Waipā DISTRICT COUNCIL

MEMO

To:	Elected Members	**CC:**	LWDW PGG
From:	Manager Delivery Performance		
Date:	12 February 2025	**File Ref:**	166.07
Subject:	Local Water Done Well – Water Service Delivery Options		

PURPOSE

- To provide further analysis and assessment of Waipā District Council's preferred water service delivery options under the Local Water Done Well legislation.
- To seek Elected Member guidance to inform a decision report (whereby Elected Members will be requested to identify a preferred option for consultation) for the Council meeting on 26 February 2025.

INTRODUCTION

The drivers for change in how water services are delivered have been the subject of discussion for decades and include: an ageing workforce, supply chain capacity constraints, increase in regulatory standards and expectations, new regulatory frameworks and oversight, increasing capital investment needed across the sector, affordability of service provision and the funding and financing constraints faced by Local Government. Under the latest 'Local Water Done Well' framework introduced by the Coalition Government, Water Service Providers need to deliver water services that are financially sustainable and affordable while ensuring that regulatory quality standards for infrastructure and water quality are met. These are key considerations in assessing the most appropriate future water services delivery model for Waipā.

The MartinJenkins report[1] considered by Elected Members in November 2024 identified two options for further consideration by Council and a backup option should neither of the preferred options prove viable. The two preferred options identified were:

- a three-council Sub-Regional Council Controlled Organisation (CCO) – Waipā, Hamilton City Council (HCC) and Waikato District Councils (Sub-Regional CCO)
- a seven-council Waikato Regional CCO – Waipā, Matamata-Piako, Taupō, Waitomo, Ōtorohanga, South Waikato and Hauraki District Councils (Waikato Water Done Well CCO (WWDW)). Note: Thames Coromandel District Council has not entered into the Heads of Agreement.

MartinJenkins identified that a standalone Water Services CCO where Council would establish a water organisation to deliver water services was a viable backup option. However, they also identified that this option had a relatively lower benefit compared to the preferred two options and no further work has been done on the standalone option at this stage, given the direction from Council in late 2024 on its two preferred options.

[1] On 19 November Beca, MartinJenkins and Mafic presented to Elected Members the 'Assessment of Viability and Sustainability of Water Services Delivery' report; this report also included a high-level option analysis.

At its meeting on 26 November 2024, Council resolved to approve entering into the Heads of Agreement relating to Waikato Water Done Well, noting that work would also be undertaken in parallel to investigate further any collaborative Sub-Regional CCO water services delivery options.

This memo provides Elected Members with additional information to consider the two preferred options further. This is based on extensive work over December and January with partner councils to understand and develop the basis of each CCO further, although it is noted that what is presented is what is currently known and understood from the analysis and discussions to date, and that there are still a number of areas where there is incomplete information, or by necessity a number of assumptions have been made. The following information provides insights into where both CCO options are currently, but that there will be some areas where further detail is not yet available. Whilst this is not ideal, the timeline for consultation, and the development of Waipā's Water Service Delivery Plan, requires a single preferred option to be identified. No staff recommendation is included in this memo, and instead all information and discussion are provided to ensure that both options are well explored.

In the analysis undertaken, many of the strategic objectives identified in the MartinJenkins report aligned with both those for the WWDW and the Sub-Regional CCO. Further, when the strategic objectives were assessed against each CCO proposal, both either partially or fully meet Waipā's objectives. There is a high level of alignment and therefore it is considered more appropriate to outline the key distinguishing factors between the two options, and these are presented below.

This memorandum is structured in 11 sections:

1. Key Distinguishing Factors
2. Summary Assessment of Strategic Objectives
3. Background
4. Assessment of Strategic Objectives & Other Items
5. Strengths of each option
6. Further Analysis
7. Agreements
8. Governance and Accountability Considerations
9. Risks
10. Next Steps
11. Appendices

1. KEY DISTINGUISHING FACTORS

Efficiency and Financial Considerations:

Sub-Regional CCO

The Sub-Regional CCO provides debt capacity/headroom for the delivery of a combined investment programme of the three shareholding councils, based on a forecast revenue and an average annual price increase to customers of 10.2%pa. Financial modelling completed by Deloitte indicates there will be sufficient head room for the CCO to be financially sustainable, whilst delivering the planned programme of work. The analysis undertaken to date has been conservative in that it has not included provision for any efficiency gains, however these are expected to be achieved as scale *will* bring efficiencies (with the approximate number of combined water and wastewater connections 84,500 – subject to confirmation) and with the involvement of a large metro council. These efficiency gains are expected to be later in the decade post establishment due to the timeframe for transition (five-year period), as in this early period there is a higher dependency on shared services to be provided by the shareholding councils. The opportunities for a reduction in customer price increases within the period to FY34 is unclear at this stage of the analysis.

WWDW CCO
In the analysis completed to date, an allowance for expected efficiency gains of 1% per year (cumulatively 15% over the modelled period of time) has been included, recognising the material increase in scale compared to contributing council operational size, (approximate number of combined water and wastewater connections 72,000 – subject to confirmation). These efficiency gains are expected to result from the opportunity for service improvements from consolidating operations and maintenance and capital delivery across the greater number of councils. The WWDW CCO financial analysis also indicates that debt capacity/headroom available to the organisation is sufficient to meet all partner councils' investment requirements based on a forecast revenue and an average annual price increase to customers of 4.6% pa. This will meet the DIA requirements in respect to financial viability.

Servicing of Waipā's future growth
Sub-Regional CCO
The Sub-Regional CCO will allow a lower risk transition for management of development expected in the north Waipā/southern Hamilton area. This provides potential for integration with the other growth councils (Waikato DC, Hamilton CC) to more efficiently manage servicing of growth in approved spatial plans and growth strategies, and aligns with established Future Proof planning and proposed implementation mechanisms. This arrangement can also more easily respond to future local government boundary changes between the three councils and/or may reduce the need for such boundary changes. It is noted that the growth expected in the north Waipā area accounts for only around 20-30% of Waipā District's overall growth projections in the first decade.

WWDW CCO
In the WWDW CCO, Waipā will be the only high-growth Tier One council, and servicing of growth adjacent to or across the Waipā/HCC/Waikato DC boundary would likely require the two CCOs to work closely together and may require agreement between them on how servicing, financing and charging would work. Some examples of how this may work is the enactment of the existing Waipā/HCC Strategic Boundary Agreement or formal agreements between the CCOs to provide each other service via the planned Southern Wastewater Treatment Plant (already envisaged in the joint HCC/Waikato DC/Waipā/Tainui MOU).

To ensure that growth requirements across our District are provided for, this would need to be included as one of our key priorities for the Shareholders' Forum of the WWDW CCO.

Mana Whenua and Iwi relationships

Waipā is committed to, and values, its current and future relationships with Mana Whenua and Iwi. These relationships are decades long and are founded upon Te Tiriti o Waitangi. Waipā has Joint Management Agreements with Waikato Tainui, Raukawa, Ngāti Maniapoto and more recently, Te Nehenehenui, pursuant to the Waikato-Tainui Raupatu Claims (Waikato River) Settlement Act 2010, the Ngāti Tūwharetoa, Raukawa and Te Arawa River Iwi Waikato River Act 2010, the Ngā Wai o Maniapoto (Waipā River) Act 2012 and the Maniapoto Claims Settlement Act 2022. Other settlement legislation that has effect within Waipā's jurisdictional boundaries providing settlement redress to and recognition of Mana Whenua and Iwi includes the Waikato Raupatu Claims Settlement Act 1995, Ngāti Hauā Claims Settlement Act 2014, Ngāti Koroki Kahukura Claims Settlement Act 2014, and the Raukawa Claims Settlement Act 2014. Within the Waipā and Waikato Rivers' catchment and their tributaries, the JMA's define processes relating to engagement for resource consent applications, plan changes, and monitoring and enforcement as they relate to Te Ture Whaimana o Te Awa o Waikato (the Vision and Strategy for the Waikato River which has paramouncy over the Regional Policy Statement and National Policy Statements under the RMA'91).

The various pieces of legislation provide for a wider ambit of relationships, protection of customary rights and activities and mechanisms that protect rights and interests into the future, as governed by Post Settlement entities. For Waipā, it is critical that our Treaty Settlement, JMA and other partnership obligations and responsibilities are recognised and protected.

Sub-Regional CCO

As it stands the Sub-Regional CCO has arrangements in place with Waikato Tainui only (where Waikato Tainui will participate in the proposed model's shareholder forum).

This would mean that should Waipā join the Sub-Regional CCO we would need to ensure adequate and equitable provision for Waipa Iwi and Mana Whenua representation.

WWDW CCO

It was at the invitation of the Waikato Iwi Chairs Forum that the Waikato Mayors met to consider a Waikato wide waters response to the current challenges. As a result of this conversation, WWDW was formed. Due to the broader area of responsibility that the WWDW model covers, including the Waikato, Waipā and Waihou/Hauraki catchments, there are both collective and individual responsibilities and obligations to a range of Iwi including (but not limited to) Ngāti Tuwharetoa, Raukawa, Ngāti Maniapoto, Te Arawa River Iwi, Ngāti Haua, Waikato Tainui, Ngāti Hinerangi and Hauraki Iwi. The proposed model, as indicated through the Heads of Agreement, provides for the Shareholder Forum to determine how Iwi will be formally engaged in the model but recognises and provides for these partner relationships. But it is acknowledged that appropriate mechanisms will need to be established to meet all Treaty Settlement and Joint Management Agreement obligations.

At this point in time each council continues its responsibilities for engagement with Iwi and it is envisaged (and indeed directed by Iwi at the Waikato Mayoral Forum) that this will continue as councils make key decisions under the Local Water Done Well legislation, until such time as is directed otherwise.

Catchment Management and Catchment Based Consenting

The WWDW business case includes and strengthens provision for progressing catchment-based consenting for discharges across the wider Waikato Region, bringing benefits to all river and estuarine catchments, and in line with all Treaty based settlements focused on river and catchment restoration. For the Waipa District this covers the Waikato and Waipā Rivers and associated catchments, but overall provides for scale, consistency and a broader all of region approach. The WWDW model is seeking to find innovation in achieving sustainable waters done well objectives in both environmental standards and financial return for its shareholders, customers and communities.

The Sub-Regional CCO has a primary focus on achieving the objectives of Te Ture Whaimana (with respect to the lower reaches of the Waikato River). If there is consideration of wider catchment impacts on receiving environments, this may bring greater benefit to Waipā when future consents for discharges need to be considered.

Waipā's Role – Joining a CCO vs Establishment

As part of the WWDW CCO, Waipā would be a "foundation" shareholding council, whereas with the Sub-Regional CCO there is no clarity on whether Waipā would become a foundation shareholder (and a signatory to a Record of Agreement) or whether Waipā would have to join the CCO, which would be subject to a process involving the CCO Board and other shareholding councils. Whilst not confirmed, it is anticipated that this would be a point of negotiation once consultation processes are complete, if the Sub-Regional CCO was the preferred option. HCC/Waikato are consulting in the short term on a two council CCO, with the ability for other councils to join.

Transition/Establishment Considerations

For the Sub-Regional CCO, Hamilton City and Waikato DC have documented a transition intent in the Record of Agreement which includes both councils moving their water and wastewater services to the CCO from 1 July 2026, subject to employment processes. This is an ambitious timetable compared to some of the options being explored in other parts of the country as it is driven by the system requirements of both councils. This would include all operational staff. This transition process would be an up to five-year transition with some shared services to remain with each individual council (or HCC as a shared services provider) and move to the CCO in one, three or five years depending on the shared service. The parties have determined that an aligned approach could apply to a three-party CCO including Waipā, that is, a five-year transition timeframe. It is anticipated that the Sub-Regional CCO would not have a full customer facing profile for the first three years (post establishment) as each council would maintain the revenue gathering role for the CCO. Customer requests are likely also to be managed by the shareholding council for this period.

The underlying approach for the WWDW CCO is to build an optimised operating model CCO operation on day one, with any processes remaining with shareholding councils to be migrated to the CCO as quickly as possible post-establishment. Shareholding councils would migrate core water and wastewater businesses to the CCO in tranches, with Waipā being in tranche one on 1 July 2026. Subject to employment processes, this would include all operational staff. Discussion on shared services arrangements has not yet been undertaken, but it could reasonably be expected that shareholding councils may provide some shared services (such as billing of customers) until this could be migrated to the CCO. It is expected that the transition period to the CCO for WWDW will be less than the three years forecast for the Sub-Regional CCO. WWDW is looking to ensure a strong transition while not incurring any unnecessary costs in the first stages.

As a tranche one council of WWDW, Waipā would have the opportunity to influence and impact the establishment and transition arrangements with the other shareholding councils.

Long Term Outcomes

Pathway to Consolidation:

Councils involved in the discussions on the future water services delivery model have indicated that ideally in the longer term (possibly five to 10 years) that there would be a single Waters CCO providing services across most, if not all, of the Waikato region to ensure that maximum benefits are achieved for water consumers from efficiencies achieved through greater scale and a range of other benefits. It is acknowledged that this cannot be achieved in the short term, so consideration can, and should, be given to which pathway is best now, for Waipā DC to ensure this longer-term objective is achieved. In considering this it is noted that:

- If Waipā DC joined the Sub-Regional CCO, this CCO would include three of the largest Waikato council populations – these are each Tier 1 growth councils. The largest of which will be a metro-council (HCC) with a large focus on growth servicing.
- If Waipā DC joined the WWDW CCO, this model has a wider rural and provincial focus, which will likely provide a great operational model, workforce, civil contractor and relationship benefits across the shareholding councils. It will also likely have scale that would be constructive in supporting the negotiation that will be required to amalgamate Waikato CCOs in the future.

The ability of each CCO to further consolidate water services across the Waikato would depend on the decisions of other councils, as well as approval of the shareholding councils.

Waikato Regional Leadership:

We are currently in a political environment where regional leadership and collaboration is being clearly indicated as the model of choice from central government. The Coalition Government (and indeed the previous government was seeking similarly) is very clear through policy, incentives and new frameworks such as regional deals that it seeks to work with regional groupings and positive regional leadership.

The sub-regional model would exemplify a CCO demonstrating growth council alignment with a large metro and two rural and provincial councils involved. This does align with Future Proof and its goals and aspirations.

It has been noted to us by Central Government officials that the WWDW model is clearly the largest potential model of a rural and provincial council CCO under the new waters regime across New Zealand. It is attracting strong interest from Government Ministers and potentially would augment and reinforce the leadership messages being driven through the proposed Waikato regional deal model. Given its scale and early adopter model it is possible that opportunities may exist to lead conversations with the Crown about incentives and support for WWDW.

Furthermore, post waters transition, the ‘role, functions and structure’ of councils will clearly require in-depth and strategic thinking and conversations with communities. This future work is recognised by the WWDW Mayoral and CE working groups and will need to form part of related parallel council led workstreams. On that basis, strategic thinking beyond the ‘here and now’, focused on what is best for the long term of communities across Waipā and Waikato is critical.

2. SUMMARY ASSESSMENT OF STRATEGIC OBJECTIVES

As noted above, the strategic objectives shown below were developed through the MartinJenkins report. These have been assessed at senior staff level to determine if they are aligned with those of the Sub-Regional and WWDW CCOs (based on the Heads of Agreement of WWDW and the business case and Record of Agreement between Hamilton City and Waikato District). This assessment has shown that there is, in general, strong alignment between the strategic objectives of all, with partial alignment around supporting growth, affordability, and transition timelines.

The legend for the table is:

Does not meet objective	Partially meets Objective	Meets Objective

Waipā Strategic Objectives	Alignment	
	Sub-Regional	WWDW
Efficient and financially sustainable delivery of water services for Waipā District communities, now and into the future		
There is investment at a level that protects and promotes public health and the environment		
The right workforce capability and capacity is available		
The model enables and supports future growth and change and builds system resilience		
Water services are affordable and meet the needs and expectations of the Waipā District communities		
Responsibilities to hapu and iwi are met		
Remaining Council operations are viable, and continue to deliver on communities’ expectations		
Other considerations		
Agreement between participating councils is aligned to Waipā’s strategic objectives		
Establishment and transition are achievable and realise benefits in a timely manner		
Pathway to future consolidation of water services in the Waikato region		

Refer to pages 11-14 for the detailed analysis.

Waipā's ability to achieve the optimum outcome for its communities for either of the preferred CCO options is dependent on other partner councils remaining aligned with Waipā and continuing with their respective models. The LWDW timeline driven by legislation is extremely tight. There is a risk that councils could withdraw support for the combined WWDW CCO approach and look to proceed with other options; this is particularly so if Waipā chooses the Sub-Regional CCO option as its preferred option. It has been made clear from the WWDW councils that they strongly desire Waipā's commitment to WWDW and that they perceive the CCO's success and sustainability, and 'scale' to negotiate any future amalgamation with other CCOs requires Waipā as an anchor council.

The MartinJenkins report showed that under the DIA criteria if three waters transferred to a CCO the residual council operations will still be viable and will continue to deliver on the community's expectations. This will be tested further through the establishment process, that is, quantifying stranded overheads (costs of support services, administration, etc that are currently recovered in part from the Waters Activity within Council and which may not move to the CCO) etc, irrespective of the chosen option.

To align as much possible with, and give confidence to, the other partner councils (and their timeframes) and to meet legislative timeframes, Council's decision on the preferred option needs to be made at the 26 February 2025 Council meeting so that consultation with the community can be undertaken alongside the consultation on the draft 2025-2034 Long Term Plan.

3. BACKGROUND

"Local Water Done Well" (LWDW) is the Coalition Government's plan to address New Zealand's longstanding water infrastructure challenges. It is given effect, in part, through the Local Government (Water Services) Bill, which was introduced in December 2024.

Under Local Water Done Well, all councils across New Zealand are required to produce a Water Services Delivery Plan by September 2025, with a focus on ensuring future delivery is financially sustainable and meets quality standards.[2] Whilst ensuring water services are financially sustainable for our communities, there are recognised issues ahead for these activities with respect to an ageing

[2] The Bill provides for:
- arrangements for the new water services delivery system
- a new economic regulation and consumer protection regime for water services
- changes to the water quality regulatory framework and the water services regulator.

Relevant governance issues included in the Bill include:
- Board appointments must be competency based
- Current councillors cannot be appointed to Boards
- Water organisations must be companies
- Activities are limited to water services only
- Water organisations will be subject to restrictions against privatisation
- Parts 1 to 7 of the Local Government Official Information and Meetings Act will apply to water organisations, but Part 7 will only apply to board meetings and not to other meetings such as board committees.

workforce, procurement challenges with all councils looking to much larger capital works programmes to be delivered with constrained contractor resourcing, and meeting increasing environmental, compliance, and financial regulatory requirements.

On 19 November 2024 Beca, MartinJenkins and Mafic presented to Elected Members the 'Assessment of Viability and Sustainability of Water Services Delivery' report; this report also included a high-level option analysis. The report concluded that Waipā is in a good position to consider a range of options that will likely satisfy financial sustainability requirements under LWDW and that Council should continue to explore a range of options, including prioritising potential joint arrangements with other councils (a Council Controlled Organisation - CCO). The most credible options for active consideration being:

1. **Standalone Water Services CCO –** *Council establishes a water organisation to deliver water services – viable back-stop option.*
2. **Sub-Regional CCO (Waipā, Waikato District Council, Hamilton City)** – *Council partners with other councils to establish a sub-regional asset owning water services organisation aligned to key growth pressures.*
3. **WWDW CCO Asset Owning, Stage 2** (councils which have committed to signing the Heads of Agreement to establish an asset owning CCO are Waipā, MPDC, Taupō, Waitomo, Ōtorohanga, South Waikato, Hauraki) – *Council partners with other councils to establish a regional asset owning water services organisation.*

MartinJenkins identified that establishing a standalone Waipā District Council-owned water services organisation would be a viable backstop option. However, while "viable", they also identified that this item had lower benefit than the preferred two options. No further work has been done on this option at this stage, given the direction from Council in late 2024 on the two preferred options.

At the 26 November 2024 Council meeting a decision report was presented 'Waikato Waters Done Well – Heads of Agreement'. The following resolution was resolved:

That Council

a) Receives the report of Dawn Inglis, Group Manager Service Delivery, titled Waikato Water Done Well – Heads of Agreement (document number 11291368);
b) Approves Council entering into the Heads of Agreement (HoA) Relating to Waikato Water Done Well, attached as Appendix 1 (document number 11337248);
c) Confirms Council's in principle preferred position under the HoA is to go directly to Stage 2;
d) Delegates authority to the Chief Executive to sign the HoA on behalf of Council;
e) Notes that work will also be undertaken in parallel to investigate further any collaborative sub-regional CCO water services delivery options;
f) Notes that public consultation on Council's future water services delivery is intended to be undertaken in early 2025, pursuant to legislative requirements.

The following items have been completed since the 26 November 2024 Council meeting:

- Numerous meetings/workshops have been held with Hamilton City Council (HCC) and Waikato District Council (WDC) – discussions have included:
    - Alignment of Strategic Objectives
    - Capex programme
    - Financials
    - Transition including what day one looks like
    - Record of Agreement
- Financial modelling on the Sub-Regional CCO – working with Deloitte, HCC and WDC, to incorporate Waipā's financials into the HCC and WDC CCO model.
- Providing information to Deloitte to enable them to put an Addendum into the HCC/WDC business case showing what the CCO model would look like with Waipā included.
- Waipā has signed the Waikato Waters Done Well (WWDW) Heads of Agreement along with Hauraki, MPDC, Taupō, Waitomo, Ōtorohanga, and South Waikato District Councils.
- Numerous meetings have also been held with WWDW these include:
    - WWDW Financial Modelling
    - Participation in WWDW Key Workstreams meetings
    - Weekly Chief Executive meetings, including workshop for early transition planning.
- Waipā staff and Nexus Consultancy have analysed outputs of the WWDW financial model and made suggestions to WWDW where improvements could be made; these improvements have been included into the model.
- Correspondence, liaison and engagement with DIA.
- Attendance at various Central Government, Taituarā, LGNZ and Water NZ webinars to ensure that we are up to date with information coming from DIA and Bill 3 requirements.
- Submissions on the Water Services Authority – Taumata Arowai Levy and Commerce Commission Levy; these were submitted on the 24 January 2025.
- Ongoing attendance of the team at WWDW programme meetings
- Ongoing relationship meetings between Waipā CE and all councils.

A significant amount of resource has gone into working alongside HCC/WDC and Deloitte to ensure Elected Members can make an informed preferred option decision at the Council meeting on 26 February 2025.

Previous MartinJenkins advice indicated that Waipā is in a good position to consider a range of options that will likely satisfy financial sustainability requirements anticipated under LWDW. Their advice was that the Council should continue to explore a range of options for future services delivery. Based on the balance of judgements, the most credible options for active consideration are the Sub-Regional CCO option and the WWDW CCO option. Further they considered a standalone CCO (option 2) remains a viable back-stop option.

Appendix 1 provides a high-level overview of the five options considered by MartinJenkins. The table below shows the key parameters for the CCO modelling for both the Sub-Regional and WWDW options.

Parameter	Sub-Regional	WWDW
Establishment		
CCO Establishment Date	1 July 2026	1 July 2026
Water and Wastewater Asset Owning CCO	Yes	Yes
CCO Partners	Waipā/HCC/Waikato DC	Waipā/Taupō/MPDC/South Waikato/Waitomo/ Ōtorohanga/Hauraki
All of Waipā's currently planned capital investment is delivered	Yes	Yes
Stormwater Management	Provided as a shared services opportunity by CCO	Provided as a shared services opportunity by CCO

4. ASSESSMENT OF STRATEGIC OBJECTIVES & OTHER ITEMS

The table below shows the current assessment of the options. The starting point was the Assessment of Viability and Sustainability of Water Services Delivery report prepared by MartinJenkins and then it has been updated with what we now know.

Legend:

Does not meet objective	Partially meets Objective	Meets Objective

Note – red coloured text is a characteristic that is reducing the benefit but not sufficient to downgrade the overall assessment against the objective.
Any text that is in italics in the table below has been updated from the MartinJenkins report.

	Sub-Regional CCO (Waipā, Waikato, Hamilton	WWDW CCO Asset Owning, Stage 2 (Councils entering into HoA Waipā, MPDC, Taupō, Waitomo, Ōtorohanga, South Waikato, Hauraki)
Waipā Strategic Objectives		
Efficient and financially sustainable delivery of water services	▪ Scale efficiencies likely, with involvement of a large metro council. (*Not stated currently as a deliberate outcome sought)* ▪ *Extended timeframe for transition (5yr period), with a high dependency on shared services to be provided by shareholding councils, which include provision of customer facing services remaining with each Council for approximately three years.*	▪ *Scale of efficiencies likely – and a deliberate outcome sought by the CCO* ▪ Opportunities for service and delivery improvements from consolidating operations and maintenance, procurement, workforce optimisation and relationship benefits.
Protects and promotes public health and the environment	▪ Debt headroom available to the organisation to invest in public health and the environment. ▪ Stronger ability to meet regulatory requirements to ensure water and wastewater services protect and promote public health and the environment. ▪ Opportunity to take a catchment-based approach. ▪ *Provides opportunity to align with and give effect to Te Ture Whaimana of the Waikato River* ▪ Potential for funding to be prioritised towards needs of other councils, *(mitigated by Shareholders Forum process).*	▪ *Debt capacity available to the organisation to invest in public health and the environment.* ▪ Stronger ability to meet regulatory requirements to ensure water and wastewater services protect and promote public health and the environment. ▪ Opportunity to take a catchment-based approach across the Upper Waikato, Waipā and Waihou catchments of the Waikato Region ▪ *Provides opportunity to align with and give effect to Te Ture Whaimana of the Waikato River and future Hauraki Catchment settlements* ▪ Potential for funding to be prioritised towards needs of other councils, *(mitigated by Shareholders Forum process).*
Workforce capability and capacity	▪ Scale improves ability to attract and retain – be competitive and provide attractive career pathways. ▪ Improved influence/attractiveness to suppliers (larger scale contracts). ▪ *Will be a metro/growth focused opportunity for workforce*	▪ Scale improves ability to attract and retain – be competitive and provide attractive career pathways. ▪ Improved influence/attractiveness to suppliers (larger scale contracts).

	Sub-Regional CCO (Waipā, Waikato, Hamilton	WWDW CCO Asset Owning, Stage 2 (Councils entering into HoA Waipā, MPDC, Taupō, Waitomo, Ōtorohanga, South Waikato, Hauraki)
		▪ *Intended to increase all shareholders' sustainability, attraction and retention issues*
Supports future growth and builds resilience	▪ Debt headroom available to the organisation to invest in future growth and building resilience. ▪ Potential for integration with other growth councils to better manage spatial planning and climate change challenges – aligns with established Futureproof planning mechanisms *in the sub-region.* ▪ Can easily respond to future boundary changes *(on the HCC/WDC/Waipā boundary)* or reduce the need for boundary changes.	▪ *Debt capacity available to the organisation to invest in future growth and building resilience.* ▪ Potential for integration with other councils to better manage spatial planning, and climate change challenges. ▪ *Will provide a large rural and provincial model for multiple iwi to engage with and development economic partnership, investment and workforce opportunities.* ▪ *HCC not included so may add complexity to servicing growth adjacent to the boundary (to be ascertained)* ▪ *Will likely require servicing agreements with the Sub-Regional CCO (or boundary adjustments) for northern Waipā.*
Water services are affordable and meet the needs and expectations of the Waipā District communities	▪ Possible for longer-term debt financing, leading to greater ability to spread cost of investment across generations, and meet future needs. ▪ Opportunities for service improvements from consolidating operations and maintenance. ▪ *Opportunities to reduce the cost to customers in a sustainable way which increases affordability compared to standalone.* ▪ *Consent efficiencies with whole of river approach – Waipā to Waikato.* ▪ *Community voice developed through using a shareholder representative forum.* ▪ *Average price rise of 10.2% across the three councils.* ▪ *Extended timeframe for transition (5yr period), with a high dependency on shared services to be provided by HCC.* ▪ *Price harmonisation will not happen in the first five years – and will be the responsibility of the CCO from year five.*	▪ Possible for longer-term debt financing, leading to greater ability to spread cost of investment across generations, and meet future needs. ▪ Opportunities for service improvements from consolidating operations and maintenance. ▪ *Opportunities to reduce the price to customers in a sustainable way which increases affordability to customers compared to standalone.* ▪ *Consent efficiencies with whole of river approach – Taupō to Waipā districts, and for the Hauraki Catchments* ▪ *Community voice developed through using a shareholder representative forum.* ▪ *Average price rise of 4.6% across the seven councils.*
Responsibilities to hapu and iwi are met	▪ Greater investment capacity likely welcomed. ▪ Existing requirements/responsibilities relating to Te Ture Whaimana and relevant JMAs would need to be reflected in arrangements.	▪ Greater investment capacity likely welcomed *from a broader number of Iwi across the Waikato region* ▪ Existing requirements/responsibilities relating to Te Ture Whaimana and relevant JMAs would need to be reflected in arrangements *but can be aligned across a wider area.*
Remaining Council operations are viable	▪ Debt headroom improved with removal of water services. ▪ *Possibility to consider post waters transition and future with two other Future Proof councils.*	▪ Debt headroom improved with removal of water services. ▪ *Possibility to consider post waters transition and futures with other rural and provincial councils*

	Sub-Regional CCO (Waipā, Waikato, Hamilton	WWDW CCO Asset Owning, Stage 2 (Councils entering into HoA Waipā, MPDC, Taupō, Waitomo, Ōtorohanga, South Waikato, Hauraki)
	▪ Stranded[3] cost impacts dependent on transition/implementation approach.	▪ Stranded cost impacts dependent on transition/implementation approach.
Other Considerations		
Agreement between participating councils is aligned to Waipā's strategic objectives	▪ *Record of Agreement that HCC/Waikato DC have resolved to execute on a two Council basis and includes provision for additional council shareholders. This will need to be negotiated in due course.* ▪ *HCC/WDC and Waipā have reviewed in light of a three council CCO and subject to council endorsement it meets the requirements of Waipā's strategic objectives.* ▪ *The Record of Agreement sets out the intent and final binding shareholder agreements will be entered into on establishment of the CCO.*	▪ *All seven participating councils have executed the Heads of Agreement and have indicated an intention to proceed to an asset-owning CCO.* ▪ *The Heads of Agreement sets out the intent and final binding shareholder agreements will be entered into on establishment of the CCO.*
Establishment and transition are achievable and realise benefits in a timely manner	▪ *HCC and Waikato DC have documented a transition intent in the Record of Agreement which includes both councils moving their water and wastewater services to the CCO from 1 July 2026, subject to employment processes. This would include all operational staff.* ▪ *Up to a five-year transition with some shared services which remain with each individual council (or HCC as a shared services provider).* ▪ *The parties have determined that an aligned approached could apply to a three party CCO including Waipā i.e. a five-year transition timeframe.*	▪ *The underlying approach is to build an agreed operating model for the CCO operation on day one with any processes remaining with shareholding councils to be migrated to the CCO as quickly post establishment as agreed in the transition plan.* ▪ *Shareholding councils would migrate core water and wastewater businesses to the CCO in tranches with Waipā being in tranche one on 1 July 2026. Subject to transition agreements and employment processes, this would include all operational staff.* ▪ *Waipā being in tranche one and one of the largest contributing councils is expected and acknowledged to be in position to drive and influence (with other shareholder councils) the establishment and transition of the CCO.*
Pathway to future consolidation of water services in the Waikato region	▪ *The Sub Regional CCO would include three of the largest Waikato council populations – these are each Tier 1 growth councils.* ▪ *The ability of the CCO to further consolidate water services across Waikato would depend on the decisions of other councils as well as approval of the shareholding councils.*	▪ *Post transition water services across Waikato would be delivered by one of the two waters CCOs. The WWDW model would include seven councils and represents scale across the region.* ▪ *The scale of the WWDW model would represent weight in any future negotiations; it is acknowledged that without Waipā DC the future state is less secure.* ▪ *Consolidation of the two CCOs in the future would be subject to shareholder approval.*

[3] Stranded costs are overhead costs that will remain with council post CCO establishment i.e. costs within the Support Services area.

5. STRENGTHS OF EACH OPTION:

Sub-Regional CCO

- Positioned to support growth in north Waipā (including provision of the southern/sub-regional wastewater treatment plant).
- CCO would include three of the largest Waikato council populations – these are each Tier one growth councils.
- More easily respond to future boundary changes (on HCC/WDC/Waipā boundary) or reduce the need for boundary changes.
- Provides greater opportunity to align with and give effect to Te Ture Whaimana (the Vision and Strategy for the Waikato River).
- Less partners initial CCO set-up might be easier.
- Will be a metro/growth focused opportunity for workforce.

WWDW CCO

- Waipā being in tranche one and one of the largest contributing councils is expected to be in a position to shape (with other shareholder councils) the establishment and transition of the CCO – seen as an anchor council.
- Reflects Waipā's position as rural/provincial council with growth challenges, not a metro council with some rural issues.
- Model strongly focuses on people, place and environment over a wider geographical area.
- Average price rise of 4.6% across the seven councils is substantially lower than other options considered, and lower than the draft 2025-34 LTP indicating better affordability outcomes for customers.
- Provides opportunity to align with, and give effect to, multiple Treaty and other settlements, including but not limited to Te Ture Whaimana of the Waikato and Waipā Rivers alongside supporting future Hauraki Catchment settlements focused on improving catchments.
- Expected to improve workforce sustainability, attraction and retention issues across the broader region, particularly as it applies to the workforce needs of rural and provincial councils.
- Expected to provide greater certainty, consistency and smoothing of investment for the civil contracting sector which is a vital partner in delivery.
- Will provide a large rural and provincial model for multiple Iwi to engage with and development of economic partnership, investment and workforce opportunities.

6. FURTHER ANALYSIS

Efficiencies

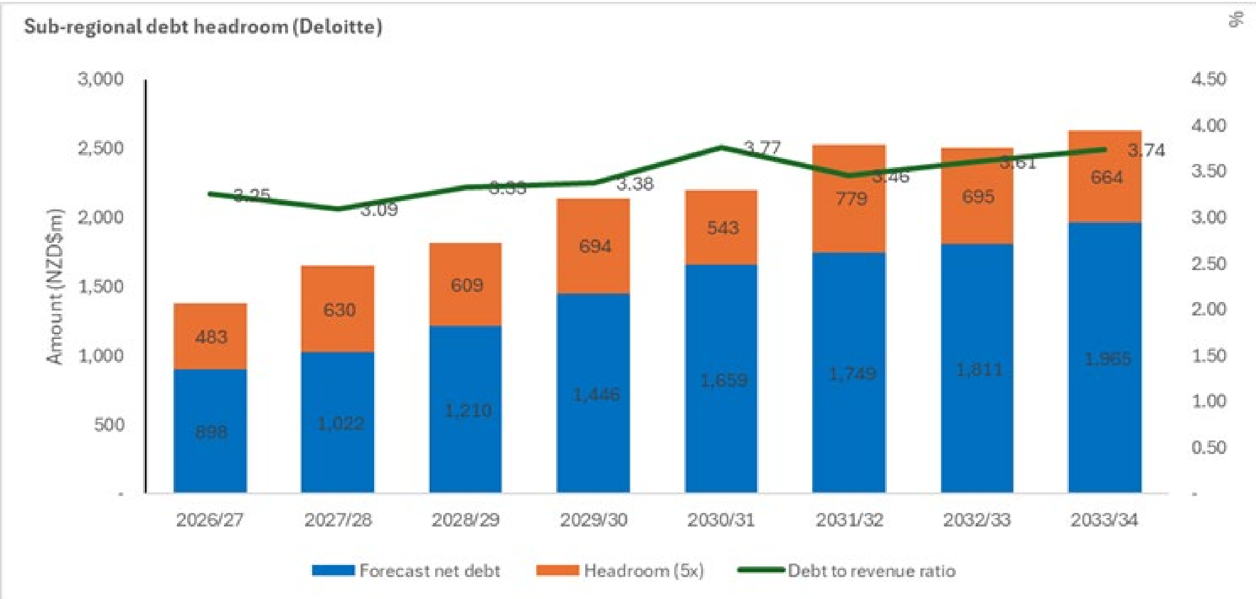
The Sub-Regional CCO is anticipated to provide additional debt capacity/headroom for the delivery of water services across the three shareholding council areas, as there is a blend of the capital projects requiring delivery, and the forecast revenue. This indicates there will be sufficient head room for the CCO to be financially sustainable, whilst delivering the planned programme of work. The analysis undertaken to date has been conservative and not included provision for any efficiency gains, but these are expected to be achieved as scale *will* bring efficiencies (with the approximate number of combined water and wastewater connections 84,500 – subject to confirmation) and with involvement of a large metro council. However, although in all likelihood these efficiency gains are expected to be at least six years from post establishment due to the timeframe for transition (five-year period), as in this early period there is a high dependency on shared services to be provided by shareholding councils.

In the analysis of the WWDW CCO completed to date, an allowance for expected conservative efficiency gain of 1% per year has been included. This is because there is anticipated scale of efficiencies likely, (approximate number of combined water and wastewater connections 72,000 – subject to confirmation). These efficiency gains are expected to result from the opportunity for service improvements from consolidating operations and maintenance, including procurement across the greater number of Councils. The WWDW CCO financial analysis also indicates that debt capacity/headroom available to the organisation is sufficient to meet all partner councils' investment requirements and provide reduction in price increases to customers over time. This will meet the DIA requirements with respect to financial viability.

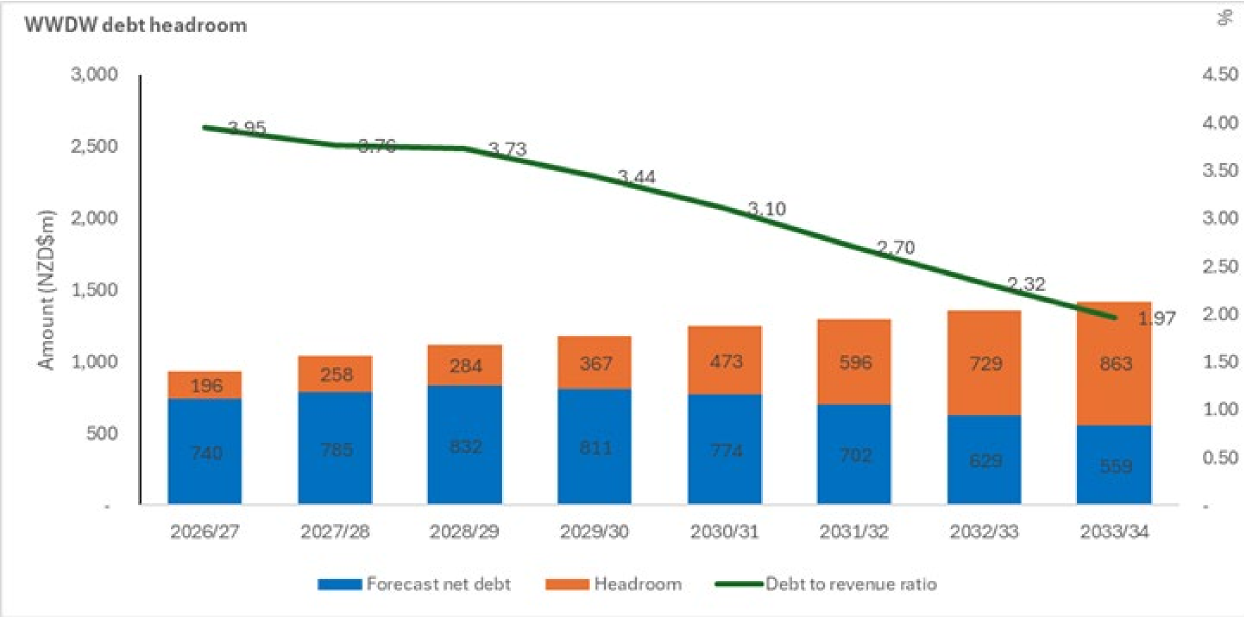
For financial modelling purposes under the sub-regional option, no efficiencies have been modelled as the assumption is that efficiencies will not occur until after the full transition post year five. WWDW shows approximate efficiencies of $10M over the eight-year period – 2026/2027 to 2033/2034.

Financial Considerations
A high-level financial summary is provided (as Appendix 2) for both the Sub-Regional and WWDW CCO options (based on all of the other six councils participating) – noting that this includes water and wastewater and excludes stormwater and is for the period 2026/2027 to 2033/2034.

The graphs below show the debt to revenue ratio for each of the two options. The ratio is showing the debt and revenue for both water supply and wastewater; it excludes stormwater on the assumption that stormwater debt and assets will remain with Council with the stormwater functions contracted to the CCO.



The closing debt for the Sub-Regional CCO assumes $70m of growth will be collected in the same year as the infrastructure costs. If this is not collected in the same year it will impact the debt to revenue headroom, but is not considered significant.



Affordability

For affordability the assumption in both models is that the additional debt headroom provided by the increased debt to revenue availability and efficiencies once realised can be used to offset price rises. Note this has not yet been fully modelled under either option, and the degree to which price increases are moderated and the introduction of price harmonisation (which is optional under the legislation) will form part of the remit of the relevant CCO Board.

Under the new economic regulation and consumer protection regime for local water services suppliers under LWDW, the Commerce Commission will have tools available to be able to set revenue thresholds at their discretion, so that regulated supplies have a clear understanding about the level of revenue they need to collect and invest in water infrastructure. The LWDW Bill 3 will also provide tools to the Commerce Commission for price-quality regulations – enabling the Commerce Commission to set minimum and/or maximum prices that may be charged, and/or minimum and/or maximum revenues, alongside quality and performance requirements.

The Sub-Regional affordability model is based on 2.5 percent of median household income, while the WWDW is based on 2.0 percent.

Servicing of Waipā's Future Growth

Both options are expected to include a requirement to enable servicing of all shareholding councils' growth plans and strategies in their respective Statements of Expectation.

The Sub-Regional CCO provides higher potential for integration with adjoining growth councils to more efficiently manage servicing of spatial plans which cross council boundaries as well as alignment with established Future Proof planning mechanisms. This model would also have the ability to easily respond to future boundary changes between the three sub-regional councils and/or reduce the need for boundary changes.

With HCC and WDC not included in the WWDW model this may add complexity to servicing growth adjacent to the Waipā/HCC/WDC boundary (in particular Southern Links (SL) 1 and 2 areas). The

WWDW model will likely require the implementation of servicing agreements with the Sub-Regional CCO for northern Waipā.

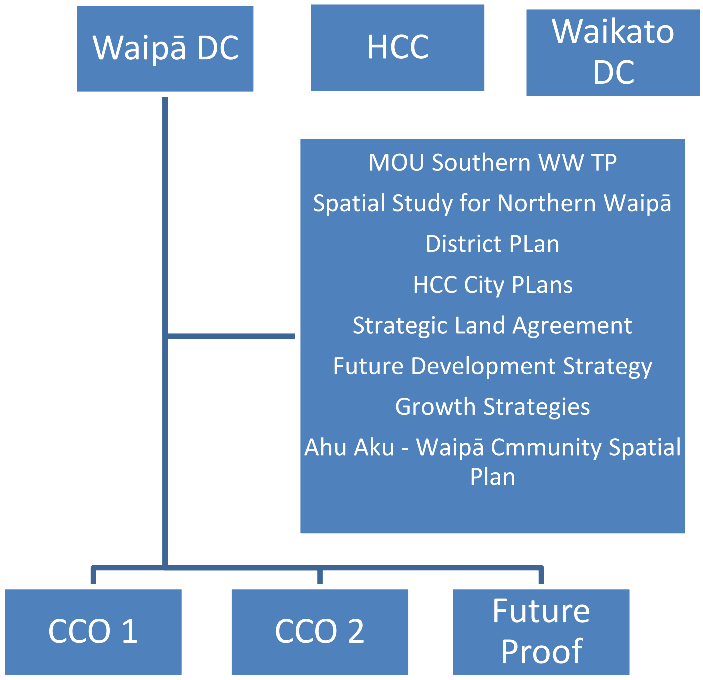
It is noted that some of these arrangements already exist between the three councils, these include:

- Strategic Boundary Agreement between Waipā and HCC which sets out an 'in principle' agreement for a process to adjust the Waipā/HCC boundary to move the land north of Southern Links into Hamilton City. This would result in the waters servicing of this land being the responsibility of the Sub-Regional CCO regardless of whether Waipā was a shareholder of the CCO.
- A Memorandum of Understanding between HCC, Waipā, Waikato DC and Waikato Tainui which sets out the expectations between the councils on how the sub-regional wastewater treatment plant which is expected to service the northern part of Waipā, will be governed, delivered, and arrangements for funding agreed.

For context the 10-year development potential (assuming the developers are successful in achieving fast track consent under their application) of SL1 is in the order of 1,000 homes plus a portion of 78ha of additional land for housing or commercial purposes (circa 1,500 house equivalents). This compares with currently zoned and infrastructure enabled land of circa 9,000 house equivalents units in Cambridge and Te Awamutu. If the SL1 land was to develop at 100 houses per annum that would represent approximately 20-30% of Waipā's broader new home development annually. This does not consider commercial or industrial development.

With respect to servicing plan-enabled development in the vicinity of the Airport, the Council will remain the plan-making and development control regulatory authority.

The diagram below shows the current Future Proof structure for management of the Northern Waipā/South Hamilton growth area:



Establishment and Transition
All options will require additional implementation costs. These costs need to be assessed against the value of long-term benefits and the requirements of councils under the Local Water Done Well frameworks.

The more complex the transition, the longer the benefits may take to realise and the greater the transition costs. For that reason, there is a value in acting strategically and quickly.

Relevant implementation considerations for the two options include:
- **Establishment**: Board establishment; reporting and accountability process establishment; managing the transfer of assets, relevant contracts and resource consents.
- **Workforce and operations shift**: Determining workforce impacts, relevant systems and processes while maintaining service delivery – including clear communications and engagement pathways.
- **Iwi and Mana Whenua responsibilities:** Create clear and collaborative engagement processes and pathways with Iwi and Mana Whenua partners.
- **Community engagement**: Create engagement approaches for ratepayers, civil contractors and sector partners.
- **Risk and performance systems**: Identify key transition risks, set clear performance measures, maintain environmental compliance, and monitor service levels.

Sub-Regional
An extended timeframe for transition (five-year period) which will have a high dependency on shared services to be provided by HCC.

WWDW
The underlying approach is to build an agreed operating model for the CCO operation on day one with any processes remaining with shareholding councils to be migrated to the CCO post establishment as agreed in the transition plan.

The tables below show Waipā's modelled percentage shareholding as at 30 June 2026. The amounts shown in the tables are on current forecasts (for Waipā this is the draft 2025-34 LTP as at September 2024) and will not be the final numbers.

Sub-Regional CCO model:

	Waipā	WDC	HCC	Total
As at 30 June 2026	**$m**	**$m**	**$m**	**$m**
Total Assets Contributed	678	645	1,672	2,995
Total Debt	196	94	441	731
Net Assets Contributed	**482**	**551**	**1,231**	**2,264**
Funded by:				
Cash (external debt)	196	94	441	731
Ordinary Shares	482	551	1,231	2,264

As at 30 June 2026	Waipā $m	WDC $m	HCC $m	Total $m
Uncalled capital[4]	TBC	TBC	TBC	TBC
% Shareholding	21%	24%	55%	100%

WWDW CCO Model:

As at 30 June 2026	Waipā $m	Other Councils $m	Total $m
Total Assets Contributed	678	1,403	2,081
Total Debt	196	459	655
Net Assets Contributed	482	944	1,426
Funded by:			
Cash (external debt)	196	59	655
Ordinary Shares	482	944	1,426
Uncalled capital	TBC	TBC	TBC
% Net Assets Day 1	32.6%	67.4%	100%
Average Connections (000's)	16.1	55.5	71.6
% Equity based on Average Connections[5]	22.5%	77.5%	100%

Establishment costs
Under both models, establishment costs are intended to be paid for by the CCO and will become debt of the CCO and be governed by establishment boards. Agreement will need to be reached as to what costs constitute 'establishment / transition costs' so that there is clarity on what specifically can be passed on from the councils to the CCO. At this point, advice is that from the point that shareholding constitutional documents are agreed, costs thereon can be attributable to the CCO.

It is open to councils to treat the costs (from the point outlined above) of establishing the CCO, and transitioning their business into the CCO, as a loan to the CCO and capitalise into the CCO once established. This will need to be documented in appropriate agreed covenants.

LGFA has said they are agnostic about councils passing the cost of establishment across to the CCO. From its perspective, it is between councils and the CCO as to how much debt comes across. The key requirement for the LGFA is that it wants the financial projections for the CCO to show investment grade metrics in the long-term.

7. AGREEMENTS

The following table compares the Sub-Regional Record of Agreement between HCC and WDC (which is still to be signed) with the agreed approach documented in the WWDW Heads of Agreement. As the respective shareholders' forums are established there will be the ability to have further input.

[4] Uncalled Capital represents the contingent liability for Council as a shareholder which is required under the LGFA lending criteria to jointly with other shareholding councils provide a guarantee of CCO debt.
[5] Connection numbers are still to be confirmed and verified for each of the councils who have signed the Heads of Agreement in WWDW.

(Waipā is seeking clarification from the Sub-Regional CCO working group as to whether Waipā would be joining the CCO or part of the establishment of the CCO (noting that both HCC and WDC will be consulting on a two-council joint CCO)).

Agreement	Sub-Regional CCO	WWDW
Matters of Note:		
During operation:		
▪ CCO will not pay dividends	√	√
▪ Shares cannot be sold or transferred and can only be held by a council (part of legislation in Bill 3)	Not directly covered but it is implied.	√
▪ No transfer of risk and therefore no margin on shared services provided by Council to CCO (i.e. any overhead costs currently recovered from internal waters activity/business unit will continue to be recovered at the current level from the CCO post establishment until transition process completed)	√	Degree of shared services TBC
▪ Stormwater services to be provided at cost to councils which require this service. Stormwater assets, debt and revenue to remain with Council.	√	√
▪ Councils' decision making limited to: CCO constitution, new Councils joining, and an individual Council decision to exit the CCO and changes of Council financial support.	√	√
▪ Shareholding Forum decision making limited to: Statement of Expectation, KPIs and performance monitoring. Debt caps and/or debt ratio, repayment of shareholder loans, material transactions, appointing Chair and Directors, growth strategy and related priorities.	√	√
▪ Shareholder Forum voting rights are one vote per Council (for Director appointments and Iwi representative also have one vote).	√	
▪ Shareholder forum voting rights are proportional to shareholding.		√
▪ CCO entitled to revenue and responsible for price setting in accordance with principles agreed by shareholders and subject to regulatory requirements.	√	√
▪ CCO makes investment decisions in accordance with agreed prioritisation framework (and subject to regulatory requirements).	√	√
▪ CCO is the regulated entity responsible for operational and financial decisions consistent with the combined Statement of Expectations set by Shareholders Forum and statutory objectives.	√	√
During establishment period:		

Agreement	Sub-Regional CCO	WWDW
▪ Establishment costs will be debt financed by a Council and recovered from the CCO upon completion of the Establishment Period.	√	√
▪ The Establishment Board (3 pax including Chair) has power of veto on key decisions such as contracts of duration more than three years, development agreements relating to water services and infrastructure, transfer of water assets, and employment conditions.	√	
▪ Expected that Council staff will either be transferred to the CCO or retain a role in the residual Council, for sub-regional this may include HCC as shared service provider during transition period.	√	√
Principles of the Transfer Agreement		
▪ Asset Owning CCO.	√	√
▪ The Councils should be treated in a fair, equitable and even manner.	√	
▪ The approach to quantifying net debt transferred must be transparent and able to be simply explained to the public.	√	
▪ Shareholding for each Council will be equal to the value of assets contributed less any water related debts assumed by the CCO. The value of the Councils' assets will be determined by independent valuations prior to the establishment of the CCO. Debt will be independently reviewed; DC reserves will also transfer to CCO and CCO will pay the Council any net balance transferred. Shareholding does not change unless new Council joins.	√	
▪ Shares allocated to shareholding Councils based on the number of connections, reviewed and adjusted every five years.		√
▪ Given the intention to minimise costs to water customers and the need to leave headroom for future capital expenditure, the amount of consideration that is paid as cash needs to be prudent and should not result in the CCO exceeding the maximum prudent level of debt that the CCO could take on at establishment.	√	
▪ No Council should be left with residual water-related debts upon establishment of the CCO (this includes net DC reserves).	√	√
▪ The Councils' level of existing water debt will be confirmed by an independent reviewer.	√	TBC
▪ The level of Uncalled Capital attributed to shareholding Councils is proportional to their shareholding or initial debt position (uncalled capital is a contingent liability for councils	TBC	TBC

Agreement	Sub-Regional CCO	WWDW
and could be used as a last resort in the event of a debt default by the CCO to recover CCO debt).		

8. GOVERNANCE AND ACCOUNTABILITY CONSIDERATIONS

The model adopted for water services delivery needs to incorporate a level of Council control and influence to ensure the Waipā District's community interests are protected and directly relevant. This may be reflected through factors such as ownership structure, governance arrangements, decision making, prioritisation approaches and accountability arrangements (both shareholder and public).

The finer detail of these arrangements is expected to be finalised in tandem with public consultation, however Council may want to understand the broad implications of these in the models proposed.

One of the considerations is the degree of influence or control that Council may want to have on establishment. As part of the WWDW CCO, Waipā District would be a "foundation" shareholding council, whereas with the Sub-Regional CCO option there is no clarity on whether Waipā will become a foundation shareholder (and a signatory to a Record of Agreement) or whether Waipā will have to join the CCO, which would be subject to a process involving the CCO Board and other shareholding councils. While unconfirmed, it is anticipated that this would be a point of negotiation once consultation processes are complete.

Some of these factors can also be developed through constitutions and the detail of shareholder agreements. Where Waipā is a minor shareholder, it will be important to ensure that shareholding makes provision for negative control, that is, the ability for a single shareholder group to block or prevent corporate actions.

9. RISKS

Risks have been assessed using Waipā's risk matrix for both the Sub-Regional CCO and WWDW CCO. The table below shows the 'Very High' risks for both the Sub-Regional and WWDW CCO options, as well as the current overall project programme risks.

The Water Services Delivery Plan will explore the risks dependent on the preferred option being utilised to deliver water services to the community.

CCO	Risk Area	Description	Consequences	Risk Reduction Measure & Treatment Type
Sub-Regional & WWDW	Financial ($ & %)	If the true cost of establishing or changing the current delivery method is unclear / unknown then this could impact decision making.	High loss of trust and confidence in the community Risk of possible increase in water charges. Impacts decision making.	Investigation of set-up costs for proposed models - assumptions etc. to be shared with LWDW PGG. Learn from other examples, e.g. Watercare and Wellington Water
Sub-Regional & WWDW	Governance, reputation, legislative compliance and control	If a decision on Councils preferred water services delivery option for consultation is not made on the 26th February 2025 then Waipā will not be able to align LWDW consultation with the LTP consultation.	Community confusion Misaligned consultation processes Trust and confidence, reputational damage.	Bold leadership. Strong communications to elected members, so there is clarity on the issue(s) and what is required. Early decision made on continuing or discontinuing on sub-regional option. LWDW PGG governance.
WWDW	Governance, reputation, legislative compliance and control	If there is a perception that the WWDW CCO model will be complex due to the large number of Councils, and Iwi involved then the collaborative effort to bring numerous parties together may be considered too hard.	Council advances standalone option without investigating other options. Failure to meet timeframes for WWDW.	Bold leadership. Strong communications to council members, so there is clarity on the issue(s) and, what is required. Early decision made on continuing or discontinuing on WWDW. LWDW PGG governance.
WWDW	Financial ($ & %)	If other Councils who have signed the Heads of Agreement look for other water service delivery options due to	WWDW will potentially become unviable or of a smaller scale	Transparency with other parties. Timeliness of decision making. Chief Executive meetings. Bold leadership

CCO	Risk Area	Description	Consequences	Risk Reduction Measure & Treatment Type
		uncertainty then potentially WWDW will become unviable.		
Overall Programme	Governance, reputation, legislative compliance and control	If LWDW impacts other areas of Council business e.g. Long-Term Plan, Ahu Ake, IFF Workstream, Climate Change Governance Improvement Programme Plan, including resourcing (Finance, Comms, HR, Water Services) then legislative timeframes may not be met and/or quality of outputs may be poor.	Consultation timeframes on LTP and LWDW do not align. Additional costs. Impacts on other major projects. Resourcing at capacity.	Regular checking with LTP Project Group Comms Team kept fully informed. Regular communication out to the whole of Council. Assessment of risks at an organisational level before going out to the community. Early escalation to LWDW PGG and LTP PSG. Escalation to Mayor - sponsor of both LWDW Project and LTP Project. Regular reporting to Executive Team.
Overall Programme	Governance, reputation, legislative compliance and control	If Iwi aspirations, rights and interests in water are not fully understood and responded to throughout the LWDW process then there may be a breakdown in relationships between Iwi and Council.	Breakdown in relationships between Iwi and Council. Community sentiment impacted. Negative reputational impact.	Iwi Representative on LWDW PGG. LWDW PGG seeks greater understanding. Inclusion in JMA discussions.
Overall Programme	Governance, reputation, legislative compliance and control	If there is a lack of understanding and ability to tell the LWDW and LTP collective story then the Community may not understand the problem or the need for Council to work through solutions.	High loss of trust and confidence in the community	Effective communication strategy that: a) reiterates the project objective; this being to ensure Council is in position to make an informed decision about how they wish to respond to the requirements of Local Water Done Well. b) accurately and appropriately communicates the policy intent of Local Water Done Well and the obligation on Council to respond to the consumer / end user, and Waipā's current state of

CCO	Risk Area	Description	Consequences	Risk Reduction Measure & Treatment Type
				Three Waters and what it means for Waipā. c) Communication of legislation requirements - include in the 'story' being told to the community.

10.NEXT STEPS

	Expected Date	Comments
Decision on preferred option for consultation	26 February 2025	Council meeting
Preparation of Consultation documentation	26 February 2025 to early March 2025	
Council Adoption of Consultation Material	19 March 2025	Council Meeting
Public consultation	21 March – 21 April 2025	To align with LTP consultation
Transition Project Plan	March 2025	
Drafting of Water Services Delivery Plan	March 2025 – May 2025	
Water Services Delivery Plan approved by Council and signed off by CE	Late June 2025 / July 2025	
Transition Planning continues	June onward	To align with agreed transition date

11. APPENDICES

NO.	ECM #	TITLE
1	-	Original options analysis presented by MartinJenkins
2	11384626	High level summary financial table
3	11388838	FAQ – Local Water Done Well
3	11338254	Waipā District Council Water Services Delivery Viability and sustainability of the current model and high-level assessment of future options report - 14 November 2024 - Final Report (note this is in the Resource Centre in Diligent).
4	11381289	DIA Guidance – Share Allocation Options
5	11337248	Waikato Waters Done Well – Heads of Agreement
6	11382119	HCC & WDC Joint Waters CCO – Design Concept 2024 Record of Agreement

Sherryn Paterson
MANAGER DELIVERY PERFORMANCE

REVIEWED BY: Carl Tucker
CONSULTANT – NEXUS ADVISORY

Dawn Inglis
GROUP MANAGER SERVICE DELIVERY

APPENDIX 1: ORIGINAL OPTIONS ANALYSIS PRESENTED BY MARTINJENKINS

Options:	1 Internal business unit or division (enhanced status quo)	2 Standalone water services CCO	3 Growth council option: Sub-regional water services CCO	4 Waikato region water services organisation based on shared services (WWDW, Stage 1)	5 Waikato region water services CCO that is asset owning (WWDW, Stage 2)
Description:	Creation of dedicated ring-fenced unit within Council. Note, ring-fencing requires financial separation not structural separation.	Council establishes a water organisation to deliver water services.	Council partners with other Councils to establish a sub-regional asset owning water services organisation aligned to key growth pressures	Council joins a non-asset owning CCO with other Waikato councils that would be responsible for service delivery.	Council partners with other Councils to establish a regional asset owning water services organisation.
Strategic	Strategic focus is broad, with elected member and executive leadership focus distributed across all council functions.	Benefits from a singular focus on water services. May create 'interface issues' with other council functions that need to be managed and have the potential to give rise to problems (e.g., relating to land use planning, provision for growth).	Benefits from a singular focus on water services. May create 'interface issues' with other council functions that need to be managed and have the potential to give rise to problems (e.g., relating to land use planning, provision for growth).	Benefits from a singular focus on water services. However, pricing, investment and funding decisions distributed between council and CCO can lead to a 'strategic disconnect' between the council and the CCO.	Benefits from a singular focus on water services. May create 'interface issues' with other council functions that need to be managed and have the potential to give rise to problems. (e.g., relating to land use planning, provision for growth).
Governance	Elected members continue to have decision-making responsibility.	Asset-owning models, where responsibility for investment, pricing and financing decisions rest with the board, aligns decision making and incentives for asset stewardship and effective and efficient operations. Clarity for Board of having single shareholder.	Introduction of multiple shareholders requires careful consideration of ownership and shareholder decision rights, with greater scope for divergence of shareholder interests as the number of owners increases and/or with greater diversity in the underlying communities of interest.	Board of CCO does not have full set of levers to run the company. Risk of incentive misalignment, with council retaining responsibility for investment, pricing and financing decisions, but CCO being seen to be responsible and held to account for asset condition, network performance.	Introduction of multiple shareholders requires careful consideration of ownership and shareholder decision rights, with greater scope for divergence of shareholder interests as the number of owners increases and/or with greater diversity in the underlying communities of interest.
Accountability	Accountability to elected members and through existing mechanisms under LGA (council and council committee structures) and management reporting lines. Bill 3 will introduce new strategy, planning and accountability mechanisms. These will be uniform across all service delivery models.	Oversight of performance by single council. Enables a direct relationship between the regulator, board and management, supporting effective regulation. Easier to regulate than Option 1, enabling greater scrutiny of performance and strengthened incentives for board and management. Well established frameworks for setting customer service levels, network performance standards, compliance requirements.	Similar to Option 2 but success of this model requires additional shareholder coordination mechanisms (e.g. shareholder forum or similar). There are good models to draw on here, for example TasWater.	Added complexity from distributed accountabilities between council and CCO. Accountability mechanisms for CCO likely to be a mix of ownership levers (SoE) and contractual agreements (SLA). With distributed decision making and responsibility, it will be challenging to specify performance measures for a CCO that are solely within the CCO's discretion (e.g., responsibility for network performance, customer service levels, regulatory compliance is not independent of investment decisions).	Similar to Option 3, noting that more shareholders can add complexity including in relation to shareholder decision rights.

APPENDIX 2 – HIGH LEVEL SUMMARY FINANCIAL TABLE

Financial Measures

Period 1 July 2026 – 30 June 2034	Sub-Regional CCO	WWDW CCO
Resilience		
Minimum debt headroom over the period (5x)($m)	483	196
Debt headroom at % of total debt (minimum)	33%	26%
Cumulative average change in price per customer[6]	10.2%	4.6%
Sustainability		
Operating surplus ratio[7] (total)	13%	15%
Free funds from operations to debt[8] (minimum)	6% Year 1	7% Year 1
Debt to equity (maximum)	45% Years 4 & 5	47% Year 1
Debt to total assets (maximum)	32% Years 4 & 5	32% Year 1
Investment sufficiency		
Total Capex ($m)	3,254	883
Opening infrastructure assets ($m) – 1 July 2026	3,976	2,168

There is a large difference in the forecast capital expenditure between the Sub-Regional CCO and WWDW CCO, the table below shows this relates to growth infrastructure in the Sub-Regional CCO.

Capex - Period 1 July 2026 – 30 June 2034	Sub-Regional CCO $m	WWDW CCO $m
Growth	2,120	177
Renewals	680	469
Level of Service	454	237
Total	3,254	883

Funding has not been included in the WWDW financial modelling for the Southern Wastewater Treatment Plant. Waipā's contribution based on an initial beneficiary analysis could be between $30m-$40m, with investment timing post 2030. Through the signed MoU a funding agreement is still to be considered and put in place which would determine how and when any contribution would occur; this may reduce available headroom in WWDW by $30m-$40m in 2034. This is not considered material; based on the available amount of headroom in the WWDW modelling, there is $473m debt headroom available in 2030/31 and this increases in subsequent years.

Operating Revenue is a subset of total revenue and is used in graphs below:

$m	2026/27	2030/31	2033/34
Sub-Regional CCO			
Rates, fees and charges	237	411	529
Other revenue	53	50	21

[6] This is in nominal dollars and allows for growth in customer connections

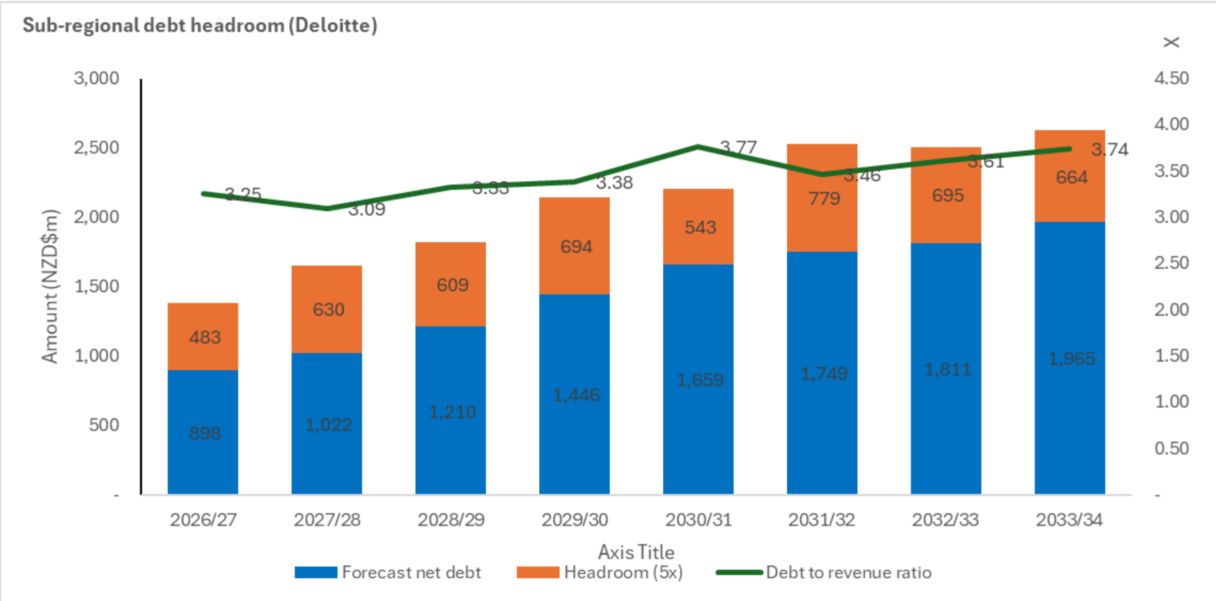
[7] Calculation excludes capital revenue and DC revenue

[8] FFO calculated as EBITDA less interest expense, less capital revenue

$m	2026/27	2030/31	2033/34
Total operating revenue	**290**	**461**	**550**
Development contributions and capital revenue	38	97	139
Total revenue	**328**	**558**	**689**

$m	2026/27	2030/31	2033/34
WWDW CCO			
Rates, fees and charges	187	249	284
Other revenue	-	-	-
Total operating revenue	**187**	**249**	**284**
Development contributions and capital revenue	10	26	27
Total revenue	**197**	**276**	**311**

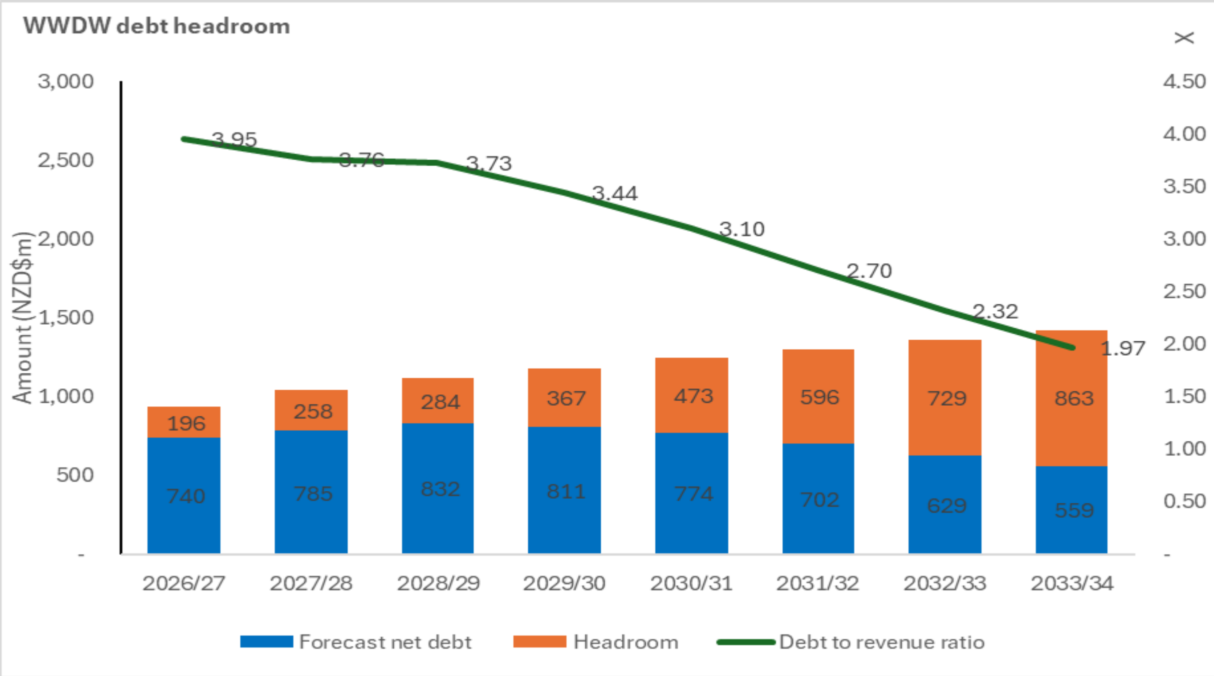
Sub-Regional CCO



The closing debt for the Sub-Regional CCO assumes $70M of growth-related investments made post 2029 will be collected in the same year as the infrastructure costs. If this is not collected in the same year it will reduce the debt headroom.

The quantum of debt headroom broadly remains the same across the period while net debt is growing. Charges increase by approximately 10.2% per annum, to sustain the debt headroom, for the capital investment of $3.254b, offset by capital revenue and Development Contribution revenue of $820m.

WWDW CCO

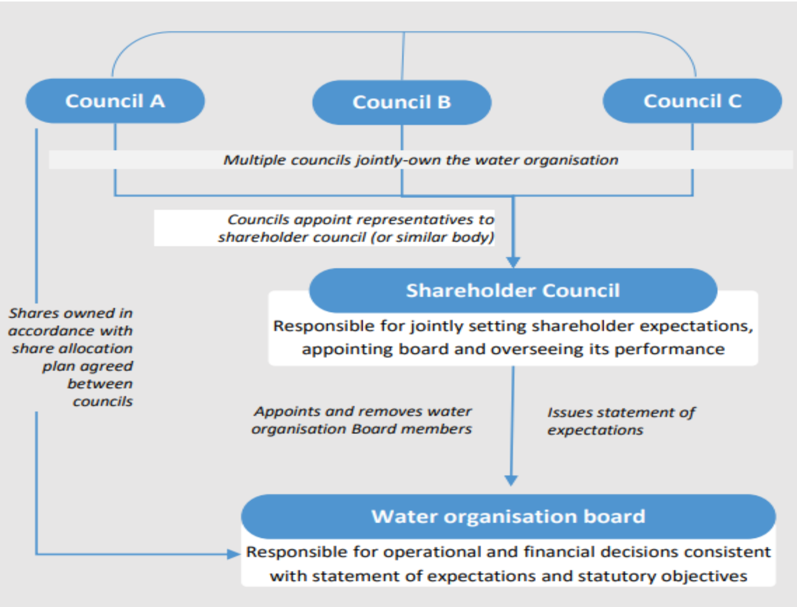


This model shows high revenue per connection in the early years, based on current LTP's revenue forecasts, to maintain current debt to revenue and achieve capital budgets. Debt is repaid over the period via operating surpluses and development contributions, therefore increasing debt headroom. Charges increase by approximately 4.6% per annum, to provide for a capital programme of $883m.

APPENDIX 3 – FAQ LOCAL WATER DONE WELL FOR WAIPĀ DC

What is Council's role with any future CCO?

Any future CCO will be owned by the member councils. Member councils will agree shareholder rights and interests through a company constitution and/or shareholder agreement, subject to compliance with legislation. Each council prepares an agreement setting out matters (assets, debt, staff) being transferred to the CCO and those to be retained by individual councils. An example is illustrated below:



Price harmonisation

Price harmonisation is where all communities would pay the same tariff for services (for example a consistent price per m^3 of water).

There is no requirement under Local Water Done Well to harmonise prices across communities under a multi-council owned water CCO. Regional differences in prices can be maintained to reflect regional differences in investment, borrowings and costs of service, or the CCO may wish to harmonise prices to address what can be a high administrative burden.

Any CCO will be under the purview of new economic regulation overseen by the Commerce Commission, and it is expected that they will take a view on price harmonisation in time. This is to ensure the cost of water remains as affordable as possible.

Is this the only new regulation for future water services?

Water service providers will be under the purview of three (3) regulators under the new system. This includes the economic regulator (Commerce Commission) water standards regulator – Taumata Arowai and environmental regulator – Regional Councils.

Are shareholding councils required to put in place guarantees over a water CCO's borrowings to access additional LGFA financing? Are they liable for the debt?
Yes - for a water CCO to be able to access Local Government Funding Authority (LGFA) financing, the owning councils will be required to provide guarantees that are proportionate amongst shareholders.

The proportionate share for guarantees will be agreed by shareholders on establishment of the CCO. For example, under the new arrangements each council will be responsible for their portion.

Will water become unaffordable?
Local Water Done Well legislation has been introduced to help ensure water remains affordable. Establishment of a multi council CCO with increased operational scale will increase efficiencies, particularly over the longer term. The cost of delivering water services will be set in line with affordability measures and will be under the purview of economic regulation overseen by the Commerce Commission.

Why not one Waikato Region CCO?
All Waikato Councils were in initial discussions to form a regional CCO, however Hamilton and Waikato District Councils opted out of this proposal to enable them to meet their own specific and immediate needs. While forming two CCOs in the Waikato Region is on the table in the short to medium term, the long-term view is that there will be one CCO covering most of the greater Waikato.

Which councils in the Waikato region currently have water meters?
The table below is as at November 2024.

Council	Residential	Non-residential	Comments
Hamilton City	X	√	Roll out of Universal Water Meters from 2025-26 through to 2031-32 ($55m uninflated)
Waikato	√	√	
Waipā	√	√	
Hauraki	√	√	
Matamata-Piako	X	√	2024-34 LTP – Meter Installation - 2024/25 focus on some key water meters in Te Aroha $600k then universal water metering across the district 2027-2034 $7.420m, (inflated).
Ōtorohanga	√	√	
South Waikato	X	√	2024-34 LTP – meter installation planned from 2026/27 to 2033/34 $9.781m (inflated)
Taupō	X	√	2024-34 LTP – Universal smart water metering – 2024/25 – 2029/30 - $12.5m (inflated).
Waitomo	√	√	Most but not all properties metered

What happens to Waipā's assets?
The ownership of the assets will transfer to the CCO, but the beneficiaries will continue to be Waipā people now and into the future.

What happens to water staff employed at Waipā?
Retaining knowledgeable and experienced staff is a primary consideration and it is intended staff currently undertaking roles to deliver water services, will transfer to the CCO.

Are there any other benefits to a CCO option?
Waikato councils are expected to spend more than $5 billion over the next eight years on water services. This will put pressure on civil contracting resources where demand can impact the price if supply is short (and currently there is a shortage of skilled contractors and consultants in New Zealand). A CCO is expected to create cost efficiencies as it will be able to provide a long-term work programme of scale, encouraging greater investment in training staff, greater certainty of investment in new technology, plant and equipment.

Will the timing of other councils joining the WWDW CCO impact ongoing financial viability?
The modelling completed to date indicates that the CCO will meet the financial viability tests, noting that the economic regulator will take a longer-term view on this.

How will efficiencies be achieved through a CCO delivery model?
The CCO will be able to achieve a number of efficiency opportunities through standardisation of material and business processes, enhanced procurement opportunities, certainty of the investment profile over a larger area and consenting based on catchment outcomes should lead to investment benefits. The CCO is also expected to invest in new technology to promote both better environmental outcomes and efficiency savings for customers.