CCO will be overseen by the board, councils will set the strategic direction via the accountability framework. This includes preparation of a combined Statement of Expectations which can include expectations regarding community or consumer engagement, and the contents of that engagement.

New technology

- 9.4. Significant investment to demonstrate compliance with information disclosure requirements under economic regulation will be needed through robust data and asset management systems. In addition, Taumata Arowai has identified the need to improve the quality of data (particularly for network performance) and completeness of reporting. By aggregating, there is the opportunity to work together to leverage new technologies to achieve this outcome.

¹⁷ It is noted that the Waikato Water Done Well CCO may provide stormwater management services to certain councils. The customers of these services will be the relevant councils. Councils will remain responsible for stormwater from a ratepayer perspective.

Affordable Water Service Delivery

- 9.5. There is no official definition of unaffordable water in New Zealand, but international indicators suggest that there is an affordability challenge if water services are more than 2% of household income. Taking this measure, some Waikato communities increasingly face unaffordable water services. The tables below have been completed based on:
- a) median household income across the entire district (connected and non-connected households) of each council for FY25¹⁸
 - b) median household income for FY34 based on information provided by councils¹⁹
 - c) average water charges, based on estimated residential connections
 - d) all councils coming together on 30 June 2026 (for comparative purposes).
- 9.6. The **first table** below is the position under the Waikato Water Done Well CCO. The **second table** reflects the status quo across councils *based on LTP data*. The financial model for the Waikato Water Done Well CCO applies the same revenue increases to all councils using an assumed price path. However, each council's LTP will show different revenue increases. This means that there are different affordability benefits across councils when compared to the Waikato Water Done Well CCO.
- 9.7. Although on the face of it some councils' water charges are considered affordable (using the 2% measure) all seven Participating Councils have told us community affordability is an issue for them (whether now or in the future).
- 9.8. In summary the findings are:
- a) A Waikato Water Done Well CCO is more affordable. When taking an aggregated viewpoint (i.e. through the lens of a Waikato Water Done Well CCO), there is a meaningful improvement in the average water charge and affordability by mid-2034. At the end of the 30 June 2034 financial year, the weighted average water charges across the region are less by about \$480 or 16% (from about \$3,230 to \$2,750)
 - b) When considering a council viewpoint, the extent of the benefit can vary widely based on each council's status quo
 - c) Because expected efficiencies of the Waikato Water Done Well CCO are not assumed to be fully realised until 2042 (and the table is limited to 2025 to 2034), it is expected that the affordability gap between the Waikato Water Done Well CCO and standalone council businesses will continue to widen beyond 2034. In the long term, the Waikato Water Done Well CCO can manage the cost of water charges in a manner that will be more stable and more affordable for customers.

¹⁸ It should be noted that the median income of households connected to water services may be lower than that set out in the below table. If median household incomes are lower than that projected, the implication is that affordability is even more of a challenge.

¹⁹ An average annual growth rate of 4.37% has been assumed if information has not been provided

Waikato Water Done Well CCO and affordability

CCO		2025		2034		
Council	Average Water Charges (\$)	Median Household Income (\$)	Affordability	Average Water Charges (\$)	Median Household Income (\$)	Affordability
Hauraki	2,675	72,074	3.7%	4,361	90,273	4.8%
Matamata-Piako	1,391	96,165	1.4%	2,133	141,319	1.5%
Ōtorohanga	2,106	93,879	2.2%	4,002	127,084	3.1%
South Waikato	1,695	84,974	2.0%	2,753	115,030	2.4%
Taupō	1,837	111,384	1.6%	2,702	173,150	1.6%
Waipā	1,485	107,501	1.4%	2,260	157,977	1.4%
Waitomo	2,812	76,190	3.7%	4,721	111,964	4.2%
Weighted Average	1,789	99,488	1.8%	2,754	147,367	1.9%

Status quo (LTP) and affordability

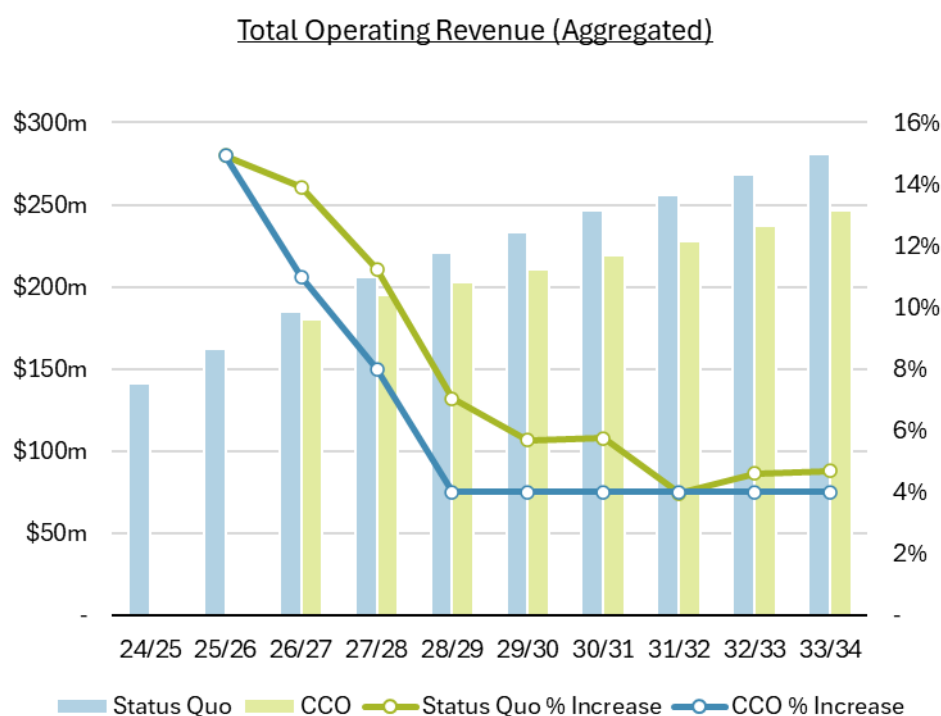
Status Quo		2025		2034		
Council	Average Water Charges (\$)	Median Household Income (\$)	Affordability	Average Water Charges	Median Household Income (\$)	Affordability
Hauraki	2,675	72,024	3.7%	6,259	90,273	6.9%
Matamata-Piako	1,391	96,165	1.4%	1,941	141,319	1.4%
Ōtorohanga	2,106	93,879	2.2%	3,350	127,084	2.6%
South Waikato	1,695	84,974	2.0%	4,152	115,030	3.6%
Taupō	1,837	111,384	1.6%	2,933	173,150	1.7%
Waipā	1,485	107,501	1.4%	2,745	157,977	1.7%
Waitomo	2,812	76,190	3.7%	4,907	111,964	4.4%
Weighted Average	1,789	99,488	1.8%	3,231	147,367	2.2%

9.9. The Waikato Water Done Well CCO can achieve improved affordability in the short term, largely by using its additional debt capacity to finance infrastructure (compared to councils having to

increase charges to access the same level of debt). The Waikato Water Done Well CCO can spread the cost of financing infrastructure over the life of the asset and share the costs across current and future customers (who will benefit from the use of that investment).

9.10. As the chart below shows:

- the forecast operating revenue of the Waikato Water Done Well CCO is less than the sum of the councils' revenue on a standalone basis
- revenue increases within the CCO can be held at 4% p.a.²⁰ once all councils have transferred their water services business into the CCO.



10. Local influence

Waikato Water Done Well strategic outcome sought: Ensure local voice is represented in critical decision-making around water investment and management across the region, including decisions in relation to water takes and water discharge.

10.1. The transfer of water services into a multi-council owned company governed by a competency-based board raises the question as to how local communities can continue to influence the delivery of water services in their area. Specific matters of concern are addressed in section 12

²⁰ Part of that increase is simply attributable to the growth in connections so the percentage increase in water charges is actually less than 4%. It should also be noted that the Waikato Water Done Well CCO's financial strategy may be not to hold revenue increases to this level, but rather collect slightly more to enable additional infrastructure investment (or repay debt). This will be a matter for the Board of the CCO, having regard to the expectations of shareholders.

below (as part of the perceived disadvantages of the Waikato Water Done Well CCO). This section addresses how local voice is represented in critical decision making.

10.2. Under the Waikato Water Done Well CCO, the operations and management of water services will be arm's length from elected members. However, the structure of the Waikato Water Done Well CCO ensures that local voice continues to be heard at a strategic and planning level. The mechanisms for local voice include:

- a) each Shareholding Council having at least one representative on the Shareholders Representative Forum. As previously noted, this is the forum at which shareholders will meet to co-ordinate decision making among themselves. Unless councils advise otherwise, the Mayor of each Shareholding Council will be on this Forum
- b) each Shareholding Councils having an equal number of shares in the CCO from Day Zero (1 July 2025), giving all shareholders equal influence
- c) when councils transfer their water business (including relevant staff) into the Waikato Water Done Well CCO in accordance with its transfer agreement (refer paragraph 2.2(a) above), further shares will be issued to that council based on the number of connections. The allocation of shares based on connections was agreed to by councils because:
 - Shares in the CCO cannot be sold or transferred by councils
 - No dividend is attached to shares
 - The relevance of the number of shares is the ability to influence decisions
 - As influence is exercised on behalf of customers and communities, the number of connections best reflects community interests and local voice. **Appendix 2** sets out the share allocation between all seven councils based on the current number of connections provided by councils.
- d) to ensure the allocation of shares remains current, the allocation of shares will be reviewed periodically. This review will be triggered if a new shareholder is to join. A five yearly review of connections will also be carried out unless the shareholders determine otherwise.
- e) a visual of the ownership structure and how Shareholding Councils will hold the Waikato Water Done Well CCO to account is set out in **Appendix 2**.
- f) shareholding councils will apply best endeavours to make decisions by consensus. However, a default is required to ensure the CCO can operate effectively. The shareholder decision-making framework sets out the matters shareholders must make decisions on, and in the absence of consensus the votes required for the decision to be made. Further detail on these is also included in **Appendix 2**. The decision-making framework is designed to ensure that a few large shareholders cannot unduly dominate decision making

10.3. As previously noted, Shareholding Councils will document their expectations of the board of the Waikato Water Done Well CCO in a combined Statement of Expectations. This will guide and inform decisions of the board of directors. This statement will include strategic outcomes, priorities and any other general guidance shareholders wish to include. This will also capture the strong local voice heard by Shareholding Councils and set the expectation that the CCO gives effect to the spatial plans of each council (which also capture local voice).

10.4. A key change of Local Water Done Well implementing legislation is that water services will no longer be included in councils' long-term plans. Instead, whether it be a council or a CCO that is responsible for delivering water services, a new document called a water services strategy will be required. In the context of the Waikato Water Done Well CCO, the water services strategy will be prepared by the board and will set out the board's strategic priorities, how it will meet regulatory requirements, and how it is responding to the combined Statement of Expectations. Shareholding

Councils will have the opportunity to review and comment on this before the water services strategy is finalised.

- 10.5. In relation to the shareholders as between themselves, a Shareholders Agreement will be entered into before the Waikato Water Done Well CCO is established. The purpose of the Shareholders Agreement is to ensure clarity on how shareholders engage with each other. The agreement will specify the decisions that are to be brought to the Shareholder Representative Forum for decision-making by Shareholding Councils, the process for making decisions and the resolution process that will apply should there be a dispute between the Shareholding Councils.
- 10.6. The ability to respond to emergencies will be an operational matter that will be guided by the policies and procedures adopted by the board in relation to the management of the Waikato Water Done Well CCO. The Waikato Water Done Well CCO will have greater resourcing and specialist capability which will enable it to better handle emergency events than Councils alone. This includes co-ordination with other lifeline utility operators and the Waikato CDEM group.

11. Delivering on expectations

Waikato Water Done Well strategic outcome sought: Meet the expectations of key partners and stakeholders including those represented in Treaty settlements

Treaty settlements

- 11.1. The Waikato Water Done Well CCO will be responsible for meeting the expectations of key partners including those represented in Treaty settlements (e.g. the Waikato River Settlement Act). This includes maintaining and enhancing existing relationships councils have with local hapū and iwi as they relate to water services and forming effective relationships with current and proposed entities (Waikato River Authority, Hauraki Gulf Forum and Waihou, Piako, Coromandel Catchment Authority).
- 11.2. As noted above, the Shareholder Representative Forum is the forum at which Shareholding Council representatives will meet to co-ordinate decision making across councils. In the early months of the CCO being in existence, this forum will engage with Waikato Iwi Chairs (or relevant Iwi Chairs) to prepare a proposal on how best to partner with Iwi, and other existing arrangements, in relation to shareholder decision-making. The proposal will be brought to each Shareholding Council for approval.
- 11.3. In addition to the above, expectations will be met by ensuring the board of directors includes in its number those who have a strong knowledge of relevant settlements within the relevant service area and specialist experience of integrating Te Ao Māori and Tikanga Māori in a professional board environment. **Appendix 3** sets out in full the skills matrix that will apply to the full Board of directors.

Regulation

- 11.4. A key expectation of any CCO, including the Waikato Water Done Well CCO, is that it will comply with the law.
- 11.5. A key component of Local Water Done Well is the introduction of economic regulation which will shift the focus from delivery against budget to outcomes, quality service delivery and customer benefits. The Commerce Commission will be the economic regulator. As an independent body,

the Commerce Commission will independently set expectations around the cost of delivering the outcomes expected by the community and monitor progress. By pooling resources in the Waikato Water Done Well CCO, councils create an entity that will be better positioned to build systems and processes that efficiently respond to and meet the requirements of economic regulation, when compared to councils doing it alone.

- 11.6. Shareholding Councils propose to take a more strategic and cost-effective approach to infrastructure planning and consenting requirements (noting one third of all water consents in the region expire in the next five years). Consenting is a significant driver of capital works programme. Details of the smart consenting initiative of Waikato Water Done Well are set out in **Appendix 7**.

Perceived disadvantages of proposed CCO

As noted at paragraph 5.7 above, when assessing options for water services delivery options, councils are required to assess the advantages and disadvantages of a minimum of two options. In the context of Waikato Water Done Well, significant time has been invested in identifying matters likely to be of concern to communities. These matters are included under the heading 'disadvantages' to demonstrate compliance with the legislative analysis required. However, in real terms, the Waikato Water Done Well CCO has been designed by councils to proactively address these local concerns.

12. Addressing local concerns

12.1. Previous government reform and other attempts at establishing fully operational water services entities have been unsuccessful. This is largely due to local concerns or 'showstoppers' not being addressed in any proposal. In the context of Waikato Water Done Well, the key concerns that have been captured go to the operating impact on customers across the services area. These are:

- a) **Pricing:** Will some communities have to subsidise others and will prices increase?
- b) **Prioritisation:** How do communities have confidence that their needs will be prioritised?
- c) **Community assets:** Are community assets that have been invested in over the years being given away?
- d) **Local influence:** Will elected members and communities be able to influence decisions of relevance to them?
- e) **Cost of establishment:** Who will pay for the establishment of the Waikato Water Done Well CCO?
- f) **Certainty of establishment:** The number of councils seeking to come together in the Waikato Water Done Well CCO increases the complexity. Until all are committed, it is not clear what the scale of the CCO will be. How is this being managed?
- g) **Transition risk:** There are two sides to transition risk; what is the impact on water services during transition and what is the impact on council after water has transferred?

12.2. Each of these is addressed under separate headings below.

Pricing

12.3. Local Water Done Well does not require prices to be harmonised across communities. Differences in prices across service areas can be maintained to reflect differences in investment, borrowings and costs of service. From a transitional perspective, the intention is for charges to be "jam-jarred" in the short-term with the current local community-based approach to pricing retained. In the Waikato Water Done Well CCO Shareholders Agreement, Shareholding Councils will agree the pricing principles for charging and the pathway to long-term pricing subject to economic regulation.

12.4. Economic regulation is being introduced in stages from January 2026. A core requirement of this is that the true cost of the service is reflected in the price. When looking at the true cost, regard

will be had to whether customers in specific regions should pay charges for delivering services in that region, with overheads shared equally across the service area (as is the case in the electricity sector) or whether customers across the entire service area (and of the same category and usage) will pay the same charges.

Prioritisation

12.5. Shareholding Councils will agree a prioritisation framework which will inform and guide decisions of the Waikato Water Done Well CCO Board. Councils can also include their expectations in the Statement of Expectations they issue to the board. The perception of some councils subsidising other councils' historic underinvestment has been discussed amongst Participating Councils as part of the HoA development, with it being agreed that they will develop a process for addressing this once the extent of any underinvestment is clearly understood. Any underinvestment will become clearer as Councils sign off on their Water Services Delivery Plans due in September. The process will be confirmed as part of the formal Shareholders Agreement negotiations.

Community assets

12.6. Where water services are transferred to the Waikato Water Done Well CCO, the assets owned by councils which are necessary to provide the water service will also transfer. This will be documented in a transfer agreement required under legislation. The assets will be owned by the CCO which is owned by the Shareholding Councils. There are strict rules that ensure community assets will remain as such. This includes that assets cannot be given as security and that shares can only be held by councils (which is the case for the Waikato Water Done Well CCO) or by a consumer trust.

Local Influence

12.7. The way local influence will be exercised is set out under strategic outcome 4 above. Councils will continue to have significant input into the strategic direction and priorities of the Waikato Water Done Well CCO and the board will be fully accountable to the Shareholding Councils. Bill#3 also provides for a significant degree of decision making to remain with councils including decisions in relation to drinking catchment plans, tradewaste and bylaws.

Cost of establishment

12.8. All water services delivery models will require investment to ensure they meet legislative requirements and community expectations. Due to cost sharing arrangements, the more councils involved the less investment is likely to be required by each district. The total costs (post signing the HoA) of establishing the proposed CCO as a legal entity (i.e. to Day Zero) are currently estimated to be \$2million. Further costs will be incurred in implementing the transition plan to get from Day Zero to Day One. This cost can only be confirmed once the plan is approved, resources agreed and budgeted for. It is intended that the Waikato Water Done Well CCO will be able to access financing for some of these costs once it can borrow in its own name.

12.9. The key point of note to councils is that Shareholding Councils can agree to pass the cost of establishment across to the CCO by capitalising it as a loan to the CCO. This option will only be available for councils who commit to being shareholders. Accordingly, all establishment costs will eventually be funded against the balance sheet of the CCO. There will need to be clarity

between all councils and the CCO as to what costs constitutes "establishment costs" so there is transparency on what can be passed to the CCO.

Certainty of establishment

- 12.10. The risk of councils not being able to reach agreement on key matters between now and the Waikato Water Done Well CCO being formalised is being managed by:
- a) Implementing the signed HoA which provides a strategic framework to establish the Waikato Water Done Well CCO. The council CEs, guided by their elected members, are continuing to meet regularly (noting point (c) below).
 - b) Ongoing engagement with the Mayors of Participating Councils to keep them informed and to seek direction where appropriate.
 - c) Balancing the need to not get ahead of public consultation against the need to give clarity to the public as to what transition planning looks like so there is confidence in both the service delivery option and the implementation plan.

Transition Risk

- 12.11. Transition risk is being managed by ensuring there is a robust transition plan that is developed together by councils, with input from key operating staff to achieve the target operating model for Day One. This involves identifying the key elements that need to transfer or be in place to ensure the transition is seamless, with no negative impact on the delivery of water services nor disruption to capital works programmes.
- 12.12. To further de-risk transition, it is proposed that councils will transfer their water services business into the Waikato Water Done Well CCO in a staged manner, rather than many businesses coming together on Day 1.
- 12.13. From a council perspective, the impact of transferring water on the remaining council business needs to be considered together with the target operating model. This is to ensure all parties fully understand the services the Waikato Water Done Well CCO will require from the council from Day One and afterwards, whether on a transitional basis or otherwise.
- 12.14. To ensure a safe transition, the transition planning will be undertaken in accordance with the following transition principles:
- a) **Sustainability:** focussing on long term financial and non-financial benefits
 - b) **Pragmatic:** balanced and pragmatic approach to reach end goal; each stage of planning must be fit for purpose and achievable in the circumstances
 - c) **Simplicity:** people understand what is proposed and why
 - d) **Flexibility:** design and timing are flexible to cater for different needs
 - e) **Commercial robustness:** independent professional board accountable to shareholders and clarity as to respective roles
 - f) **Equitable:** everyone wins at some stage based on taking a long-term view
 - g) **Value for money:** choices made as part of transition using sound procurement to get the best public value and affordable services for customers
 - h) **Work smart:** to the extent appropriate, the work programme will leverage off previous relevant work rather than reinvent the wheel

- i) **Safe transition:** focus during establishment is on safe transition with transformational outcomes being a long-term objective
- j) **Manage expectations:** maintain confidence of key stakeholders
- k) **Customers:** create seamless transition from a service delivery viewpoint
- l) **Employees:** certainty, opportunity, fairness and consistency – feel valued

12.15. As stated previously, ensuring the Waikato Water Done Well CCO and each remaining council is successful requires collective leadership to navigate the transition. A pillar of the Waikato Water Done Well transition work is to understand and integrate the future Waikato Water Done Well CCO establishment target operating model with that of the remaining council. The success of the Waikato Water Done Well CCO and the success of remaining councils are intrinsically linked and so success is the sum of the two parts.

Next steps

13. Preferred option and consultation

- 13.1. Councils will determine their preferred water services delivery option over the next 6 weeks (noting that Waipā District Council identified the Waikato Water Done Well CCO as its preferred option on 26 February 2025).
- 13.2. Councils will consult with their communities on the preferred model. In preparation for this, the communication specialists across councils (supported by a central specialist resource in the Waikato Water Done Well programme team) have developed the following to support consultation (on the assumption the Waikato Water Done Well CCO is the preferred option):
 - a) a summary of this proposal for community consideration
 - b) a joint consultation document for each council to use (so there is consistency). This can be tailored by each council (in terms of introductory comments and explanations) to suit its consultation process
 - c) the development of a website to ensure all information about Waikato Water Done Well is readily available to those who wish to understand more
 - d) questions and answers
- 13.3. This material will be brought to each council for approval in accordance with its own internal process.

14. Formal decision-making

- 14.1. The next critical step and milestone for councils who wish to be part of the Waikato Water Done Well CCO is to ensure there is clarity on the formal documentation that will apply if the CCO is to be established.
- 14.2. The key establishment documents are a company constitution and a Shareholders' Agreement. Parallel to consultation, work will commence to prepare these documents. Although this pre-dates the completion of consultation, it will not pre-determine the outcome of consultation. The purpose of advancing this work is to ensure there is clarity on what councils are agreeing to at the time they make a formal decision on Waikato Water Done Well, after considering feedback from consultation.
- 14.3. The Shareholders' Agreement will formalise the matters agreed to in the HoA and any additional matters councils agree to include. This will include the agreed transition strategy to get to Day One (1 July 2026) and the timing for when each council will transfer its business into the CCO. This will also confirm the terms of reference for the Shareholders Representative Forum which is critical to co-ordinated decision-making across councils on matters such as the appointment of the board and the adoption of a statement of expectations.

Glossary

Agreed Transfer Date	The date on which a council has agreed to transfer its water services business into the Waikato Water Done Well CCO. For some councils this will be Day One, for others it will be a date after this
AMP	Asset Management Plan. A document that outlines an organisation's asset management strategy and objectives, including maintenance schedules, risk management, and financial planning
CCO	Council-controlled organisation owned by one or more councils. The proposed CCO will be a limited liability company
Day Zero	Forming the CCO as a legal entity (estimated to be 1 July 2025)
Day One	Establishing the CCO so that it is operational, delivering water services to customers (estimated to be 1 July 2026)
DIA	Department of Internal Affairs
Establishment target operating model	The operating model agreed with Council CEs for Day One
Participating Councils	The seven district councils who have signed the Heads of Agreement: Hauraki, Matamata-Piako, Ōtorohanga, South Waikato, Taupō, Waipā, Waitomo
Shareholders Agreement	The purpose of the Shareholders Agreement is to ensure clarity on how shareholders engage with each other. The agreement will specify the decisions that are to be brought to the Shareholder Representative Forum for decision making by Shareholding Councils, the process for making decisions and the resolution process that will apply should there be a dispute between the Shareholding Councils
Shareholding Councils	The councils who formally adopt the governance documents to form the proposed CCO and who will own the CCO

Shareholder Representative Forum	A forum to enable all Council Shareholders to engage with the board and make decisions together. This includes appointing the board of the water organization
Smart Consenting	The strategic approach to resource consents that is proposed in Appendix 7
Statement of Expectations	Issued by shareholders to a water organisation, this document outlines the strategic and performance expectations for the organisation. Water organisations must incorporate these expectations into their water services strategy
Taumata Arowai	The water services regulator for New Zealand, responsible for ensuring communities have access to safe drinking water, and for protecting the environment from the impacts of wastewater and stormwater
Transformation	The water organisation changing from the establishment target operating model to an operating model that will deliver on the vision and strategic outcomes of the CCO. Transformation is long term
Transition	Safely transferring a council's water business into the CCO in accordance with an agreed Transition Plan. Transition is short term but is a critical step to transformation
Water services annual report	A report prepared by the CCO to ensure transparency about its performance over the past financial year. It includes detailed financial statements related to water services.
Water services strategy	A document that is legislatively required to be prepared by all water service providers, with the first being due on 1 July 2027. This is the primary document for strategic, financial, and infrastructure planning and accountability. Shareholders can decide their level of involvement in the preparation process. The board must set out how it intends to respond to the Statement of Expectations
WSDP	Water Services Delivery Plans are a one-off document that each council needs to submit a plan to DIA by 3 September 2025 (alone or jointly with other councils) to demonstrate their commitment to deliver water services that meet regulatory requirements, support growth and urban development and that are financially sustainable

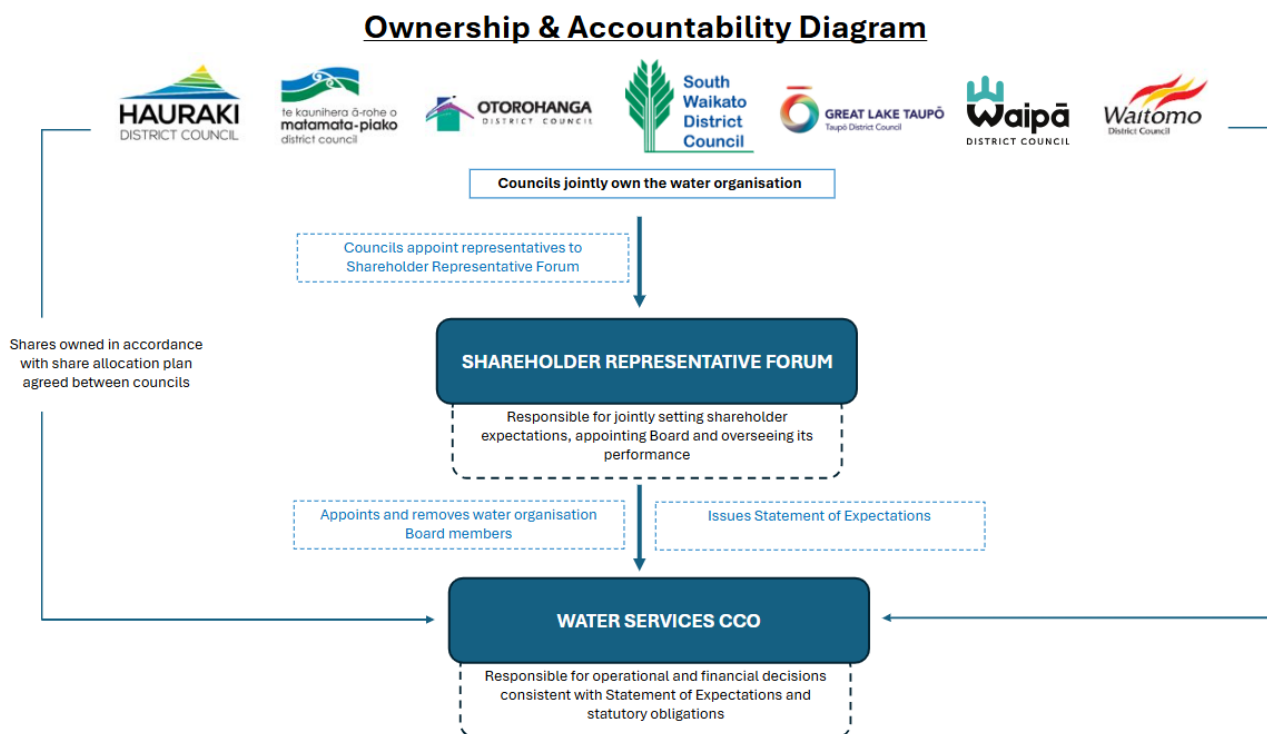
Appendices

Appendix 1 - Statutory Objectives

Bill#3, as introduced into Parliament in December 2024, sets the following statutory for all water services providers (i.e. Councils and water services organisations alike):

1. to provide water services that:
 - a) provide safe drinking water to consumers; and
 - b) do not have adverse effects on the environment; and
 - c) are reliable
 - d) are resilient to external factors, for example, climate change and natural hazards; and
 - e) are of a quality that meets consumer expectations; and
 - f) meet all applicable regulatory standards and requirements; and
2. to ensure that it provides water services in a cost-effective and financially sustainable manner, including by:
 - a) planning effectively to manage assets used to provide water services in the future; and
 - b) sharing the benefits of efficiency gains with consumers, including when setting charges for water services; and
3. to perform its functions as a water service provider—
 - a) in an open, transparent, and accountable manner; and
 - b) in accordance with sound business practice; and
4. to act in the best interests of current and future consumers; and
5. to be a good employer.

Appendix 2 - Ownership of proposed CCO



Shareholding allocation

1. All shareholders must be party to a shareholders' agreement. This agreement will include the agreed transition strategy, setting out when councils will transfer their business into the CCO
2. On the date the CCO is created as a legal entity (Day 0), councils will hold shares equally
3. When councils start to transfer their water services business into the CCO, shares will be issued according to connections - one share for every 1,000 full connections (rounded up) within a council's service area
4. Based on current connections, the allocation of shares once all councils have transferred their business into the CCO will be:

Council	Shareholding %
Hauraki	10
Matamata-Piako	13
Ōtorohanga	3
South Waikato	11
Taupō	39

Waipā	21
Waitomo	3

Shareholder decision-making

5. The decision-making framework captured in the Heads of Agreement (which will apply when all Councils have transferred their business into the CCO) is set out below. Best endeavours will be applied for decisions to be made by consensus. The following (which is subject to review to ensure it is fit for purpose as part of the formal governance documentation negotiation) is the position that applies in the absence of consensus.

Reserved matter	Votes
Changes to constitution	75% votes (and number) shareholders
Admitting new shareholders	
Any changes to the rights attached to shares	
Any winding up or restructuring (includes any merger or amalgamation)	
Any major transactions	
Appointment of Directors	75% (number) shareholders
Statement of expectations	75% votes shareholders

Appendix 3 - Board matrix of skills

Matrix of Skills

Each Director of the Company must have the skills, knowledge, or experience to:

- guide the Company, given the nature and scope of its activities; and
- contribute to the achievement of the objectives of the Company.

In making all Director appointments, the Shareholding Councils must ensure that all directors have the essential attributes and core competencies set out in the Institute of Directors Competency Framework and that the Board collectively has the following attributes:

COLLECTIVE BOARD ATTRIBUTES

Candidates with the ability and willingness to:		Desirable but not mandatory	At least one director	Multiple directors	All directors
1.	Chair the Board		√		
2.	Participate fully in the life of the Board and on subcommittees as required				√
3.	Demonstrate the individual attributes outlined below				√
Relevant knowledge and experience in/of:					
4.	Governance and leadership experience				√
5.	Commercial strategic and business acumen (with experience to oversee commercial negotiations)			√	
6.	Board member suitable to chair the Finance and Assurance committee, likely with a Chartered Accountant or equivalent background		√		
7.	Relationship management skills and experience, particularly in the Local Government context and with previous public sector experience Proven track record of high EQ and leading through complex change processes			√	
8.	Understanding of governance delivering community good civil infrastructure assets		√		

Candidates with the ability and willingness to:		Desirable but not mandatory	At least one director	Multiple directors	All directors
9.	Governance experience in industries delivering other utilities (such as electricity, telecoms)		√		
10.	A strong understanding of the Waikato region and contemporary local government context, including appreciation of public accountability			√	
11.	Practical, and preferably governance leadership experience in Water Services		√		
12.	Resource and environmental management and the RMA - <u>– demonstrating a commitment to kaitiakitanga and stewardship of the natural environment</u>		√		
13.	Experience integrating Te Ao Māori and Tikanga Māori in a professional board environment Understands how to lead, impact and influence to maintain, uphold, and proactively engage with the principles of the Treaty of Waitangi		√		
14.	Demonstrates a strong knowledge of relevant settlements in the region, for example, Te Ture Whaimana			√	

Appendix 4 - Financial Measures

Sustainability measures: Revenue sufficiency										
	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Average charge per connection including GST										
Average drinking water bill (including GST)	929	1,062	1,168	1,250	1,280	1,310	1,351	1,374	1,406	1,440
Average wastewater bill (including GST)	860	969	1,066	1,141	1,168	1,196	1,234	1,254	1,284	1,314
Average stormwater bill (including GST)										
Average charge per connection including GST	1,789	2,032	2,235	2,391	2,448	2,506	2,585	2,627	2,690	2,754
Projected increase		13.6%	10.0%	7.0%	2.4%	2.4%	3.1%	1.6%	2.4%	2.4%
Projected number of connections	91,560	92,387	93,247	94,137	95,530	96,950	97,890	99,843	101,327	102,833
Projected median household income	99,488	103,862	108,493	113,328	118,435	123,745	129,471	135,172	141,097	147,375
Water services charges as % of household income	1.8%	2.0%	2.1%	2.1%	2.1%	2.0%	2.0%	1.9%	1.9%	1.9%
Rates revenue	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
General and targeted rates	131,153	151,442	168,101	181,549	188,811	196,363	204,218	212,386	220,882	229,717
Projected increase		15.5%	11.0%	8.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Operating surplus ratio	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Operating surplus/(deficit) excluding capital revenues	(14,476)	(14,557)	(42,963)	(40,033)	(35,417)	(32,831)	(26,772)	(17,779)	(11,120)	(6,503)
Total operating revenue	141,441	162,551	180,432	194,866	202,661	210,767	219,198	227,966	237,085	246,568
Operating surplus ratio	(10.2%)	33.4%	(23.8%)	(20.5%)	(17.5%)	(15.6%)	(12.2%)	(7.8%)	(4.7%)	(2.6%)
Operating cash ratio	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Operating surplus/(deficit) + depreciation + interest costs - capital revenue	54,037	66,244	78,050	88,502	97,324	104,221	112,625	121,740	128,890	136,727
Total operating revenue	141,441	162,551	180,432	194,866	202,661	210,767	219,198	227,966	237,085	246,568
Operating cash ratio	38.2%	40.8%	43.3%	45.4%	48.0%	49.4%	51.4%	53.4%	54.4%	55.5%

Sustainability measures: Investment sufficiency

[illegible]

Sustainability measures: Financing sufficiency										
Net debt	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Total borrowings										
Less: cash and financial assets										
Net debt	506,424	698,372	781,853	856,732	939,283	962,777	972,958	965,962	961,015	961,548
Net debt to operating revenue	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Total net debt (gross debt less cash)	506,424	698,372	781,853	856,732	939,283	962,777	972,958	965,962	961,015	961,548
Operating revenue	141,441	162,551	180,432	194,866	202,661	210,767	219,198	227,966	237,085	246,568
Net debt to operating revenue	358%	430%	433%	440%	463%	457%	444%	424%	405%	390%
Borrowings headroom/(shortfall) against limit	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Operating revenue	141,441	162,551	180,432	194,866	202,661	210,767	219,198	227,966	237,085	246,568
Debt to revenue limit	500%	500%	500%	500%	500%	500%	500%	500%	500%	500%
Maximum allowable net debt	707,204	812,755	902,158	974,331	1,013,304	1,053,837	1,095,990	1,139,830	1,185,423	1,232,840
Total net debt	506,424	698,372	781,853	856,732	939,283	962,777	972,958	965,962	961,015	961,548
Borrowing headroom/ (shortfall) against limit	200,780	114,383	120,305	117,599	74,021	91,060	123,032	173,868	224,408	271,291
Free funds from operations (FFO) to debt ratio										
Operating revenue (minus interest income)	141,441	162,551	180,432	194,866	202,661	210,767	219,198	227,966	237,085	246,568
Less Expenses (minus depreciation and non-cash items)	105,830	122,816	144,759	154,515	155,344	160,314	162,333	162,063	164,196	168,308
Free funds from operations	35,610	39,735	35,673	40,351	47,317	50,454	56,865	65,903	72,889	78,260
Free funds from operations (FFO) to debt ratio	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Total net debt	506,424	698,372	781,853	856,732	939,283	962,777	972,958	965,962	961,015	961,548
Funds from operations	35,610	39,735	35,673	40,351	47,317	50,454	56,865	65,903	72,889	78,260
FFO to debt ratio	7.0%	5.7%	4.6%	4.7%	5.0%	5.2%	5.8%	6.8%	7.6%	8.1%
Debt to FFO ratio	14.2	17.6	21.9	21.2	19.9	19.1	17.1	14.7	13.2	12.3

Appendix 5 - Financial Model and Assumptions

Model build

The model underpinning the financial analysis of the Waikato Water Done Well CCO is built to show the financial benefits of aggregating water services activity into a CCO. The model has been built by Boberg Advisory and independently reviewed by the Department of Internal Affairs.

In broad terms the model:

- Takes the financial forecasts of each council's waters activity for the period to 30 June 2034
- Aggregates these forecasts together
- Applies some assumptions about the operating and capital spend savings to be realised from aggregation, as well as the additional costs of setting up and running the CCO
- Attributes the net savings back to each council to get a proxy for the financial benefit their communities will receive from being involved in the Waikato Water Done Well CCO.

The process to arrive at the financial analysis in this proposal has been:

- Obtaining the financial forecasts for water activity for the period to 30 June 2034 from each council
- Developing assumptions to underpin the model (these are set out under separate heading below)
- Testing the assumptions with council CFOs (or equivalent) and modifying as required
- Testing the efficiency assumptions against other cases of water services aggregation
- Initial model build
- Obtaining from each council other data required to support the metrics/other outputs that are to be presented as part of the financial analysis (e.g. additional forecast capex and opex)
- Sensitivity analysis on key assumptions including establishment costs and benefits (refer to Appendix 6)
- Obtaining independent assurance that the model has been built in a way that achieves its purpose and operates correctly under a variety of tested scenarios
- Developing the model to present additional outputs requested by councils
- Preparing the financial narrative

The model cannot compare the aggregated position with 'status quo' because we are not privy to, for example, council's assessment of stranded overheads that may arise from transferring their water services business.

Underlying assumptions

Council involvement: It is assumed that all Participating Councils will remain involved in the Waikato Water Done Well CCO and will transfer their water services business into the CCO. If a lesser number of councils are involved, depending on the size and debt profile of those that remain, at some point the reduced scale of operations will mean that the assumed efficiencies become unrealistic and/or the capacity to borrow is diminished.

Assumptions have been made regarding when each council will transfer its water services business to the CCO. Currently, it is assumed some will transfer effective 1 July 2026 with the remaining Councils transferring by 30 June 2028²¹.

Base data: It is also assumed that the financial forecasts and other data provided by each of the councils is correct. The base financial data is that included in councils' latest Long-Term Plans. This data has been updated to reflect any material change in forecast projects since the Plan was adopted. This data has not been independently verified by the Waikato Water Done Well Programme Team although we know that several councils have directly engaged consultants to develop a stand-alone position (and to that extent it has been independently interrogated).

CCO-specific 'upfront' and 'spend to save' costs: Assumptions are made about the capital and operational expenditure required to establish and operationalise the Waikato Water Done Well CCO. This includes one-off capex for corporate infrastructure, on-going operational spend and spend-to-save (see further below).

Efficiencies: Operational cost savings are assumed to start being realized from 2026/27 (i.e. as councils start to transfer their water services business). Cost savings on capital works are assumed a year later and increase at a slower rate, only reaching the peak assumption of 15%²² in FY2041-42. Cost savings are also assumed in relation to the catchment-based approach to consenting. These particular savings are in addition to the general assumption about capex savings.

We consider the assumed efficiencies are achievable. Examples of where efficiencies have actually been achieved in the context of TasWater include:

1. **Strategic procurement program** – Buying in bulk, reducing the number of providers, improving control over purchasing.
2. **Reduction in executive and management head count** – This has been an area of significant early gains in similar aggregations but may simply 'evolve' and be realised through natural attrition.
3. **Targeted waste reduction program**
4. **Opex associated with capital reduction** – Can be achieved in the early years by looking at opex solutions which can often obviate the need for the capex program and better control over projects which reduces average over-runs and time delays.
5. **Business case process** – A well-structured process will deliver significant savings if the reviewers (particularly board and executive team) know enough about the business to challenge proposals in a meaningful way.
6. **Operating losses** - Identifying the cause of operating losses and the impact on the bottom line (i.e. unnecessary pumping, water losses etc.)
7. **Store and depot aggregation** - To reduce leases.
8. **Bundling electricity**
9. **Reducing the number of after-hours call outs** – By reducing number of bursts and breaks (but takes a lot of time and capital).
10. **Overtime reduction** – getting assurance that the work outside 'normal hours' is really needed

²¹ The model can easily be modified to adjust the 'start date' for each council.

²² This is to say that at peak efficiency the CCO will be able to operate at 85% of what the councils could do on a standalone basis.

11. **Rationalisation** – Shutting down obsolete assets and not replacing them or replacing them with a common more modern facility that serves a larger area. There is the opportunity for some early gains but most of these gains will be in later years and flow from developing the 30 to 50-year strategic program.
12. **Extending the life of some assets**
13. **Plant optimisation** – process improvement to improve plant performance and reduce operating costs
14. **New capex delivery model** – if done well. this will reduce over-runs, but initial estimates will go up as they become more realistic.

Appendix 6 - Sensitivity analysis

The sensitivity analysis set out below compares the assumed financial forecasts for the Waikato Water Done Well CCO (base case) with the position where a key assumption is modified, namely:

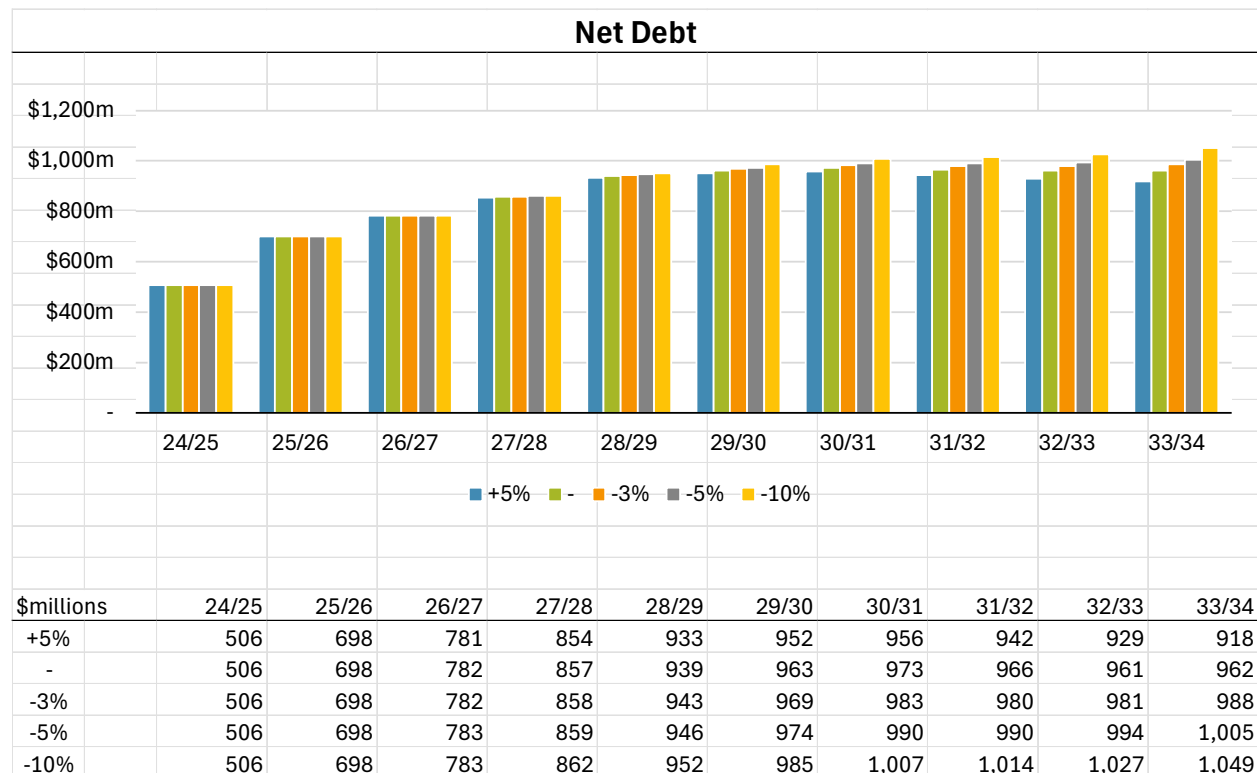
- 1) Where peak efficiency varies from the assumed 15%
- 2) Where the CCO establishment costs vary

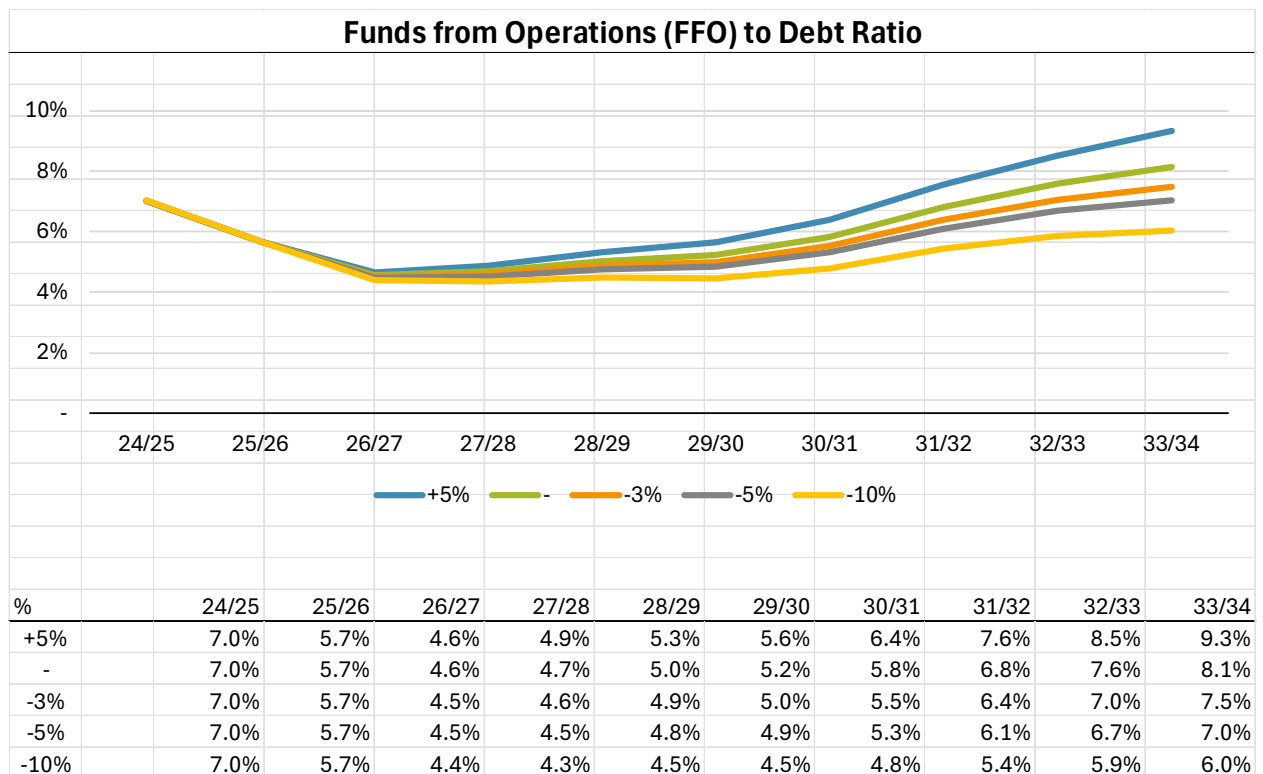
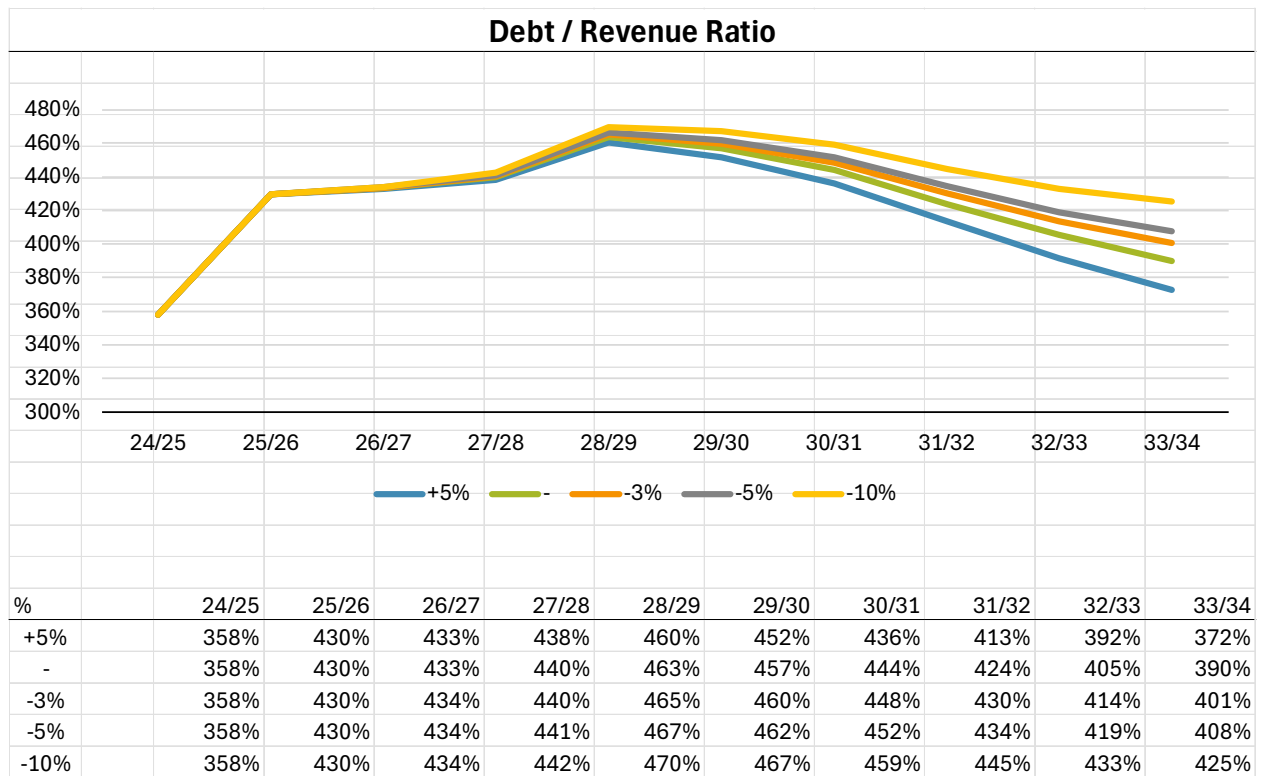
Note: sensitivity analysis has *not* been undertaken in relation to changes in inflation, interest rates or increased costs of delivering the planned capital works programme. This is because these macro conditions apply equally to a council's 'status quo' position and so will not affect the comparative position with the Waikato Water Done Well CCO.

Sensitivity 1: Peak efficiency differs from the base case by +5%, -3%, -5%, -10%

To the extent less cost savings are realised than anticipated, debt will correspondingly go up. The charts below show the impact on debt if the assumed efficiency changes.

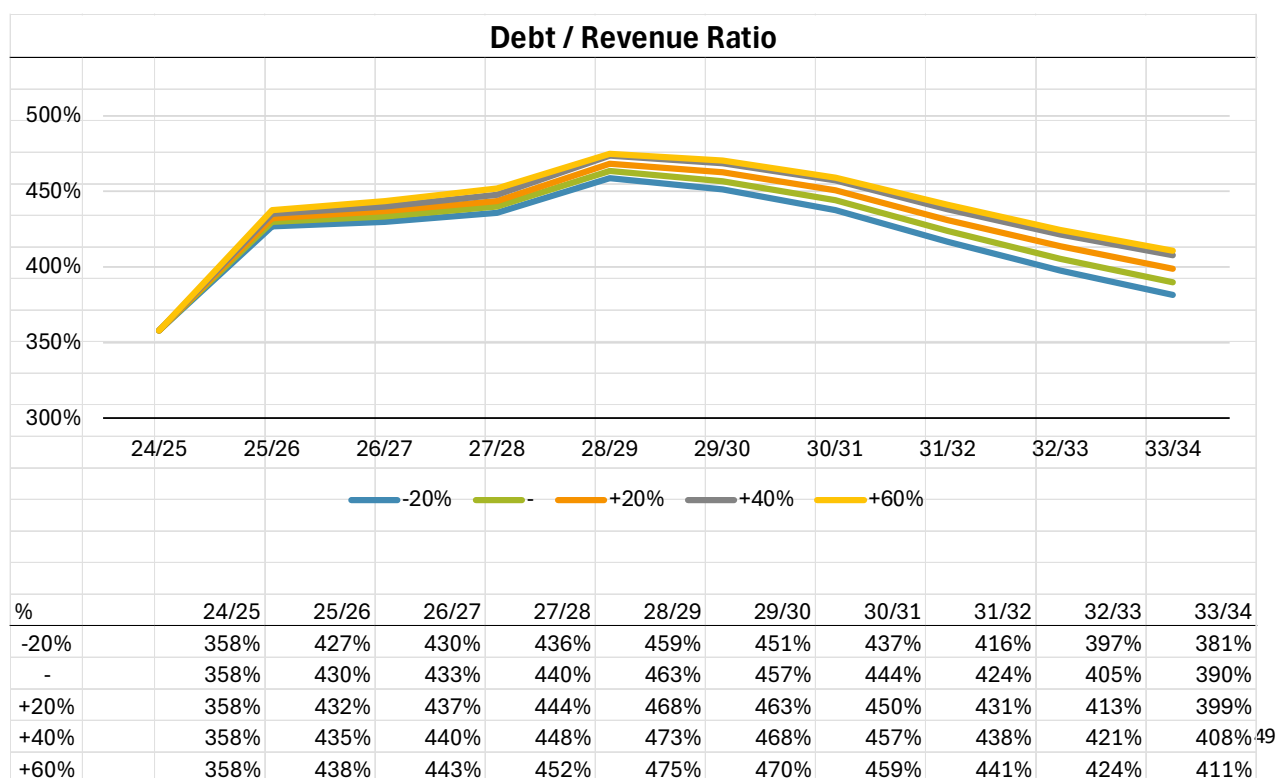
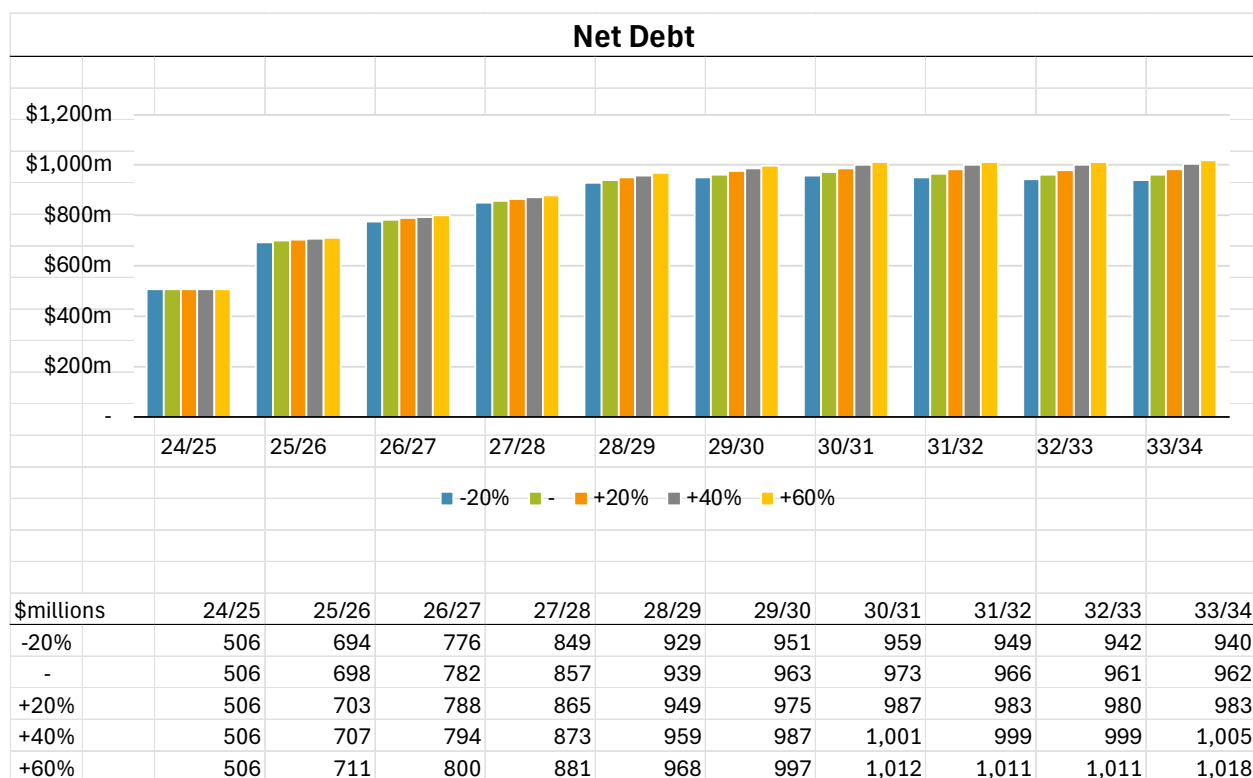
While under each scenario debt to revenue ratios are maintained within the expected limit of 500%, a reduction in achieved efficiencies does place a strain on the FFO to Debt ratio, sitting below what we understand the long-term minimum ratio is likely to be during the forecast period (but improving).

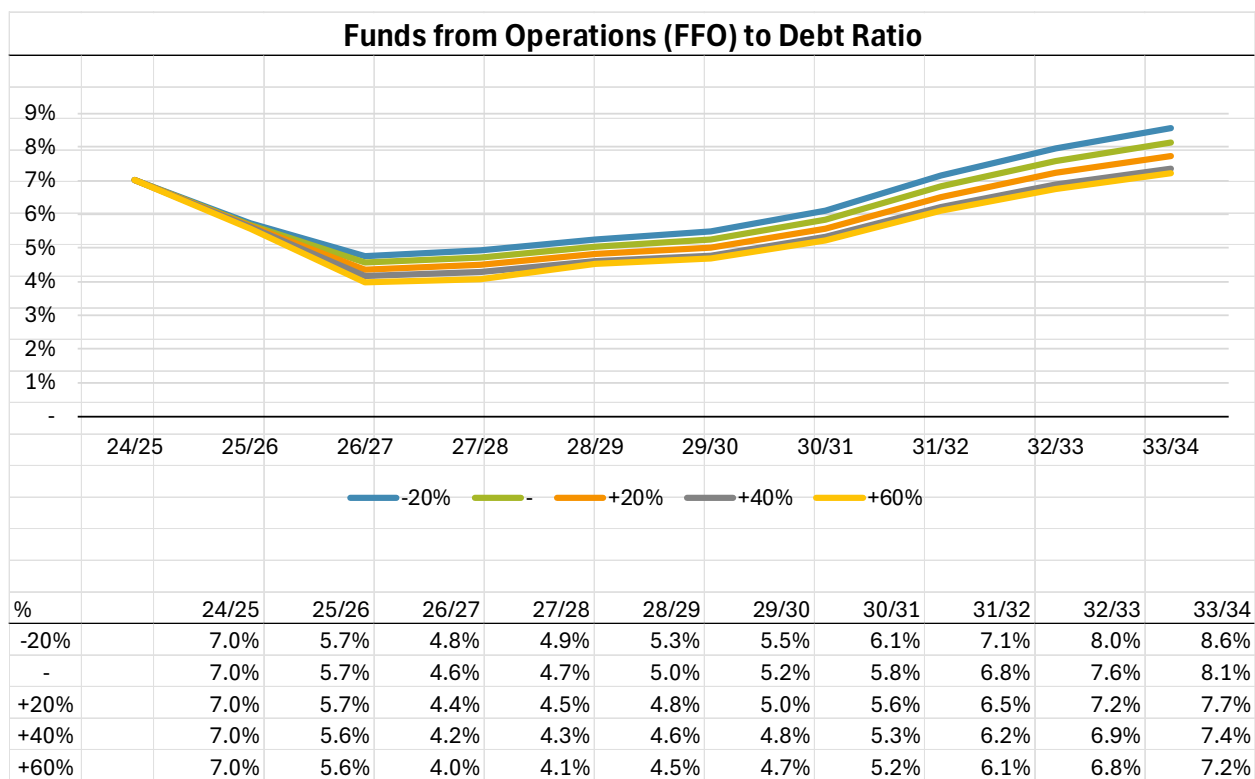




Sensitivity 2: CCO costs differ from the base case by -20%, +20%, +40%, +60%

The key takeaway from the graphs below is that the company can readily absorb significantly greater 'CCO specific' costs.





Appendix 7 - Smart Consenting

1. The Waikato Water Done Well CCO will have scale and relationships (including with multiple Iwi within a water catchment) to achieve a more strategic approach to resource consents and compliance. Through Waikato Water Done Well, Participating Councils are currently scoping the merits of taking a whole of catchment approach to the consenting of water services (water, wastewater and stormwater). This applies particularly to wastewater as the most significant infrastructure cost.
2. The issue is:
 - a) in the region, overall water quality continues to decline, including the Waikato River
 - b. significant improvements to point source discharges have occurred. However, their contribution to overall water quality is now minor (e.g. between 2011 and 2020 council wastewater treatment plants only contributed 0.5% of the total load of nitrogen in the Waikato River)
 - c. despite the diminishing returns on investment, billions of dollars are proposed to be invested by councils and industry on improving point source discharges. The Resource Management Act 1991 (**RMA**) currently promotes ad hoc investments to improve environmental outcomes, without flexibility to enable strategic investments to improve such outcomes.
3. As New Zealand water service providers assess the best way to deliver water services in their area, there is a real opportunity to assess the way consent applications are granted.
4. Part of the Waikato Water Done Well initiative is to work with the Waikato Regional Council and agree the draft objectives / outcomes sought and the methodology to achieve these objectives. Waikato Regional Council is highly supportive of this initiative and the technical leadership provided to date around a catchment-based approach to land use planning, infrastructure services and consenting is acknowledged.
5. Waikato Water Done Well, as a service delivery model, proposes a shift to consents that take a whole of catchment investment approach and to work smarter by seeking the best return on investment for the lakes and rivers concerned. A joint submission by Participating Councils in relation to Bill#3 has been made to the Select Committee explaining how the proposed “one size fits all” standards in the Bill are not consistent with a catchment investment approach (if they are to apply with exception). Although standards may reduce the cost on providers, there may still be wasted investment in terms of improving water quality outcomes in a catchment. The proposed standards are focused on a single point of discharge without having regard to the overall receiving environment. Integration with RMA reform needs to occur to achieve a shift from ad hoc to strategic investments that can significantly reduce costs but also have a significant impact on the overall health of the water body.
6. Once councils commit to Waikato Water Done Well as a service delivery option, it is intended that those within the same water catchment will get together (with Iwi partners and perhaps with industry) and form a substantive strategy which sets out:
 - a) facts relevant from a catchment context
 - b) relevant data for each plant: existing systems, contaminant loads, issues, and any upgrade objectives
 - c) the findings and recommendations to address:
 - localised impacts/near field effects e.g. current compliance issues

