AGENDA

Supplementary Report

Ordinary Council Meeting

Membership:

Kahika - Mayor Moko Tepania - Chairperson
Kōwhai - Deputy Mayor Kelly Stratford
Cr Ann Court
Cr Felicity Foy
Cr Hilda Halkyard-Harawira
Cr Babe Kapa
Cr Penetaui Kleskovic
Cr Steve McNally
Cr Mate Radich
Cr Tāmati Rākena
Cr John Vujcich

Te Kaunihera o Te Hiku o te Ika
Far North District Council

Thursday, 13 March 2025

Time: 10:00 AM
Location: Council Chambers, Memorial Ave, Kaikohe

Te Paeroa Mahi / Order of Business

6 NGĀ PŪRONGO / REPORTS

6.1 LOCAL WATERS DONE WELL

File Number: **A5101937**

Author: **Charlie Billington, Group Manager - Corporate Services**

Authoriser: **Guy Holroyd, Chief Executive Officer**

TAKE PŪRONGO / PURPOSE OF THE REPORT

To seek approval for the selection of Water Service Delivery models, including a preferred model, to public consultation, in compliance with the Local Water Done Well and Local Government (Water Services Preliminary Arrangements) Act.

WHAKARĀPOPOTO MATUA / EXECUTIVE SUMMARY

- Local Water Done Well (LWDW) requires councils to develop sustainable water service delivery plans to address New Zealand's long-standing water infrastructure challenges.
- Councils must choose between five delivery models: Internal business unit, Standalone Council-Controlled Organisation (CCO), multi-council CCO, Consumer Trust, or Mixed Consumer Trust.
- Three workshops were held with Elected Members in December 2024, February 2025, and March 2025 to evaluate these models.
- Collaboration has taken place with Whangārei District Council and Kaipara District Council in undertaking financial analysis in conjunction with Martin Jenkins and Beca for the multi-council CCO option.
- Consumer Trust and Joint Consumer Trust models were considered but discounted at the December workshop due to increased costs of these models.
- Each model presents unique advantages and disadvantages that require careful consideration.
- A decision on the preferred model is required to enable Council to consult on adoption of a water services delivery model the development of a Water Services Delivery Plan (WSDP), due 3 September 2025.

TŪTOHUNGA / RECOMMENDATION

That Council:

a) Confirm the water service delivery options to be consulted on are:

Internal Business Unit ("status quo");

Multi-Council CCO water organisation;

b) Identifies the Internal Business Unit as the preferred option; and

c) Direct the Chief Executive Officer to prepare a Statement of Intent by 31 March 2025 to enter into a Heads of Agreement with Whangārei District Council and Kaipara District Council for the potential future formation of a Multi-Council CCO Water Organisation.

1) TĀHUHU KŌRERO / BACKGROUND

Overview

Local Water Done Well is the New Zealand Government's framework for future management of water services, replacing the previous Three Waters reform. It keeps drinking water, wastewater, and stormwater services under local control and requires financial sustainability in investment and revenues, and application to national standards and compliance with water quality regulations. The approach is provided for in the Local Government (Water Services Preliminary Arrangements) Act (the Act) and the Local Government (Water Services) Bill released in December 2024.

Requirements shall be demonstrated in WSDPs which are required by 3 September 2025. The WSDP requires information on the water service delivery option, including the anticipated or proposed option for delivering water services, a summary of consultation undertaken and an implementation plan for delivering the delivery option. Council is required by law to give effect to the proposals or undertakings specified in the WSDP. Not doing so could be a ground for appointing a Crown facilitator.

Consultation

Part 3 of the Local Government (Water Services Preliminary Arrangements) Act specifies that, during decision making, the Council:

(a) must identify both of the following 2 options for delivering water services:

> *(i) Remaining with the existing approach for delivering water services: and*
>
> *(ii) Establishing, joining, or amending (as the case may be) the WSCCO or the joint local government arrangement; but*

(b) may identify additional options for delivering water services; and

(c) must assess the advantages and disadvantages of all options identified

FNDC is required to undertake public consultation as part of informing their choice of Water Service Delivery option and development of WSDPs. This requires public engagement on the Status quo (for FNDC, an internal business unit) and a minimum of one other option. Council is also required to indicate a preferred option as a part of consultation.

For councils considering a multi-council option, it is recommended that each council consult on these options concurrently.

Financial considerations

A key financial principle of the reform is that water services must be self-sustaining. Councils must ensure that revenue from rates or user charges covers operating costs, maintenance, and asset depreciation. This will likely require higher water charges, particularly in areas where infrastructure requires additional investment.

To support these investments, Local Water Done Well expands access to debt financing. The NZ Local Government Funding Agency (LGFA) has increased borrowing capacity for water infrastructure, allowing new council-controlled water entities (CCOs) to borrow up to 500% of their annual operating revenue—nearly double the traditional council debt limit of 280%. This debt is separate from councils' own borrowing limits under LGFA rules, enabling water CCOs to secure funding for infrastructure projects without directly impacting parent councils' finances.

In addition to borrowing, councils must determine how to recover costs. The framework allows flexibility in charging methods, including general or targeted rates, volumetric charges (metering), and connection fees. Each approach has trade-offs: volumetric pricing promotes conservation and fairness but requires metering infrastructure, whereas rate-based funding is simpler but can obscure the true cost of water services. Any chosen model must be financially sustainable while maintaining service quality.

Economic oversight will be provided by the Commerce Commission, which will monitor water suppliers to ensure they generate sufficient revenue for necessary investments. It may intervene if suppliers are underfunding infrastructure or overcharging consumers.

Water standards compliance

Local Water Done Well prioritises improved compliance with national drinking water and environmental standards, seeking to improve consistency in council performance.

Under the new framework, drinking water safety remains a priority. Taumata Arowai, the Water Services Regulator, continues to oversee compliance with New Zealand's Drinking Water Standards. Local Water Done Well retains the regulatory framework introduced by the Water Services Act 2021, requiring all council water supplies to have a Water Safety Plan or comply with an accepted "acceptable solution" as determined by the regulator.

Ensuring compliance requires selecting a water services delivery model capable of consistently meeting health and environmental regulations. The Commerce Commission's role in economic oversight will indirectly support compliance by ensuring suppliers generate sufficient revenue for infrastructure maintenance and upgrades, preventing underinvestment that could lead to non-compliance. Transparency requirements will also increase, with service providers required to publicly report performance data, allowing regulators to benchmark and compare entities.

Other considerations

Beyond the technical and financial aspects, there are several broader considerations that councils and must keep in mind as they navigate Local Water Done Well.

<u>Governance and Management</u>

Each option carries governance considerations. If councils retain in-house service delivery, councillors remain accountable for delivery of water services, which requires technical and forward-looking decision-making. New regulations, including ring-fencing of funds and increased scrutiny, which will make it more important to prioritise long-term infrastructure sustainability over short-term benefits.

Forming a single or multi-council CCO shifts oversight to an independent board of directors, appointed by the council(s). Council(s) then exercise influence through shareholder governance rather than direct operational control.

<u>Legal and Transitional Considerations</u>

The legislative environment around water services is still evolving as the government rolls out Local Water Done Well. By mid-2025, the final legislation is expected to be in place.

Additionally, transition planning is a consideration. Thorough due diligence on the change process is required, ensuring continuity of services, transfer of staff (with their expertise retained), and IT system integrations all need to be managed. If a multi-council option is embarked upon, this also requires consensus among constituent councils on strategy, governance and operating considerations.

2) MATAPAKI ME NGĀ KŌWHIRINGA / DISCUSSION AND OPTIONS

Under Local Water Done Well, councils have flexibility to choose how to deliver water services. Each council must develop a WSDP by 3 September 2025 outlining its preferred delivery model.

The models allowed under Local Water Done Well and considered by the Far North District Council include:

- Internal business unit (preferred option – including statement of intent to enter into a multi-council CCO)
- Single council CCO water organisation
- Multi-council CCO water organisation

- Consumer trust owned water organisation
- Mixed council/consumer trust owned water organisation

Internal business unit (preferred option – including statement of intent to enter into a multi-council CCO)

Under this model, FNDC would retain direct control of its water services, managing water as internal department. Councils remain responsible for funding, operations, compliance, and asset management. Additional requirements are applied within this model, most notably ringfencing of waters related revenue and expenditure, and implementing a new planning and reporting framework for water service providers.

Ownership	Part of Council No new organisation is established
Governance	Internal business unit responsible to Council through mechanisms under the Local Government Act 2002
Strategic direction	Council must prepare a Water Services Strategy
Accountability	Council must act consistently with statutory objectives Water business unit reports through to Council Council prepares separate annual reporting and audited financial statements Subject to economic regulation
Financing	Borrowing undertaken by Council eg: via Local Government Funding Agency with water activity groups meeting their share of financing costs
Balance sheet treatment	On balance sheet

Retaining water services as an internal council business unit is the simplest and least disruptive option, not requiring structural changes that would be necessary for transitioning water services to another entity. Initial financial assessments indicate sufficient investment capacity to deliver the anticipated capital programme, largely due to FNDC's low debt levels. However, council will conduct additional investment analysis to further optimise the price path. Additionally, to support long-term sustainability and regulatory compliance, the council is considering additional enhancements to governance oversight, ensuring clear accountability and strategic direction.

Single council CCO water organisation

A single-council CCO is a legally separate water entity, which would be wholly owned FNDC but operates independently. Council would transfer waters assets to the new entity, and appoint a professional board to govern it, which would be responsible for water service delivery, compliance, and infrastructure investment. The CCO would have a dedicated revenue model, borrowing flexibility, particularly through access to higher debt limits via the Local Government Funding Agency (LGFA).

Ownership	Limited liability company 100% owned by Council Ownership arrangement and rights set out in constitution
Governance	Council appoints and removes board members

	Governed by independent, professional directors who are responsible for all operational and financial decisions
Strategic direction	Shareholding council issues Statement of Expectations annually Water organisation prepares Water Services Strategy
Accountability	Water organisation must act consistently with statutory objectives Reports regularly to shareholders on performance Must produce annual reports containing audited financial statements Subject to economic regulation
Financing	Borrowing from Local Government Funding Agency directly supported by Council guarantee or uncalled capital
Balance sheet treatment	On balance sheet

The standalone CCO model benefits from increased borrowing capacity under the LGFA to 500% of water revenues, however financial analysis suggests it would not provide the investment capacity necessary to fund FNDC's anticipated capital programme. The price path required to sustain this programme makes a standalone CCO option less attractive in delivering value for money water services.

Multi-council CCO water organisation

A multi-council CCO is a legally separate water entity, which would be jointly owned by two or more councils and operates independently of those councils. Each council would transfer waters assets to the new entity, and jointly appoint a professional board to govern it, which would be responsible for water service delivery, compliance, and infrastructure investment. The CCO would have a dedicated revenue model, borrowing flexibility, particularly through access to higher debt limits via the Local Government Funding Agency (LGFA).

Ownership	Limited liability company with share allocation agreed between shareholding councils. Councils jointly approve a constitution
Governance	Shareholder council established to appoint and remove board members Governed by independent, professional directors who are responsible for all operational and financial decisions
Strategic direction	Parent councils jointly issue a Statement of Expectations annually Water organisation prepares a Water Services Strategy
Accountability	The water organisation must act consistently with statutory objectives Reports regularly to shareholders on performance Must produce an annual report containing audited financial statements Subject to economic regulation
Financing	Borrows via Local Government Funding Authority if parent council provides a guarantee and satisfies Local Government Funding Authority lending requirements

	Can borrow from banks and/or capital markets without council support, subject to achieving investment grade credit rating
Balance sheet treatment	Contingent liability ie: impact on council credit rating depends on council and water organisation revenue and debt

A joint CCO could be formed in partnership with Whangārei and Kaipara District Councils and has been identified as a financially promising model for FNDC ratepayers. Financial modelling by Martin Jenkins and Beca suggests this model would have sufficient regional investment capacity, provide a level of regional economies of scale, and deliver lower costs to the Far North through regional pricing subsidisation. However, it was noted that certain information produced by the modelling required further clarification and understanding.

Analysis from other councils embarking on a multi-council option demonstrated significant implementation challenges, including complex negotiations on governance structures, cost-sharing mechanisms, and strategic investment priorities. Further, achieving regional subsidised pricing and service levels across districts may present additional challenges. Given the tight timeframe under Local Waters Done Well, it is unlikely that a clearly defined and agreed multi-council CCO WSDP could be established by 3 September 2025.

However, to keep this option open for future consideration, FNDC could prepare a Statement of Intent to enter into a Heads of Agreement with Whangārei and Kaipara District Councils with an aim of potentially delivering this model in the future. The Statement of Intent would signal the intention of FNDC to enter into a Heads of Agreement with these Councils, as is occurring in the Waikato region. This non-binding Heads of Agreement would lay the groundwork for a collaborative approach to water management across the three Districts and keeps the option open for a joint CCO model at a future point in time.

Once a Heads of Agreement was initiated, Council would authorise the final Agreement.

Consumer trust owned water organisation

Council transfers responsibility for water services delivery to entity owned by a consumer trust. A consumer trust would be established to own shares of the water organisation and be responsible for appointing a board and monitoring performance. The water company board would be responsible for the operational and financial decisions consistent with the Statement of Expectations and statutory objectives.

Ownership	Limited liability company 100% owned by a consumer trust Councils would jointly approve a Constitution
Governance	Trustees would appoint and remove board members Governed by independent, professional directors who are responsible for all operational and financial decisions
Strategic direction	Trustees issue a Statement of Expectations Water organisation prepares a Water Services Strategy
Accountability	Water organisation must act consistently with statutory objectives Reports regularly to shareholders on performance Must produce an annual report containing audited financial statements Subject to economic regulation

Financing	Borrows independently of local authorities eg: from banks or capital markets, is subject to achieving sufficient credit-rating quality and track record No council financial support to water services organisation
Balance sheet treatment	Off balance sheet

Mixed council/consumer trust owned water organisation

One or more councils own part of the shares with a consumer trust also owning part of the shares. The consumer trust then provides services to consumers. The shareholder councils will be responsible for setting a Statement of Expectations, appointing the board directors and for monitoring performance. The Water Company Board will be responsible for the operational and financial decisions consistent with the Statement of Expectations and any statutory objectives.

Ownership	Limited liability company partially owned by a consumer trust, with one or more councils owning the remainder of the shares Ownership arrangements and rights set out in constitution and/or shareholder agreement
Governance	Council(s) and the consumer trust appoint a shareholder council to appoint board directors Governed by independent, professional directors who are responsible for all operational and financial decisions
Strategic direction	Shareholders agree the process for issuing a joint Statement of Expectations Water organisation prepares a Water Services Strategy
Accountability	Water organisation must act consistently with statutory objectives Reports regularly to shareholders on performance Must produce an annual report containing audited financial statements Subject to economic regulation
Financing	Borrows independently of local authorities eg: from banks or capital markets, subject to achieving sufficient credit-quality and track record
Balance sheet treatment	Contingent liability, likely no impact on council credit rating

Both the Consumer Trust and Mixed Consumer Trust models have not been pursued due to their complexity in establishment and funding. Unlike council-owned entities, consumer trusts would rely on private funding markets rather than LGFA financing, leading to higher borrowing costs. Given these financial disadvantages and governance complexities, these models are not considered viable options for FNDC at this stage.

Options for Council

1. Do not select options to proceed to consultation, including a preferred option

Advantages:

- Avoids the cost and time associated with public consultation.

Disadvantages:

- Under Local Water Done Well legislation, councils must consult the public on Water Service Delivery options, including the Status Quo (internal business unit) and at least one alternative.
- Failure to not confirm an option would defer the requirement to make a decision, or risk intervention from central government. Additionally, FNDC would lose the opportunity to consult at the same time as Whangārei and Kaipara District Councils on the multi-council CCO option.

2. Proceed to Consultation on: (recommended option)

a) in-house business unit (as preferred option) and;

b) multi-council CCO;

c) require the Chief Executive Officer to prepare a statement of intent to enter into a Heads of Agreement with Whangārei District Council and Kaipara District Council for the potential future formation of a multi-council CCO.

Advantages:

- Complies with requirements to consult the public on Water Service Delivery options, including the Status Quo (internal business unit) and at least one alternative.
- Enables consultation on a multi-council CCO to occur at the same time as Whangārei District Council and Kaipara District Council.
- Allows FNDC to assess community support for both options before making a final decision.
- Maintains flexibility by keeping the multi-council CCO option open for future collaboration.

Disadvantages:

- Consultation process requires additional time and resources.

3. Proceed to Consultation on:

a) in-house business unit and;

b) multi-council CCO (preferred option).

Advantages:

- Complies with requirements to consult the public on Water Service Delivery options, including the Status Quo (internal business unit) and at least one alternative.
- Enables consultation to occur on a multi-council CCO at the same time as Whangārei District Council and Kaipara District Council.
- Initial financial analysis presented modelling suggested favourable pricing for FNDC ratepayers through economies of scale and, particularly with regional price subsidisation. This model indicated sufficient investment regional capacity to fund the anticipated capital programme, however further analysis on this is required.
- Commercial governance would be strengthened with the appointment of a commercial board of directors.

Disadvantages:

- Initial financial analysis contained certain information produced by the modelling required further clarification.

- Significant complexities in negotiating agreements within required timeframes may result in unanticipated and unfavourable outcomes for FNDC ratepayers.
- May require requesting an extension of time from the Department of Internal Affairs with other councils may extend beyond the consultation timeframe.

Timeline and next steps

Consultation material is to be prepared by staff. Notably if the multi-CCO option is approved by Council, this consultation material will be prepared in collaboration with Whangārei District Council and Kaipara District Councils.

This consultation material will be workshopped with Elected Members prior to presentation for adoption by Council on 2 April 2025.

This timeline is designed to enable consultation between the three councils to occur concurrently in April, ensuring ratepayers of the Northland Region have an opportunity to contribute to the decision making process at the same time.

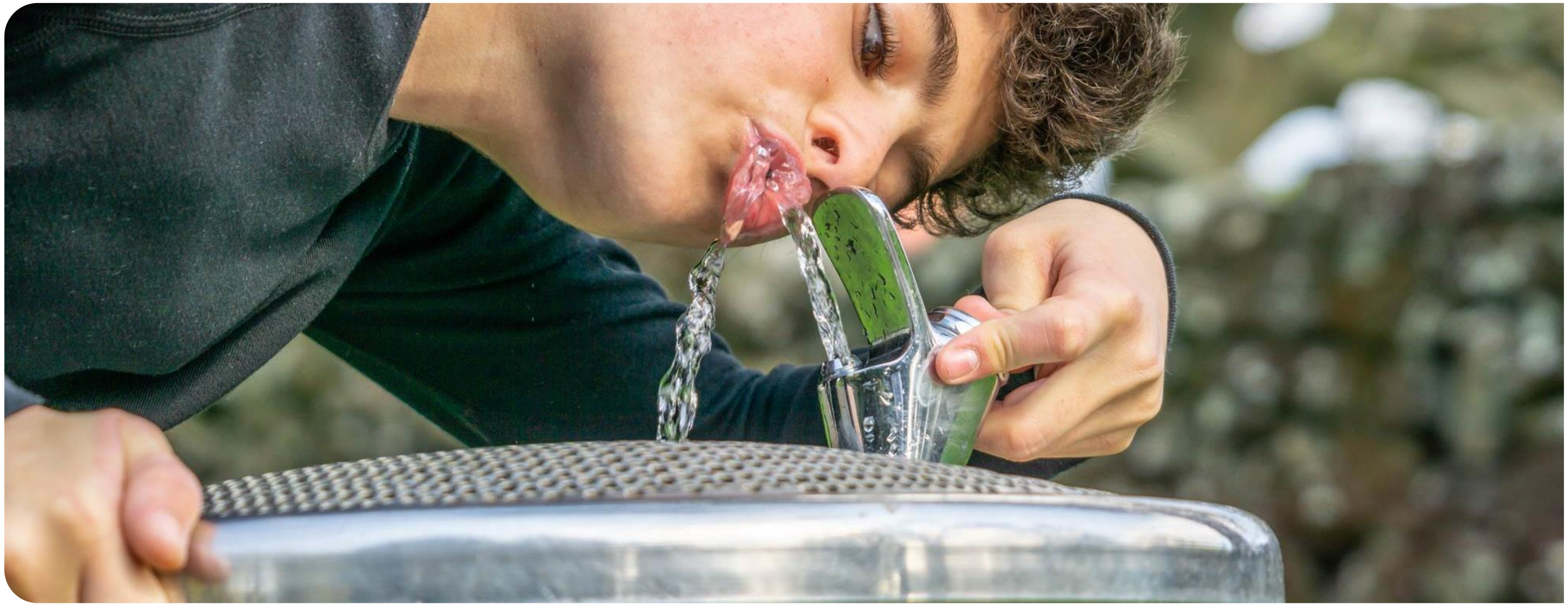
This timeline will also enable Elected Members to be presented with the communities views for deliberations prior to adoption of a Water Services Delivery model, anticipated to occur in June.

TAKE TŪTOHUNGA / REASON FOR THE RECOMMENDATION

The recommendation is based on balancing financial sustainability and implementation feasibility. Retaining an internal business unit provides stability and allows for necessary investment in waters infrastructure. However, enhancements to governance oversight are recommended to enhance oversight and accountability. While a multi-council CCO presents a strong financial case, the complexity of negotiations and the short implementation timeframe under Local Waters Done Well make immediate adoption challenging. Therefore, it is recommended that FNDC continue exploring collaborative opportunities with Whangārei and Kaipara District Councils through a Statement of Intent for potential future partnership while strengthening internal delivery in the interim as required under Local Water Done well for the in-house business unit option.

ĀPITIHANGA / ATTACHMENTS

1. **250310 WSCCO FNDC summary slides - A5112834** ⇩
2. **LWDW March 2025 - A5112835** ⇩



Northland WSCCO opportunity - Key findings

Financial assessment – Whangārei District Council, Kaipara District Council, Far North District Council

March 2025

Commercial in Confidence

DRAFT REPORT

Introduction and purpose

1. Joint Councils engaged MartinJenkins to undertake a high-level financial assessment of a possible Joint Water Services Council Controlled Organisation – Whangārei District Council, Kaipara District Council, and Far North District council
2. Local Water Done Well requires councils to demonstrate their delivery of water services is financially sustainable
3. A Water Services Council Controlled Organisation offers additional financial benefits compared to in-house delivery options
4. This report assesses how a joint WSCCO delivery modes could benefit participating councils, collectively and individually, through enabling greater efficiencies and more efficient capital structures.

⚠ We have relied on council inputs and an agreed set of assumptions

Scenario overview

+ target capital structure and key assumptions

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Three scenarios have been modelled

1 Balanced budget (S1)
(simple aggregation)

- Combines starting positions and projections of participating councils
- Adjusts projections for one-off establishment.
- Incorporates agreed efficiency gains from consolidation and economic regulation.
- Targets a balanced budget and demonstrates efficiency gains only.
- Does not optimise capital structure.

2 Accelerated investment (S2)
(targeting increased investment, while maintaining current price paths)

- Utilises anticipated LGFA borrowing terms* to fund higher levels of investment, consistent with principles of intergenerational equity.
- Maintains current price levels and revenues but accelerates investment in infrastructure, utilising the greater borrowing capacity.
- Demonstrates how a WSCCO could increase investment without increasing costs to consumers.

3 Optimised prices (S3)
(targeting current investment paths, while flattening prices)

- Utilises WSCCO borrowing capacity* and efficiencies to lower prices while maintaining currently planned levels of investment.
- Demonstrates affordability benefits of the WSCCO model.

Additional considerations:

- A status quo comparator is used as the benchmark for comparison, aggregating the financial positions supplied without adjustments or efficiency assumptions applied.
- Harmonised pricing is presented for scenario 3

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Target capital structure

- **DIA guidance sets out key financial principles** that underpin the requirement for financial sustainability. Under Local Water Done Well.
- **LGFA has set out a number of credit criteria.** A critical component of the 'prudent credit criteria' is that a 'funds from operations' ('FFO') to debt covenant would be required, with an **expected minimum 'FFO to debt' ratio likely to fall between 8% and 12% depending on individual circumstances for the CCO**.
- By **targeting an efficient capital structure** through a WSCCO, it is possible to **optimise revenues, expenditures and debt** that meet prudent credit criteria. This creates opportunities to:
  - Increase investment while maintaining current price levels or
  - Maintain investment while lowering price levels or
  - A combination of these scenarios.
- **Our modelling targets FFO to debt at the mid-point of 10%** as a conservative assumption. This means cash surpluses in any year are equal to 10% of the WSCCO's net borrowings.

Revenue sufficiency
Is the projected revenue sufficient to cover the costs of water services delivery?
→ Cash operating surplus (deficit)

Investment sufficiency
Is the projected level of investment sufficient to maintain assets, meet regulatory requirements and provide for growth?
→ Asset sustainability
→ Capital delivery

Financing sufficiency
Can the council raise the borrowing required to finance investment while remaining within financial limits?
→ Net debt to operating ratio
→ Free funds from operations (FFO) to debt

Resource sufficiency
Does the council have the resources to operate water services sustainability?
→ Operational capability
→ Capital delivery

Affordability
Is the projected increase in water charges affordable for the community?
→ % change in real water charges per connection
→ Water charges as % median household income

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Key assumptions

Several key assumptions unpin the analysis, which are consistent across the scenarios modelled.

Additional information on the underlying assumptions and basis of efficiencies are found in the report supplied to councillors.

Note, adjustments to the base debt and capital profiles were made with agreement from KDC and FNDC.

Assumption	Commentary
Efficiencies: • Operating 0.6% - 1.1% p.a. • Capital 0.7% - 1.3% p.a.	We have modeled the upper range of possible efficiency assumptions, following workshops with council officers. • Peak operating efficiency is achieved in FY44 (~15%). • Peak capital efficiency is achieved in FY44 (~17%).
Establishment costs • capitalised	Establishment costs are assumed to be: • $9 million for three council entity scenarios This covers transition activities, including legal, commercial and other due diligence, and staff IT costs. ***The model is not sensitive to this assumption.***
Incremental cost	Additional opex associated with a WSCCO include additional management costs, board fees, audit and other costs. These are assumed to be around $1.5 million p.a.
Establishment date	The entity is established on 1 July 2027.
Three waters	Water supply and wastewater are transferred to the entity. Stormwater has not been included in the representative analysis.

Key findings

Joint WSCCO opportunity (WDC, KDC, FNDC)

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Key findings

A **joint WSCCO** could deliver water services **at a lower cost to consumers** than individual councils under current operating models and capital structures.

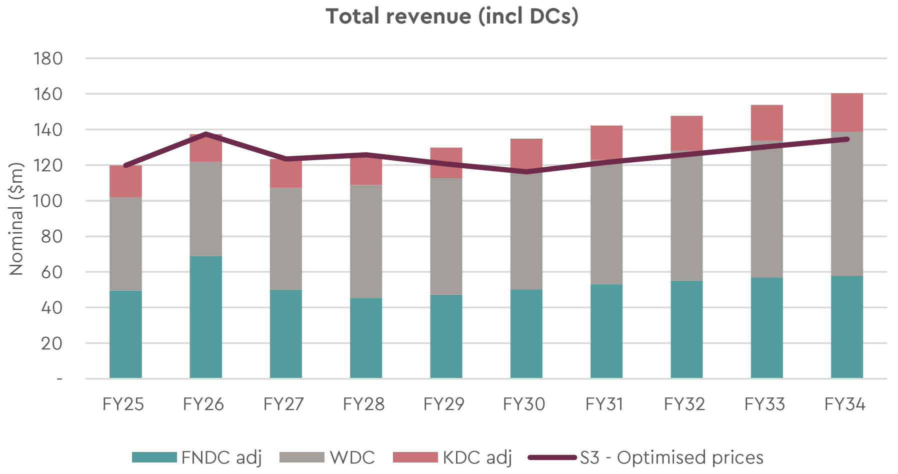
A WSCCO could deliver:

- **Up to $213 million** in additional investment (+23% compared to the status quo) by FY34.
- **Reduce price increases to consumers by up to $450** (-19%, relative to current price paths) – *note the differences in these figures compared to the table reflects rounding.*
- **Operating efficiencies peak at 15% relative to initial opex by FY44**, and generate around $3.5 million in annual savings by FY34.
- **Capital efficiencies peak at 17% relative to initial capex by FY44**, and generate around $5.5 million in annual savings by FY34.
- **The current investment profile could be delivered for around $11 million less between entity establishment and FY34.**

This arises from using a more **efficient capital structure** and **efficiency gains** to provide:

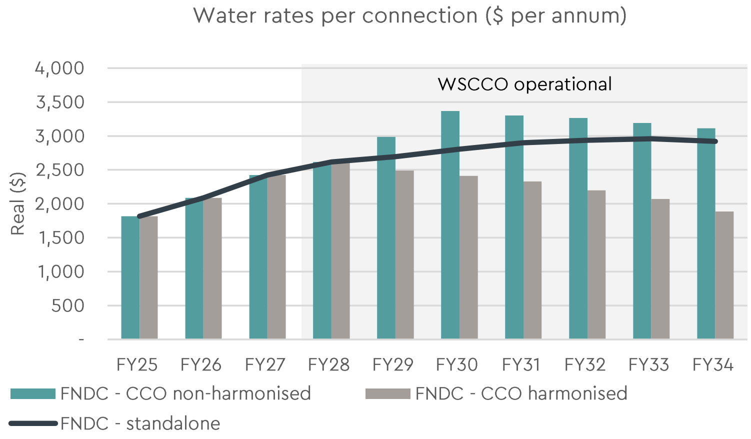
- **Immediate uplift in access to borrowing.**
- **Better cost distribution** by funding and financing assets over their useful lives.
- **Increased investment capacity** and financial flexibility.

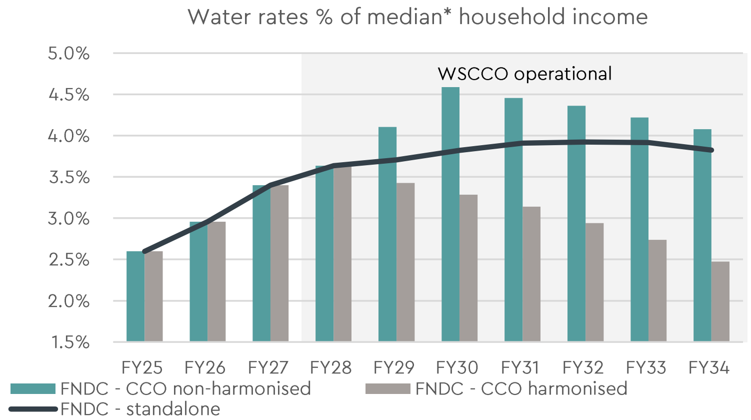
Scenario	FY25 cost per connection ($ real)	FY34 cost per connection ($ real)	Total capex (FY25-FY34) ($m nominal)	FY34 FFO-to-debt (incl. DCs)
S1 Balanced budget	~$1,900	~$2,200	$912	18%
S2 Accelerated investment	~$1,900	~$2,400	$1,135	10%
S3 Optimised prices	~$1,900	~$1,900	$912	10%
Comparator (status quo)	~$1,900	~$2,400	$922	24%



NOT FOR DISTRIBUTION

Far North District Council findings – Optimised prices (S3)





Median household income is derived from the latest census data, and projected forward

Water charges per connection

Under current council arrangements, average water charges are projected to exceed **$2,900 per connection annually** (in today's terms). A **WSCCO could reduce this to as low as $1,900 per connection**, reducing the required increases by up to 35%.

The higher-non-harmonised price is a result of the revenue profile needing to adjust to maintain an FFO-to-debt ratio of 10% while meeting the required level of investment. Whereas the lower harmonised price is a result of sharing the benefits and costs of the entity collectively (i.e., optimising the revenue path and capital structure at a whole of region level).

Affordability of water charges

Under a harmonised approach, affordability of water charges would improve for the FNDC community by FY29, compared to the status-quo. Efficiencies would build over time, likely generating further savings for your community.

Council	Δ (cumulative) to current price path - Harmonised	Δ (cumulative) to current price path - Non-harmonised
A	+ve	+ve (strongest)
B	+ve	-ve
FNDC	~$3,824	~$(2,009)

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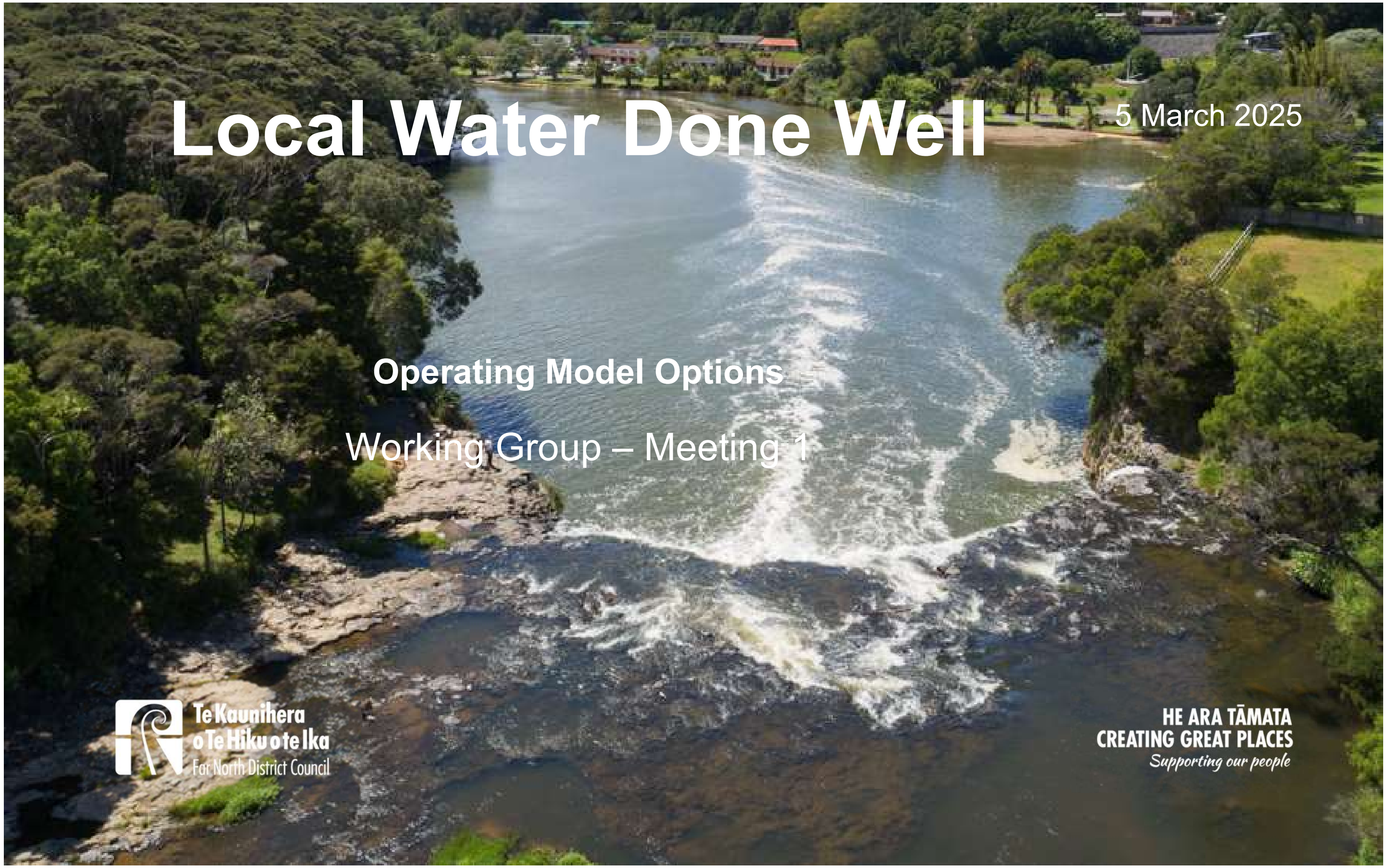
Local Water Done Well
5 March 2025
Operating Model Options
Working Group – Meeting 1
Te Kaunihera o Te Hiku o te Ika
Far North District Council
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CREATING GREAT PLACES
Supporting our people

Purpose of the workshop

- Recap on LWDW
- Recap on timelines
- Recap on options and advantages / disadvantages
- Presentation of financial modelling of three options
  - Joint CCO presented by Martin Jenkins / BECA (11am)

➢ Elected Member Decision required at 13 March Council Meeting
  - ✓ Options to proceed to consultation
  - ✓ Council preferred option

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Recap of LWDW

New Framework:

- Replaces the Three Waters reform.
- Keeps drinking water, wastewater, and stormwater services under local ownership.
- Introduces water service organisations, and stronger national water oversight and performance standards.
- New Water Infrastructure Regulator within Commerce Commission will provide economic oversight.

Key Objectives:

- Enforce updated water quality and environmental standards.
- Necessitate sustainable long-term investment approach to water infrastructure.
- Require financial sustainability.

Far North Context:

- District with small, dispersed communities relying on separate water schemes.
- Under-investment has led to aged infrastructure which will require significant investment.
- Economic impact of renewals needs to be weighed against costly service delivery and upgrades.

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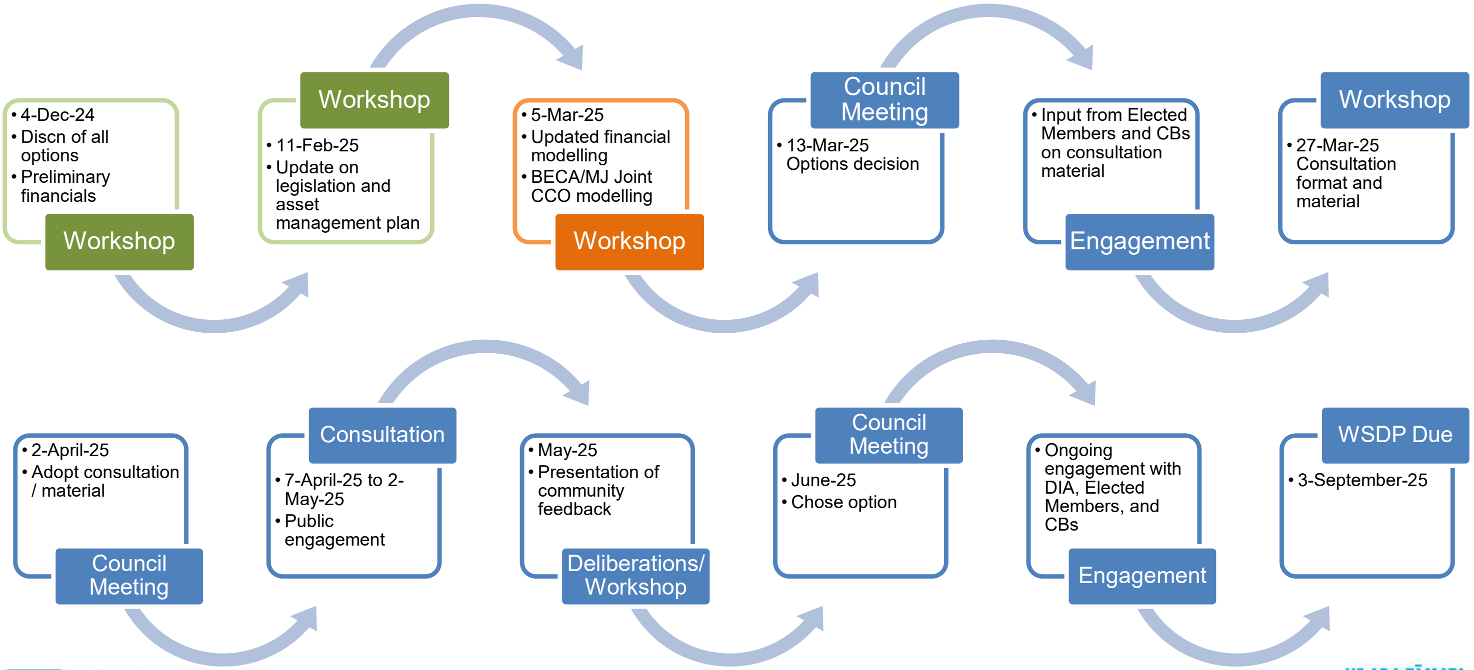
WSDP Timeline



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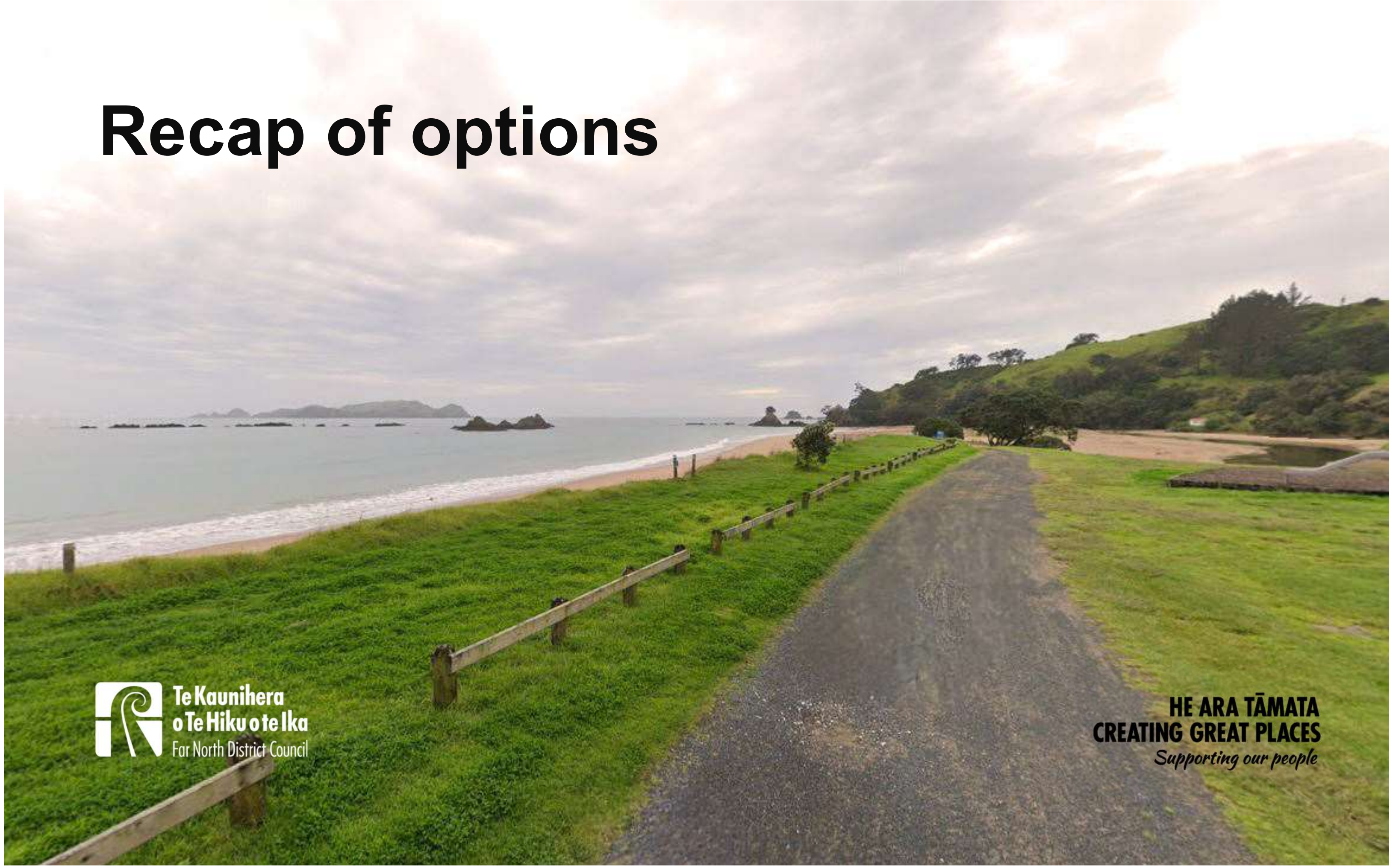
Recap of options
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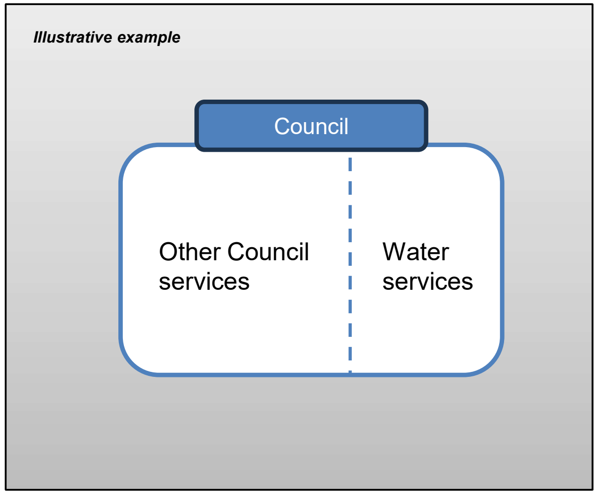
1. Internal business unit or division

Internal business unit or division

- Status quo for many councils.
- Minimum requirements for water service providers will apply.
- New financial sustainability, ringfencing rules, and economic regulation will apply.



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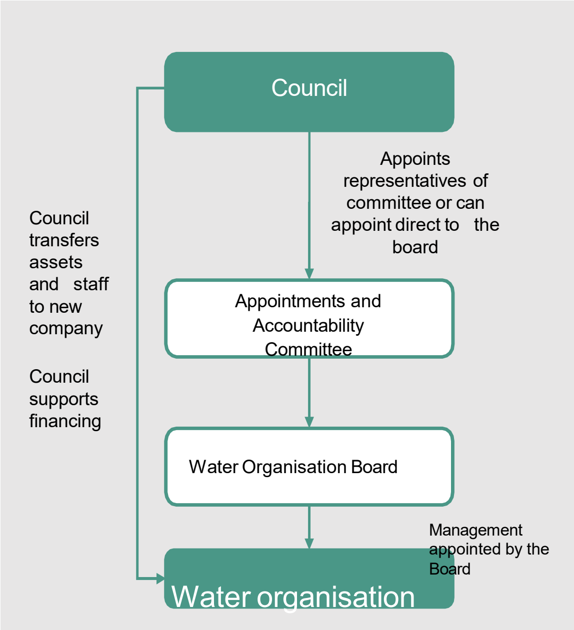
2. Single council-owned water organisation

Single council-owned water organisation

- New company established, 100% owned by the council.
- Financial sustainability rules will apply, but it retains a financial link to the council.
- Leverages financial link to Council.



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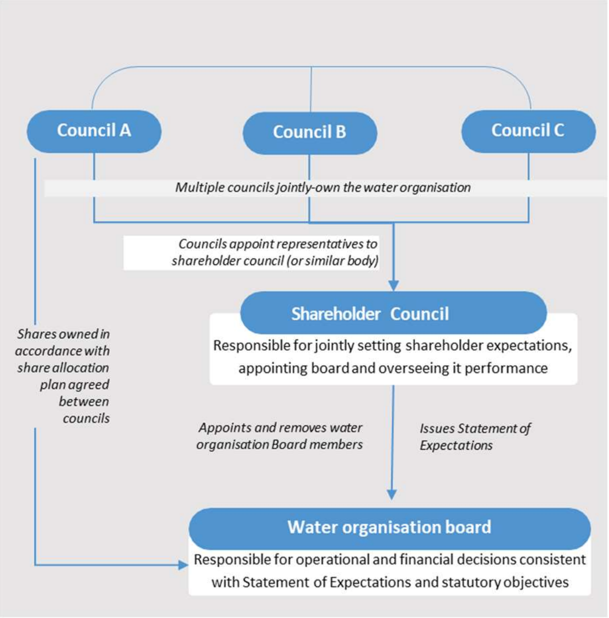
3. Multi-council owned water organisation

Multi-council owned water organisation

- New company established with multi-council ownership.
- Appointment of a Board through shareholder council (or similar body) is advisable but not a statutory requirement.
- Option to access Local Government Funding Agency finance with the provision of parent support or to create a more financially independent organisation.



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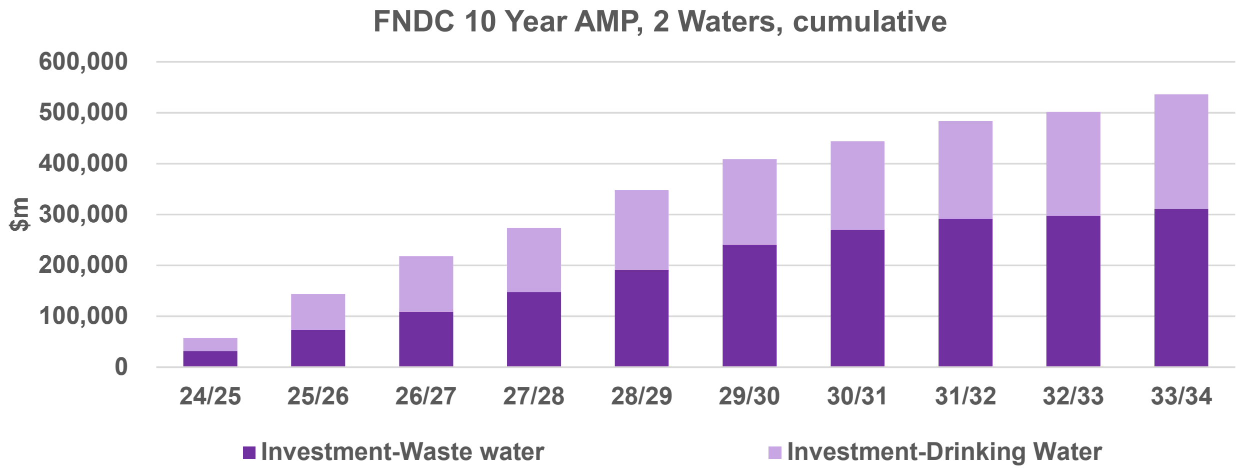
Asset Management Plan

Current Asset Management Plan 2 Waters



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Financial Modelling
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Option 1 – Status Quo
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