



ORDINARY MEETING OF COUNCIL

Open Agenda Supplementary Items

Meeting Date: Thursday 31 July 2025

Time: 9.30am

Venue: Large Exhibition Hall
War Memorial Centre
Marine Parade
Napier

Livestreamed via Council's Facebook page

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18. LOCAL WATER DONE WELL - DELIBERATIONS REPORT

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| Type of Report: | Operational and Procedural |
| Legal Reference: | Enter Legal Reference |
| Document ID: | 1867015 |
| Reporting Officer/s & Unit: | Andrew Lebioda, Manager Water Reforms Transition |

18.1 Purpose of Report

- Seek Council's decision on the water service delivery option following public consultation and hearing of submissions, to inform the direction for the development of a Water Service Delivery Plan (WSDP) as required under the Local Government (Water Services Preliminary Arrangement) Act 2024. It is proposed that the WSDP will be brought back to Council in August 2025 for adoption in advance of submission to the Secretary for Local Government by 3 September 2025.
- Endorse the draft Heads of Agreement between the participating territorial authorities, based on a decision to establish a joint Water Service Council Controlled Organisation (WSCCO), outlining key transition arrangements and agreed terms/commitments to achieve the joint operating model and objectives.

Officer's Recommendation

That Council:

- Receive** the 31 July 2025 report titled *Local Water Done Well – Deliberations Report*.
- Note** that the content of this report and decisions are recognised as of high significance in accordance with Council's Significance and Engagement policy.
- Approve** as its future Water Service Delivery Model a joint Water Organisation (in the form of a Water Service Council-Controlled Organisation) - with the other participating territorial authorities within the Hawke's Bay region.
- Instructs** officers to prepare a joint Water Service Delivery Plan in conjunction with the other participating Hawke's Bay territorial authorities, based on the decision to establish a joint WSCCO, for approval in August before submitting to the Secretary for Local Government by 3 September 2025.
- Endorses** the draft Heads of Agreement document (Doc Id 1867369) (**Attachment 1**) outlining key transition arrangements and agreed terms/commitments to achieve the joint operating model and objectives.
- Authorises** and delegates authority to the Chief Executive to execute the Heads of Agreement on behalf of Council, which begins the process to establish a joint WSCCO alongside the other participating territorial authorities.
- Notes** that recommendations c – f above are contingent on the other three Hawke's Bay territorial authorities' substantive decisions on water service delivery. At the time of

authoring this paper, Central Hawke's Bay District (CHB) council have met to take decisions in relation to this matter on 3 July 2025 – agreeing to the establishment of a joint WSCCO. Wairoa District (WDC) and Hasting District Councils (HDC) are yet to meet to take this decision.

18.2 Background Summary

Key Decision-Making Summary

On 17 April officers brought a paper to Council to approve the water service delivery model options to be included in formal public consultation with the regional WSCCO being identified as the preferred option.

The paper included detailed financial modelling as well as the assessment criteria used to determine the preferred option. This paper can be found here, [Agenda of Ordinary Meeting of Council - Thursday, 17 April 2025](#). No significant changes to the analysis presented on 17 April have been made and the outcomes from this meeting are still valid. For ease, the modelling and assessment criteria are attached as **Attachments 3 - 5**.

Following the adoption of the preferred option, officers developed a Consultation Document that was approved at the 29 April Council meeting; [Agenda of Ordinary Meeting of Council - Tuesday, 29 April 2025](#).

Consultation ran from 12 May – 15 June with hearings held on 21 July; [Agenda of Ordinary Meeting of Council - Monday, 21 July 2025](#).

Consultation Overview

Napier City Council ran a well-rounded, multi-channel engagement and consultation campaign from 12 May 2025 to 15 June 2025 (24 days) and outlined (as required by the Bill):

- The change proposal, with the preferred option outlined being the regional Water Services CCO.
- The other reasonably practicable option, being the Napier City Council CCO.
- Council's existing approach to providing three water services in Napier city, with changes considered to meet new financial sustainability requirements per the Bill.

The following consultation initiatives were used to ensure a broad awareness of this significant proposal.

- Extensive engagement through Council's digital channels providing reach to a diverse segment of the community, including via electronic direct mail campaign to Council's database (up to 11,339), Facebook (static and video posts, polls, event page and livestream hearings) and boosted promotion, Instagram (reels, stories and posts), LinkedIn and NCC website (News Centre, "Neighbourhood" community page, banners, events and Water Services page www.napier.govt.nz/services/water/).
- Hard copies of the summary consultation document and brochure delivered to 23,000 letterboxes. It included a QR code for residents to scan and make a submission online, and directions as to where to obtain hard copy submission forms.

- Hard copies of the consultation document and submission form available at both Napier libraries and at Council's Customer Service Centre, where people could drop in submission boxes or post to Council.
- Online consultation portal at [Local Water Done Well | Consultations](#) with full consultation and summary material available, and supporting detailed background information on the Local Water Done Well project. An online submission form and downloadable pdf that could be emailed to Council was available to those wanting to submit online.
- Webinar hosted by the Local Water Done Well project team on 27 May 2025 to answer FAQs and provide further context on the proposal. 79 attended live event and webinar saved to consultation page for all to view www.youtube.com/watch?v=ECPzD639u08
- Officers ran a consultation pop-up stand at Taradale Library on 21 May 2025, 12pm-1pm, to allow the public time to engage on key issues.
- Officers held a community meeting at Napier War Memorial Centre on 4 June 2025, 5.30-7pm, to allow the public time to engage on key issues.
- Livestreamed (via Facebook) Council hearings held at the War Memorial Centre on 21 July 2025 allowed for face-to-face or livestreamed input from residents wishing to speak to their submissions.

Hearing of Submissions

At the 21 July Hearings seven submitters spoke to their submissions. This was down from the original 13 that indicated they would like to speak to their submissions. Of those that spoke, five were in support of the preferred option while two opposed.

Those in support voiced similar advantages of a regional WSCCO including:

- Larger asset and customer base allows for a better spread of fixed overheads.
- Scale of operations and capital works can encourage contractors to locate to the region, especially with a strong pipeline of work.
- Anticipated that larger WSCCO has the potential to be more coordinated and effectively respond to climate related challenges.

However, those speakers in support did see potential challenges to overcome:

- Robust asset management plans need to be developed that cater to the needs of each community.
- Foundational documents are crucial to the success of the organisation and recruitment of a skilled board is critical.
- Given the new levels of regulation, the resourcing to report on this cannot be understated.

Submitters opposed to Council's preferred option were concerned with:

- Napier ratepayers subsidising investment and delivery of water services in other regions.
- A very top-heavy structure with high management costs.

- Potential loss of in-house expertise and specialised knowledge.

Written Submission Analysis

The full detail of written submissions has been provided to Council at the 21 July Hearings.

666 submissions were received during the consultation period on the three options. Submissions presented a wide range of views, with some clear themes coming through from the submission comments among both those for and against the preferred option. The summary below outlines the key themes raised in submissions both in support of a regional water services CCO and opposed.

As noted in the 21 July report:

- 527 (79%) were in favour of the preferred option.
- 117 (18%) were opposed to the preferred option, and
- 22 (3%) did not indicate a preference in support or opposition.

Themes

Affordability

Submitters raised concerns regarding the proposed increases of costs modelled and presented in the consultation document. Sentiment was that the proposed charges, on top of existing rates, would stretch ratepayers to the limit. As well, fears of high management costs and elevated levels of bureaucratic inefficiency were raised. However, it was acknowledged that a Regional WSCCO would achieve long-term savings and provide an efficient model to the community. These anticipated long-term savings are supported by the financial modelling conducted and presented at the 17 April meeting. It should be noted that the costs presented are only indicative based on modelling using Long-term Plan and Annual Plan information. A key next step will be to develop a Water Services Strategy that will provide more accurate financial forecasting taking into consideration the expectation of the Department of Internal Affairs, Commerce Commission, and Taumata Arowai around sufficient level of investment and addressing compliance risks.

Local Voice

Those opposed to the preferred option saw the risk that local voice and values would be compromised. Even those in support of the preferred option commented that having provisions in place was crucial to ensure local community concerns were addressed. It is anticipated that these concerns can be allayed through the drafting of key foundational documents such as the WSCCO Constitution and Statement of Expectation. Further, legislation is in place that ensures a WSCCO board **must** give effect to the shareholders Statement of Expectation.

Investment and Transparency

Comments relating to the lack of transparency in spending and the need for additional investment in water infrastructure. As well, concerns were raised on how investment would be prioritised in a regional model and how resolution would be achieved if there were conflicting priorities. The new planning and accountability framework outlined in legislation will go a long way in addressing these concerns around investment and transparency, requiring water service providers to provide detailed financial planning

information around operational costs and capital investment. Further, the introduction of economic regulation and the required information disclosures associated with this regulation will provide a much higher degree of transparency than exists currently.

Water Metering

The potential for charging based on water meters was mentioned with quite opposing views. Many submitters saw fairness and equity in a user pays system and believed water meters were a necessity to enable this. Others were strongly opposed to the notion of metering and that water use should not be the basis for charging. It is not known what the central government policy on water metering will be in the future. What is known is that water service providers will have five years to transition from any charges based on capital or land value and that the economic regulator will require evidence that water charges are fair and equitable.

Local Water Done Well (LWDW) Legislative and Policy Framework - Recap

The Local Government (Water Services Preliminary Arrangements) Act 2024 (“the Act”) was enacted on 2 September 2024. The Local Government (Water Services) Bill (“the Bill”) was introduced in early December 2024 and builds on the foundations set in the Act. The combined legislation sets minimum requirements for service delivery models that include:

1. New economic, environmental and water quality regulations
2. A new planning and accountability framework
3. Financial sustainability objectives
4. New statutory objectives consistent for all water providers
5. Restrictions against privatisation

All Councils are required under this legislation to consider options and determine a preferred water service delivery model.

The Act requires that water services be delivered in a financially sustainable manner by 30 June 2028. Department of Internal Affairs (DIA) guidance is that financial sustainability means water services revenue is sufficient to meet the costs of delivering water services. The costs of delivering water services includes meeting all regulatory standards, and long-term investment requirements in water services.

There are three key factors to how financial sustainability will be assessed:

1. Revenue sufficiency – is there sufficient revenue to cover the costs (including servicing debt) of water services delivery?
2. Investment sufficiency – is the projected level of investment sufficient to meet levels of service, regulatory requirements and provide for growth?
3. Financing sufficiency – are funding and finance arrangements sufficient to meet investment requirements?

The process to develop a one-off, transitional Water Services Delivery Plan (WSDP) for submission to DIA by 3 September 2025 is designed to get Councils to demonstrate how financially sustainable water services provision will be achieved from 30 June 2028 at the latest.

Under Local Water Done Well, the Local Government Funding Agency (LGFA) has committed to Water CCOs being able to utilise debt from the LGFA, if they are financially supported (through a guarantee) by their parent council or councils. The LGFA is the lowest cost provider of financing to local government and is already utilised by Council. The intention of providing specific lending facility is to better enable councils via a WSCCO to address water investment needs and enable 'balance sheet separation' with the advantage of reducing ex-water Council debt, potentially freeing-up debt 'headroom' for other Council activities if desired or keeping pressure off other Council rates.

Under the CCO model (single or joint), LGFA will not 'consolidate' a water services CCO's debt back to its view of the overall Council's debt position. However, LGFA guidance is that credit rating agencies, which influence the cost of borrowing for Councils from LGFA through the issuance of credit ratings, will treat the debt of a water CCO which is more than 50 percent owned by a single Council back to that Council's balance sheet when it reviews the Council's creditworthiness. This means the parent Council under a Single CCO option may be provided a lower credit rating (and higher resulting finance costs), than under a multi-council CCO option (see below).

For a multi-council, or regional CCO where no council owns a majority of the organisation, both LGFA and S&P will treat the debt of the water CCO separately to the parent Council. Credit rating agencies are expected to recognise the water CCO as a contingent liability for the shareholding Councils but assess the Council's stand-alone debt position without the water debt held by the regional CCO.

If a council decides to maintain In-House delivery of water services through a new business unit, their existing water debt will remain on the council's books, despite the ring-fencing provisions in the LWDW legislation. This will mean considerably less debt headroom for Councils against their LGFA limits from both an LGFA and rating agency perspective.

Water Service Delivery Plans

Council must submit a WSDP by 3 September 2025, which explicitly shows its preferred proposed water services delivery model. Decisions that must be made include:

1. Proposed water services delivery model
2. Whether to transfer (or not) its water services and/or assets
3. Financial separation of its water services from the rest of Council activities
4. Demonstrations that financial sustainability will be achieved by 30 June 2028.
This must be adopted by Council before 29 July 2025 and certified as being true by the Chief Executive.

The WSDP must be accompanied by an Implementation Plan for the preferred delivery model and submitted to the Secretary of Local Government (Secretary) - via DIA, by 3 September 2025. The WSDP is then either:

1. Accepted by the Secretary, who can only accept a WSDP if it complies with the Act (as above)
2. Not accepted by the Secretary, who may make a recommendation to the Minister of Local Government (the Minister)

The Minister has the power to appoint a Crown Facilitator and/or Water Services Specialist if a council or group of councils, are failing in delivering or implementing a

WSDP. This includes not meeting an accepted measure of financial sufficiency. A council can also request the appointment of a Crown Facilitator and/or Water Services Specialist.

Planning and Accountability Framework

The framework is intended to improve transparency and accountability for future delivery of water services. There are three documents that form the framework within which each water service provider's strategic and investment priorities, and performance settings, will be developed, explained and reported.

A statement of expectations

A statement of expectations is prepared by shareholders and issued to the water organisation they own, relating to a period of at least 10 financial years. It will set out the shareholders' expectations for the water organisation. It will inform and guide the decisions and actions of the organisation's board. Water organisations must give effect to these statements.

The statement of expectations provides an important opportunity for council, as the shareholder, to communicate with the water organisation. Note that in the select committee report on the Bill, amendments have been made to this part of the Bill (**Attachment 2**). The Bill sets out in detail what a statement of expectations must include, covering:

- The shareholders' expectations of the water organisation
- The outcomes the shareholders expect the water organisation to achieve by providing water services
- Requirements relating to the Territorial Authority's (TA) resource management planning and land use planning

The bill also includes a range of matters that shareholders may choose to include in a statement of expectation, including:

- How the shareholders require the water organisation to conduct its relationships with the shareholders, the shareholders' communities, hapū, iwi, and other Māori organisations, consumers, and other specified consumers
- Performance indicators and measures that the shareholders may use to monitor the water organisation
- Expectations relating to the strategic priorities to be included in the water organisation's water services strategy
- A requirement that the water organisation act in accordance with an obligation that a shareholder may have (including with hapū, iwi or other Māori organisation) and undertake a specified obligation on behalf of a shareholder
- A requirement to undertake community or consumer engagement and the contents of that engagement
- Expectations in relation to collaborating with shareholders and other parties when providing water services
- A requirement that part or all of the water organisation's water services strategy must be independently reviewed

A water services strategy (prepared by water service providers)

A water services strategy is prepared by water service providers every three years and supported by an annual budget in the other years. This document will set out how the provider is proposing to perform, respond to local expectations and priorities, and meet statutory objectives and regulatory requirements for water. It will include financial forecasting information over 10 years, and infrastructure and investment information over 30+ years. Strategies prepared by water organisations will respond to matters in the statement of expectations. Prices and charges will be set in accordance with the proposals in the strategy. An annual budget will also be prepared for each financial year, consistent with the provider's intended approach to funding, revenue, and pricing.

A water services annual report (prepared by water service providers)

A water services annual report is prepared by water services providers every year, reporting on the provider's actual performance against the expectations and proposals in the above documents. It will include financial reporting.

Hawke's Bay Heads of Agreement Process

Following the decisions across all four Hawke's Bay territorial authorities agreeing the joint WSCCO as the preferred option for public consultation, an independent facilitator was appointed to support discussions with respect to bespoke transitional arrangements and terms.

Although consultation was still in process and decisions yet to be made, it was agreed by Chief Executives and Mayors that progress needed to be made on these matters with a 'no regrets' approach given the tight timeframes councils were working to set by central government to submit a WSDP. This information was required to support the implementation section of the WSDP, but more importantly to give elected members confidence in making informed decisions regarding future water service delivery for councils on behalf of their communities.

In the absence of formal decisions or a transitional entity, legal advice recommended that at a minimum a Heads of Agreement (formal and binding), should be developed and entered by participating councils. This was to cover areas such as:

- A commitment to work together to progress an overall establishment and transition plan against a timetable
- The key structural aspects of a joint WSCCO (shareholding, governance, operational layers) to form the basis for developing and agreeing the full future documents
- Statement of Expectations minimum content/approach
- Shareholders Representative Forum (or similar) minimum content/approach
- The process for agreeing the basis on which transfers will occur
- The process for existing Councils to exit this arrangement, and the terms relating to this
- The process for admitting new Councils (if applicable) to this arrangement
- Arrangements for sharing project costs incurred

Simpson Grierson have been engaged to draft a Heads of Agreement for the Hawke's Bay Councils. The content of this Heads of Agreement has been the subject of Council discussions and workshops over June and July, and the final recommended Heads of Agreement is attached to this Council paper for endorsement at this meeting, should Council agree to proceed with the regional model.

Given the matters of commercial negotiation and sensitivity in Schedules 4 (Commercial Terms Sheet) and 5 (Strategic Priorities or Intentions) - these sections have been removed from the public Council paper (and attachment 1) and will be endorsed separately in a public excluded session.

Mana Whenua Engagement

Engagement with mana whenua has occurred both at a regional level (supported by the Regional Recovery Agency and PWC) and internally within Napier City Council. This engagement is ongoing, and it is anticipated will require enhancement as the project progresses.

Regionally, engagement has occurred with post-settlement governance entities, taiwhenua, and iwi entities. PWC has summarised these engagements as follows;

- Mana whenua consistently noted that LWDW is one of many priorities and momentum appears to have slowed since previous engagement reflecting the amount of time that has passed since this kaupapa first began. Despite this, the aspiration for mana whenua representation in governance remains strong. **Water quality remains a top priority for mana whenua.** The quality of water continues to be a significant focus, especially in the aftermath of incidents like the Havelock North outbreak, with one representative stating, "Quality of water is non-negotiable, especially after what we've seen."
- **Concerns around water scarcity - both current and future - were strongly expressed.** Mana whenua are advocating for stronger policies on water management, including greater access to untreated drinking water. Issues relating to wastewater discharge and stormwater management were also raised, reinforcing the need for closely monitored practices. This is consistent with previous advice from mana whenua.
- **There are differences in how councils engage with mana whenua.** Some councils maintain regular dialogue with mana whenua and others less frequently. In some cases, communications have been sparse and vague, with mana whenua often left to interpret or infer what is happening. This is undermining confidence and creating scepticism about LWDW's actual commitment to partnership. This disparity is a barrier to trust and raises concerns that the future model will embed those inconsistencies into its foundations.
- **Mana whenua expressed a strong preference for governance models that embed their voices from the outset.** There is a general call for an enduring, structured partnership model through mechanisms like Memorandums of Understanding (MoU), co-design panels and dedicated seat(s) on decision-making bodies. While this is consistent with previous advice, mana whenua are aware that legislative timelines are looming and feel there is a lack of clarity

about how and when their input will be formalised. There is concern that the process could bypass real co-design in favour of last-minute consultation.

- **Mana whenua emphasised that the Local Government Act 2002 and Treaty settlement legislation are important instruments that delineate the responsibilities and relationships between the Crown and Māori.** Under the Local Government Act 2002, particularly Sections 4 and 14(1)(d), local authorities are mandated to recognise and respect the Crown's responsibility to take appropriate account of the principles of the Treaty of Waitangi. This includes maintaining and improving opportunities for Māori to contribute to local government decision-making processes. These obligations are further reinforced through specific Treaty settlement legislation.
- In the context of LWDW, mana whenua have articulated that these legislative obligations should translate into tangible actions, such as governance arrangements, shared decision-making, and the integration of mātauranga Māori into water management practices. They view these steps as essential for honouring the Treaty partnership and achieving equitable outcomes in water service delivery.
- **Economic pressures continue to weigh heavily on communities.** Mana whenua continue to voice concerns over rising water rates and the financial burdens faced by Māori communities. There is a perception that current governance structures may inadequately account for these economic realities of these communities.

Within Napier City Council we continue to engage through existing partnerships including Te Waka Rangapū and Ngā Mānukanuka o te Iwi. Future engagements are planned post decision-making to provide an update to our mana whenua partners and, more importantly, seek understanding around mana whenua involvement going forward through establishment and ultimately the operational/governance structure based on the substantive decision.

18.3 Issues

Legislation Still to be Finalised

At time of authoring, Bill 3, the Local Government (Water Services) Bill is still yet to be passed. A summary of changes relevant to our regional submission is available as **attachment 2**.

Participating Councils Unknown

Currently, only Central Hawke's Bay District Council have resolved to continue to the establishment phase of a regional WSCCO. The two other territorial authorities, Wairoa District and Hastings District Councils are yet to decide. Wairoa District Council is set to make their decision on 29 July and Hastings District Council on 31 July. It should be noted that, from the modelling analysis previously presented, for the regional WSCCO to operate successfully both Napier City Council and Hastings District Council must be shareholding members.

18.4 Significance and Engagement

This report, and preceding decisions regarding Local Water Done Well, has been assessed as a high degree of significance. In response to this Council fulfilled a full public consultation in line with the legislated requirements set out in the Local Government (Water Services Preliminary Arrangements) Act 2024.

18.5 Implications

Financial

Agreeing to the establishment and implementation of the regional WSCCO will have significant financial implications on Council. The full understanding of these impacts is currently unknown but will form a key focus area of work during the establishment phase. Issues such as stranded overheads, costs associated with service level agreements, and shared services will be investigated and reported back to Council through the establishment phase.

Social & Policy

With the enactment of Bill 3 and establishment of a regional WSCCO Council will most likely be required to review key policies and identify where certain responsibilities (such as bylaws around water services) lie, either with the WSCCO or with Council.

Risk

As the participating councils are unknown at this stage there is the risk that Wairoa District or Hastings District Councils do not approve establishing a joint WSCCO as their option.

There is the possibility that the Secretary for Local Government does not approve the WSDP that is presented on 3 September. However, the regional WSDP has been presented to DIA for initial comments and general response has been positive.

Resourcing constraint could put establishment and implementation of the WSCCO at risk. One of the key first steps is to develop a robust implementation plan that will aim to identify the key resources required.

18.6 Options

The options available to Council are as follows:

- a. Approve the officer's recommendation, namely, as its future Water Services Delivery Model, a joint Water Organisation (in the form of a Water Service Council-Controlled Organisation) - with the other participating territorial authorities within the Hawke's Bay region. This would be in line with the outcomes of community consultation, previous decisions endorsing this as the preferred option for community consultations, and achieving the benefits outlined in the 17 April Council meeting.
- b. Approve a Napier only CCO as its future Water Services Delivery Model. Noting that this would not align with community feedback and has limited benefits.
- c. Approve in-house council delivered services as its future Water Services Delivery Model noting the same issues as b) above.

18.7 Development of Preferred Option

Water Service Delivery Plan (WSDP)

A WSDP will be developed based on Council's decision on the delivery model, as required by The Act. On the basis that all Hawke's Bay councils agree to the recommended delivery model, this will be a joint regional WSDP between participating Hawke's Bay territorial authorities.

Following the decisions across all four Hawke's Bay territorial authorities agreeing the joint WSCCO as the preferred option for public consultation, it was agreed across councils to progress a regional WSDP template given the tight timeframes to submit a thorough document to DIA by 3 September. Any information that fed into the regional WSDP could be pulled out to support individual plans if required.

Officers across the four councils have worked together over the past month to support a draft WSDP with the extensive financial modelling the region had already undertaken. This has largely been financially input driven to date, given the key implementation sections of the WSDP would need to be completed once all councils had made decisions on their water service delivery model and endorse the draft Heads of Agreement (that contained majority of this information in terms of transitional steps for establishment).

The draft WSDP and figures were submitted to DIA for an initial review over this time, to gain as much feedback as possible with our Hawke's Bay and individual council positions – to support the final plan and capture any changes that needed to be made. At this time of authoring this report, Officers are organising a feedback session with DIA to discuss this feedback that will be summarised and presented back to Council (in addition to any key changes required) in August.

The final WSDP will be brought back to Council workshop on 5 August, and then to Council meeting later in August for adoption. The objectives and key principles of the implementation plan will be included in this report.

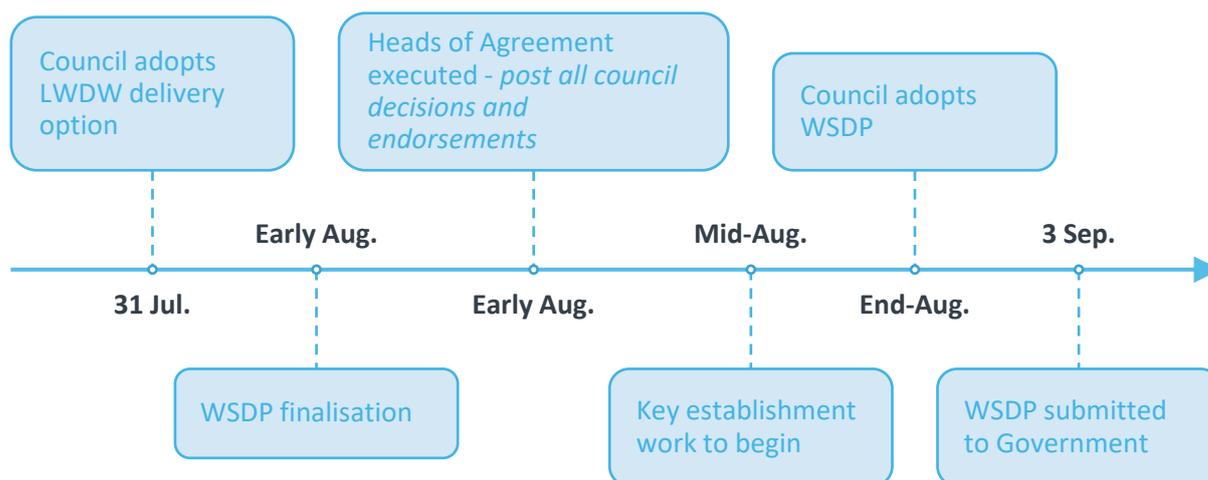
The Chief Executive will then be required to certify the WSDP prior to lodgement to the Secretary for Local Government for approval on or by 3 September 2025. The Secretary for Local Government can only accept a WSDP if it complies with the Act. Once the WSDP is submitted to the DIA for approval, amendments to the WSDP may be required should the Department propose changes to ensure the WSDP aligns with the Act.

Draft Regional Heads of Agreement

Following endorsement by all Shareholder Councils, the Heads of Agreement will be signed, and the establishment work can begin immediately. This includes forming the Transitional Governance Group (TGG), Project Steering Group (PSG) and the Project Team, with each then undertaking their responsibilities as set out in the Heads of Agreement.

The purpose of a Heads of Agreement is to set out how councils in a multi-council WSCCO will work together to develop and establish the water organisation. It is a formal, binding agreement for Councils, recording the terms of their commitment to developing the joint operating model, achieving the Objectives of the Heads of Agreement and establishing the regional WSCCO.

Summary of milestones:



Key Components

The key components of the Heads of Agreement are outlined below.

The **Objectives** of the agreement (Schedule 2, Clause 2.1) are:

- For the councils to continue to work closely, collaboratively and successfully to:
 - Progress a proposed joint operating model for the future delivery of water services in the Hawke’s Bay region; and
 - Develop, adopt and submit a joint WSDP that meets each Council’s needs and objectives for their respective communities, and which satisfies the requirements of the LG (WSDPA) Act;
- To agree the process (including key terms, governance and administrative support, allocation of responsibilities, timing and budget) for the establishment of the proposed joint operating model in accordance with the accepted WSDP;
- To facilitate decision-making by each Council in a timely manner to ensure that all relevant statutory requirements can be satisfied, and the proposed joint operating model can be established in a manner that reflects the accepted WSDP implementation plan; and
- To enable the Councils to consider and reach agreement as to how they will operate together in a way that facilitates and effective and efficient use of the Councils’ resources, and provide optimum benefits to the parties’ ratepayers, as part of transitioning to the proposed joint operating model.

The Heads of Agreement sets out the **Governance model** (Schedule 1 and Schedule 2, Clause 4.1) for the Project, namely:

- The Transitional Governance Group (TGG), made up of the Mayor and one other member (either elected member or appointee) from each of the shareholding Councils, plus an independent chair. Responsibilities of the TGG are set out in Schedule 2, clause 4.4 of the Heads of Agreement.
- The Project Steering Group (PSG), made up of the Chief Executives (or nominee) from each of the shareholding Councils. Responsibilities of the PSG are set out in Schedule 2, clause 4.5 of the Heads of Agreement.
- The Establishment Board, to be appointed by the TGG. Responsibilities of the Establishment Board are set out in Schedule 2, clause 4.6 of the Heads of Agreement.

- The Establishment Chief Executive, to be appointed by the Establishment Board. Responsibilities of the Establishment Chief Executive are set out in Schedule 2, clause 4.6 of the Heads of Agreement.
- The Project Team, made up of one named officer or external appointee from each of the shareholding Councils, with one member appointed as Project Team Lead. Responsibilities of the Project Team are set out in Schedule 2, clause 4.7 of the Heads of Agreement.

Schedule 3 of the Heads of Agreement sets out the Activities and Decisions for the different phases of the **Project Plan**, including the initial design phase and the implementation phase – which covers the establishment phase and the transition phase. The intention is for establishment of the new WSCCO by 1 July 2026, subject to officer confidence and a further developed Project Plan.

Schedule 4 of the Heads of Agreement is the **Commercial Terms Sheet**, providing an overview of key aspects of each of the foundational agreements for the new WSCCO. Each of these documents would be drafted, based on these key aspects, as a part of the Establishment Phase. The details of this Schedule have been removed from the public paper due to containing matters subject to commercial negotiations and will be reviewed separately.

Schedule 5 of the Heads of Agreement outlines the **initial strategic priorities or intentions** for the WSCCO. This is the section of the Heads of Agreement that reflects the priorities for the region, as well as the priorities for individual councils. The details of this Schedule have been removed from the public paper due to containing matters subject to commercial negotiations and will be reviewed separately.

18.8 Attachments

- 1 Draft Heads of Agreement (Doc Id 1867369) [↓](#)
- 2 Bill 3 [↓](#)
- 3 Modelling and Assessment Criteria [↓](#)
- 4 Assessment Outcome [↓](#)
- 5 Assessment Criteria [↓](#)

REGIONAL WSCCO HEADS OF AGREEMENT

CENTRAL HAWKES BAY DISTRICT COUNCIL

HASTINGS DISTRICT COUNCIL

NAPIER CITY COUNCIL

WAIROA DISTRICT COUNCIL

**SIMPSON
GRIERSON**

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AGREEMENT DATED

2025

PARTIES

- 1. CENTRAL HAWKES BAY DISTRICT COUNCIL**
- 2. HASTINGS DISTRICT COUNCIL**
- 3. NAPIER CITY COUNCIL**
- 4. WAIROA DISTRICT COUNCIL**

(together, the **Councils**).

BACKGROUND

- A.** The Councils wish to proceed with the planning for a joint operating model that will be responsible for the delivery of water services in their respective districts.
- B.** As part of progressing the joint operating model, the Councils are required to submit a joint Water Services Delivery Plan (**WSDP**) to the Secretary for Local Government (Department of Internal Affairs) by 3 September 2025 which describes how water services will be delivered, as required under the Local Governance (Water Services Preliminary Arrangements) Act 2024.
- C.** The Councils commit to working together to:
 - (a)** develop a joint operating model for the delivery of water services for each Council's district/city, to inform the development of the joint WSDP;
 - (b)** agree the shareholding and governance arrangements for the WSCCO; and
 - (c)** establish a regional WSCCO for the joint operating model in accordance with the accepted WSDP.
- D.** Each Council agrees to undertake the activities and responsibilities allocated to it in this agreement to achieve the Objectives.
- E.** The Councils have entered into this agreement to record the terms of their commitment to developing the joint operating model, achieving the Objectives and establishing the regional WSCCO.

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SIGNATURES

SIGNED for and on behalf of
CENTRAL HAWKES BAY DISTRICT COUNCIL
by:

Signature of Authorised Signatory

Signature of Authorised Signatory

Name of Authorised Signatory

Name of Authorised Signatory

Date

Date

SIGNED for and on behalf of
HASTINGS DISTRICT COUNCIL by:

Signature of Authorised Signatory

Signature of Authorised Signatory

Name of Authorised Signatory

Name of Authorised Signatory

Date

Date

SIGNED for and on behalf of
NAPIER CITY COUNCIL by:

Signature of Authorised Signatory

Signature of Authorised Signatory

Name of Authorised Signatory

Name of Authorised Signatory

Date

Date

SIGNED for and on behalf of
WAIROA DISTRICT COUNCIL by:

Signature of Authorised Signatory

Signature of Authorised Signatory

Name of Authorised Signatory

Name of Authorised Signatory

Date

Date

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SCHEDULE 1

AGREEMENT DETAILS

| | |
|---|---|
| Commencement Date <i>(Clause 6.1, Schedule 2)</i> | <p>The date on which this agreement has been signed by all parties.</p> |
| Expiry Date <i>(Clause 6.1, Schedule 2)</i> | <p>This agreement expires on the earlier of:</p> <p>(a) The date on which the parties agree to terminate this agreement under clause 6.2; and</p> <p>(b) The date on which the WSCCO has been established, as provided for by the LG(WS) Bill when it comes into force.</p> |
| Transitional Governance Group ("TGG") <i>(Clause 4, Schedule 2)</i> | <p>Members: The members of the Transitional Governance Group will be:</p> <ul style="list-style-type: none"> • The Mayor of Central Hawkes Bay District Council, and one other member (either elected member or appointee); • The Mayor of Hastings District Council, and one other member (either elected member or appointee); • The Mayor of Napier City Council, and one other member (either elected member or appointee); • The Mayor of Wairoa District Council, and one other member (either elected member or appointee); • An independent chair, who will be appointed (and removed or replaced) by the other members of the TGG by unanimous agreement. <p>Meetings: The Transitional Governance Group will meet monthly, or at such other times or frequency as they determine.</p> <p>Decision-making: see clause 4.2 of Schedule 2.</p> |
| Project Steering Group ("PSG") <i>(Clause 4, Schedule 2)</i> | <p>Members: The members of the Project Steering Group will be:</p> <ul style="list-style-type: none"> • The Chief Executive of Central Hawkes Bay District Council (or nominee) • The Chief Executive of Hastings District Council (or nominee) • The Chief Executive of Napier City Council (or nominee) • The Chief Executive of Wairoa District Council (or nominee) |

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| | | |
|---|--|---|
| | <p>Meetings: The Project Steering Group will meet [fortnightly/monthly] or at such other times or frequency as they determine. The PSG will remain in place until the TGG and Interim Establishment Board, once appointed, decide that it is no longer required, at which time it shall be dissolved.</p> | |
| <p>Establishment Board and Establishment Chief Executive <i>(clause 4)</i></p> | <p>An Establishment Board will be appointed by the TGG and will be responsible for appointing an Establishment Chief Executive.</p> <p>The Establishment Chief Executive shall work closely with the Project Team and PSG, as required.</p> | |
| <p>Project Team <i>(clause 4 and 5.3, Schedule 2)</i></p> | <p>Members: The members of the Project Team will be one named officer or external appointee from all shareholding Councils as follows:</p> <ul style="list-style-type: none"> • Central Hawkes Bay District Council: [Insert name] • Hastings District Council: [Insert name] • Napier City Council: [Insert name] • Wairoa District Council: [Insert name] <p>The Project Team will appoint one of their members as the Project Team Lead, who will be responsible for leading all engagement with the TGG, PSG and Establishment Board and Establishment Chief Executive (as required, and unless otherwise agreed).</p> <p>Meetings: The Project Team will meet [weekly/fortnightly] or at such other times or frequency as they determine.</p> <p>Establishment Chief Executive involvement: Once appointed by the Establishment Board, the Establishment Chief Executive will work closely with the Project Team to ensure alignment of workstreams by the Project Team and WSCCO.</p> | |
| <p>Address for notices <i>(clause 10, Schedule 2)</i></p> | <p>Wairoa District Council</p> | <p>Hastings District Council</p> |
| | <p>97 Queen Street Wairoa Hawkes Bay 4108</p> <p>Email: [Insert details]</p> <p>Attention: [Insert details]</p> | <p>207 Lyndon Road East Hastings 4122</p> <p>Email: [Insert details]</p> <p>Attention: [Insert details]</p> |

| | | |
|--|---|--|
| | Napier City Council | Central Hawkes Bay District Council |
| | 215 Hastings Street Napier South Napier 4110 Email: [Insert details] Attention: [Insert details] | 28/32 Ruataniwha Street Waipawa 4210 Email: [Insert details] Attention: [Insert details] |

SCHEDULE 2

AGREEMENT TERMS AND CONDITIONS

1. DEFINITIONS AND INTERPRETATION

1.1 **Definitions:** In this agreement the following definitions apply:

Agreement Details means Schedule 1 of this agreement;

Business Day means any day other than a Saturday, Sunday or a statutory public holiday in Hawkes Bay, New Zealand;

Commencement Date has the meaning given to that term in Schedule 1: Agreement Details;

Confidential Information means any of the following (whenever it was obtained):

- (a) all information of a confidential nature (reasonably determined) obtained by one Council from another Council under or in connection with this agreement;
- (b) all information relating to the operations and affairs of another Council; and
- (c) all information obtained by a Council in respect of all activities or information undertaken, produced or discussed under the umbrella of the Project;

Councils means the councils who are named as counterparties to this agreement and who continue to be a participant of this agreement;

Existing Material means, in respect of any Council, all documentation and other materials used or provided by the Council under or in connection with this agreement that are:

- (a) owned by, or licensed to, that Council prior to the date of this agreement; or
- (b) developed independently from this agreement by that Council, and that are not developed, commissioned or created under or in connection with this agreement;

Expiry Date has the meaning given to that term in the Agreement Details;

Intellectual Property Rights means, in respect of any person, all intellectual and industrial property rights and interests (including common law rights and interests) owned or held by that person, or lawfully used by that person, including:

- (a) patents, trade marks, service marks, copyright, registered designs, trade names, symbols and logos;
- (b) patent applications and applications to register trade marks, service marks and designs; and

(c) formulae, methods, plans, data, drawings, specifications, characteristics, equipment, designs, inventions, discoveries, improvements, know-how, experience, software products, trade secrets, price lists, costings, brochures and other information used by that person;

LGOIMA means the Local Government Official Information and Meetings Act 1987;

LG(WS) Bill means the Local Government (Water Services) Bill;

LG(WSPA) Act means the Local Governance (Water Services Preliminary Arrangements) Act 2024;

Objectives has the meaning given to that term in clause 2.1;

Project means giving effect to the Objectives in the manner contemplated by this agreement;

Project Plan has the meaning given to that term in clause 4.7(a);

Project Budget has the meaning given to that term in clause 5.2;

WSSCO means the Water Services Council Controlled Organisation that is proposed to be owned jointly by the Councils, that will be a water organisation once established under the Local Government (Water Services Bill), once it is in force; and

WSDP has the meaning given to that term in paragraph B of the Introduction section of this agreement.

1.2 Interpretation: In this agreement unless the context otherwise requires:

- (a) headings are for convenience only and do not affect interpretation;
- (b) the singular includes the plural and vice versa, and a gender includes other genders;
- (c) another grammatical form of a defined word or expression has a corresponding meaning;
- (d) reference to a party, person or entity includes:
 - (i) an individual, firm, company, trust, partnership, joint venture, association, corporation, body corporate, estate, state, government or any agency thereof, municipal or local authority and any other entity, whether incorporated or not (in each case whether or not having a separate legal personality); and
 - (ii) an employee, agent, successor, permitted assign, executor, administrator or other representative of such party, person or entity.
- (e) a reference to dollars or \$ is to New Zealand currency and excludes every tax and duty;

- (f) a reference to a clause or schedule is to a clause or schedule of this agreement;
- (g) a reference to a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them;
- (h) references to the word 'include' or 'including' are to be construed without limitation;
- (i) references to any form of law is to New Zealand law, including as amended or re-enacted;
- (j) a reference to a document or instrument includes reference to that document or instrument as novated, altered, supplemented, or replaced from time to time;
- (k) "written" and "in writing" include any means of reproducing words, figures or symbols in a tangible and visible form;
- (l) any obligation falling due for performance on or by a day other than a Business Day shall be performed on or by the Business Day immediately following that day; and
- (m) an obligation not to do something includes an obligation not to allow or cause that thing to be done.

2. PROJECT OVERVIEW

2.1 Objectives: The key objectives of this agreement ("**Objectives**") are:

- (a) for the Councils to continue to work closely, collaboratively and successfully to:
 - (i) progress a proposed joint operating model for the future delivery of water services in the Hawke's Bay region; and
 - (ii) develop, adopt and submit a joint WSDP that meets each Council's needs and objectives for their respective communities, and which satisfies the requirements of the LG(WSPA) Act;
- (b) to agree the process (including key terms, governance and administrative support, allocation of responsibilities, timing and budget) for the establishment of the proposed joint operating model in accordance with the accepted WSDP;
- (c) to facilitate decision-making by each Council in a timely manner to ensure that all relevant statutory requirements can be satisfied, and the proposed joint operating model can be established in a manner that reflects the accepted WSDP implementation plan; and

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- (d) to enable the Councils to consider and reach agreement as to how they will operate together in a way that facilitates an effective and efficient use of the Councils' resources, and provide optimum benefit to the parties' ratepayers, as part of transitioning to the proposed joint operating model.

2.2 Key Documents and Outcomes: The key documents to be developed under or in alignment with this agreement are as follows:

- (a) the Project Plan, which will be prepared by the Project Team and approved by the PSG;
- (b) the Project Budget, which will be developed and maintained by the Project Team for each phase of the Project (as set out in the Project Plan) and approved by the PSG;
- (c) the joint WSDP, which will be developed jointly by the Project Team, and approved by each Council individually; and
- (d) the structure, governance and transfer arrangements, in relation to the joint WSCCO, which will be developed by the Project Team based on the key terms set out in Schedule 4 and the strategic priorities and intentions set out in Schedule 5, and approved by the PSG, with a final approval step of the TGG.

2.3 Relationship principles: The Councils will:

- (a) work together collaboratively and in good faith;
- (b) ensure communication between them is open, proactive, transparent and inclusive, to avoid any surprises;
- (c) make every effort to understand the other Councils needs and objectives for the joint operating model, and make all reasonable endeavours to ensure the joint operating model meets such needs and objectives;
- (d) raise any issues that arise in connection with this agreement at the earliest opportunity, for joint resolution;
- (e) resolve disagreements between them promptly and amicably; and
- (f) as a courtesy and in the interest of clear and consistent communication, consult with the other Councils before commenting publicly on the joint operating model or this agreement.

3. KEY ACTIVITIES

3.1 Council responsibilities: Each Council will:

- (a) work with the other Councils to:
 - (i) develop and document the Council's technical, operational, legal and other requirements for the joint operating model

("Requirements") and to agree reasonable and realistic timeframes for delivery of the joint operating model; and

- (ii) plan and design the joint operating model to meet the Requirements, including at such time(s) required by the other Councils;
- (b) make decisions in relation to matters for the Project, within the indicative timeframes listed in the Project Plan;
- (c) provide subject matter experts where relevant to assist with the preparation of a joint WSDCP and development and design of the joint operating model;
- (d) provide a dedicated single point of contact for that Council for the management of the project delivery (ideally a project manager, who will also be the person authorised to make decisions (for example, approvals of proposed public comments on the Project) on behalf of that Council);
- (e) provide a dedicated and senior level 'sponsor' for the Project;
- (f) attend those meetings agreed by the Councils as appropriate or necessary to facilitate any required decision-making required by the Project Plan, and provide effective governance for and/or the delivery of the joint operating model;
- (g) where there are any changes in Government policy or direction, which affects the purposes and activities of this agreement, inform the other Councils of those changes at the earliest possible opportunity thereafter, and the Councils agree to renegotiate, where necessary, any aspects of this agreement that has been or will be affected by this policy change;
- (h) fund and provide resources to undertake the Project under this agreement; and
- (i) be responsible for complying with any requirements to undertake consultation or reporting in respect of its own council and local government processes.

3.2 Council individual responsibilities not affected: Each Council acknowledges that the Councils' commitment to the obligations under this agreement does not limit or pre-empt each Council's own obligations as local authorities at law, including in respect of decision-making responsibility and public consultation obligations.

3.3 Project administration:

- (a) The Councils agree that Hastings District Council will have responsibility for the following:
 - (i) managing Project expenditure and tracking against the Project Budget (once agreed), including managing the recovery of contributions from shareholder Councils;

- (ii) preparing, with the Establishment Board and Establishment Chief Executive, all necessary budgets for the Establishment phase;
 - (iii) preparing agendas and scheduling governance meetings for the Project; and
 - (iv) preparing reporting for governance meetings for the Project, including reporting on expenditure and forecasting for future costs.
- (b) The Councils may agree that one of the other Councils will take the role set out in clause 3.3(a), after which time that replacement Council will assume those responsibilities under this agreement.

3.4 Development expectations and timelines:

- (a) Each Council acknowledges that the other Councils will be providing funding and resources to develop and design the joint operating model, and has an interest in ensuring a consistency of approach in the development and design of the joint operating model.
- (b) Accordingly, any Council may submit a request to the TGG for consideration and agreement to:
- (i) adjust expected timelines and/or reprioritise resources allocated to the development and design of the joint operating model as necessary to manage resource and funding constraints, subject to not compromising the achievement of the Objectives; and/or
 - (ii) change the Requirements that are not reasonably viable in order for a Council to meet its own needs, and the Councils will work together to agree and implement any agreed change to the joint operating model or Project Plan, including any consequential changes to the Requirements for that joint operating model.

3.5 Project communications: The Councils agree that media releases, public announcements and public disclosures by any Council relating to this agreement or its subject matter (including informational or promotional, but not including any announcement intended solely for internal distribution or any disclosure required by legal, accounting or regulatory requirements beyond the reasonable control of such Council) shall be co-ordinated with, and approved by, the TGG, provided that this does not apply to any media release, public announcement or public disclosure made by a Council (the "**Announcing Council**"):

- (a) which does not identify any other Council to this agreement; or
- (b) about the Announcing Council's business and operations or the Announcing Council's Confidential Information, excluding anything about or in connection with this agreement.

3.6 Government communications: The Councils agree that no Council may communicate directly with the Department of Internal Affairs in relation to the content of the joint WSDP without the prior written consent of the TGG.

4. PROJECT GOVERNANCE

4.1 Governance structure: The governance model for the Project comprises the following:

- (a) Transitional Governance Group ("TGG");
- (b) Project Steering Group ("PSG");
- (c) Establishment Board and Establishment Chief Executive; and
- (d) Project Team.

4.2 Decisions made by the governance groups: The parties record their intention that:

- (a) Other than the substantive decisions on the proposed joint operating model, and adoption of the joint WSDP (which will remain decisions for the Councils separately), all other decisions relating to the Project Plan will be made by the TGG.
- (b) The TGG will provide direction to the PSG and (as required) the Establishment Board / Establishment Chief Executive, which will then direct the Project Team as relevant.
- (c) The TGG, PSG, and Project Team will make decisions on a consensus basis. Where consensus is not possible, decisions will be made by majority, or alternatively escalated to the next governance level, with final decisions to be made by the members of the TGG (which decisions must be unanimous in order to bind each Council in respect of the Project).

4.3 Meeting administration: Each of the governance meetings will be scheduled by the Council appointed under clause 3.3, who will circulate agenda items and decisions to be discussed ahead of the meeting date, and will circulate minutes for approval following each such meeting.

4.4 Transitional Governance Group: The TGG shall be responsible for:

- (a) overseeing the direction of the Project, and providing directions to the PSG in relation to the Project Plan;
- (b) addressing issues that have been escalated to it by the PSG;
- (c) keeping informed on the Project by information provided from the PSG (which includes reporting provided to the PSG by the Project Team); and
- (d) Appointing an Establishment Board for the WSCCO, and then advising on the appointment of an Establishment Chief Executive (who is to be appointed by the Establishment Board).

4.5 Project Steering Group: The PSG shall be responsible for:

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- (a) giving effect to any directions and decisions on the Project provided by the TGG in relation to the requirements of the shareholder Councils;
 - (b) appointing members to the Project Team;
 - (c) addressing any issues that have been escalated to it by the Project Team;
 - (d) approving the Project Plan;
 - (e) reviewing and approving any proposed changes to the direction of the Project or Project Plan, unless any change is considered material or to prejudice one of the shareholder Council, in which case such direction will need to be provided by the TGG;
 - (f) ensuring the strategic direction of the Project continues to align with the Objectives and each Council's obligations under this agreement; and
 - (g) approving the Project Budget and any changes to the Project Budget.

4.6 Establishment Board and Establishment Chief Executive: The Establishment Board shall be responsible for appointing the Establishment Chief Executive, who will work in tandem with the Project Team and report to the Establishment Board at regular intervals. When required, the Establishment Chief Executive will attend meetings of the PSG, to ensure alignment between the Project Team and WSCCO establishment activities.

4.7 Project Team: The Project Team shall be responsible for:

- (a) preparing a detailed scope of work and project plan (including timeline and project milestones) to deliver on the Objectives ("**Project Plan**"), based on the initial outline set out in Schedule 3. The Project Plan and progress against the Project Plan will be reported to the PSG and TGG on a monthly basis;
- (b) developing and maintaining the Project Budget (including any recommendations to the PSG to increase the Project Budget), and reporting monthly to the PSG (and, as required, the Establishment Chief Executive) on expenditure against the Project Budget;
- (c) developing such term sheets, guidance notes and documents as are required in order to formalise the way in which the joint operating model is proposed to be established, governed and operated, consistent with the Commercial Terms Sheet set out in Schedule 4 and the initial strategic priorities set out in Schedule 5, for review and approval by the PSG (and with oversight from the Establishment Board and Establishment Chief Executive);
- (d) engaging external expertise as required;
- (e) preparing a stakeholder/engagement framework that ensures that all appropriate parties are included on an ongoing basis;

- (f) preparing and attending workshops with the Councils' elected members as required to achieve the project and Objectives;
- (g) preparing consultation packs in collaboration with individual Councils to support any consultation that may be required by the Council's;
- (h) running and/or supporting consultation processes as required;
- (i) developing a joint WSDP in accordance with the applicable requirements of the LG(WSPA) Act;
- (j) approving payments from the Project Budget up to a level set by the PSG (and, as required, the Establishment Chief Executive); and
- (k) any of the matters required under a terms of reference agreed for the Project Team.

5. COST SHARING

- 5.1 Cost sharing principles:** The Councils agree to fund the costs of the Project as contemplated by the Project Budget (as updated and approved from time to time as set out in this agreement) in the following proportions:
- (a) Central Hawkes Bay District Council: 10%
 - (b) Hastings District Council: 40%
 - (c) Napier City Council: 40%
 - (d) Wairoa District Council: 10%
- 5.2 Project funding:** The Project Team will prepare a project funding budget for approval by the PSG (and, as required, the Establishment Chief Executive), that covers:
- (a) the contribution by the Councils for the costs of the Project, including the project management and administration costs that will be incurred by the Council carrying out the responsibilities set out in clause 3.3(a); and
 - (b) costs for any internal and external consultants (preapproved by the PSG (and, where necessary, the Establishment Chief Executive) in each instance),
- (together, the “**Project Budget**”). The Project Budget will be prepared and updated for each stage of the Project Plan.
- 5.3 Project Team delegation:** The Project Team will have delegated authority to spend up to the approved Project Budget, subject to any limits set (as contemplated by clause 4.7(j)). Costs that exceed the approved Project Budget will require approval by the PSG.
- 5.4 Council Exit:** If a Council exits this agreement, that Council remains responsible for their share of all costs incurred up to that date, including any committed costs which cannot be mitigated by the remaining participating Councils.

6. TERM

6.1 Term: This agreement commences on the Commencement Date and continues until the Expiry Date, unless terminated earlier by all Councils in accordance with clause 6.2.

6.2 Termination by agreement: This agreement may be terminated at any time with immediate effect by agreement of all current Councils to this agreement for any reason, including if there is a material change of law or policy direction that affects the Councils' obligations under the LG(WSPA) Act and LG(WS) Bill (once enacted).

6.3 Council withdrawal:

(a) Subject to clauses 5 and 6.3(b), any Council may withdraw its participation in this agreement at any time immediately by giving written notice to the other Councils.

(b) Before a Council exercises its withdrawal right under subclause (a), that Council must use reasonable endeavours to:

(i) provide as early as possible notification to the other Councils that the Council is considering, or intending to withdraw from the Project, including to provide the other Councils with sufficient time to respond to and agree on any public releases in accordance with clause 3.5; and

(ii) provide the other Councils an explanation for the withdrawing Council's reason(s) for the withdrawal.

(c) Where any Council breaches a material obligation, or persistently does not perform its obligations, under this agreement, then the other Councils may request that such Council withdraws its participation from this agreement, in which case the parties will promptly discuss the next steps following such request.

6.4 Effect of termination: In addition to any other rights, powers or remedies a Council may have under this agreement or at law:

(a) if this agreement ends or is terminated, the following will apply:

(i) each Council is released from its obligations under this agreement, except clauses 5, 6, 7, 8 and 9 that shall survive expiry or termination of this agreement;

(ii) each Council retains the rights and obligations it has accrued under this agreement as at the date of expiry or termination; and

(iii) each Council must return any Confidential Information of another Council in its possession to that other Council or, if requested by the other Council, destroy the Confidential Information, except to the extent that it is required to retain the Confidential Information in order to meet its legal, contractual and governance obligations.

-
- (b) if a Council withdraws its participation in this agreement or otherwise exits this agreement:
- (i) clause 6.4(a) will apply only in respect of that Council;
 - (ii) that Council will not have any rights to any new Intellectual property Rights as contemplated by clause 9.2; and
 - (iii) this agreement continues in force as between the remaining Councils.

7. DISPUTE RESOLUTION

7.1 Notice in writing: If a Council claims that a dispute has arisen, that Council must give written notice to the other Councils. The written notice must specify the nature of the dispute.

7.2 Negotiation:

- (a) On receipt of a notice delivered in accordance with clause 7.1 and before any Council may refer a dispute to mediation, the Representatives must, in good faith and acting reasonably, do their best to resolve the dispute quickly and efficiently through negotiation.
- (b) If any Representative considers that the dispute is not being resolved in a timely manner, such Representative may serve written notice on the other parties Representatives to escalate the dispute to the Chief Executives or equivalent (where the Representatives are not the Chief Executive or equivalent) of the applicable Councils for resolution.
- (c) If the dispute has not been resolved within 20 Business Days (or within such other period as agreed by the Councils) of the date of the notice referred to in clause 7.2, any Council may submit the dispute to mediation.

7.3 Mediation:

- (a) If the Councils do not resolve the dispute by negotiation, the Councils must, in good faith and acting reasonably, do their best to resolve the dispute by participating in mediation with an independent mediator.
- (b) If the Councils do not agree on a mediator, then the mediator will be appointed by the New Zealand Dispute Resolution Centre.
- (c) The Councils must mediate the dispute in accordance with principles agreed between them or, if no agreement can be reached, the New Zealand Dispute Resolution Centre Mediation Rules.
- (d) Unless the Councils agree otherwise, the mediator's fee and any other costs of the mediation itself (such as for venue hire or refreshments) will be shared equally between the parties, but the parties will each pay their own costs of

preparing for and participating in the mediation (such as for travel and legal representation).

7.4 **Arbitration:**

- (a) If the dispute has not been resolved within 40 Business Days (or within such other period as agreed by the parties) of the dispute being referred to mediation, any Council (the "**Initiating Council**") may refer such dispute to binding arbitration by issuing a written notice ("**Arbitration Notice**") to the other Councils (together with the Initiating Council, the "**Disputing Councils**") for final resolution in accordance with the provisions of this clause 7.4 and in accordance with the provisions of the Rules of Arbitration of the New Zealand Dispute Resolution Centre, as amended or modified from time to time ("**NZDRC Rules**").
- (b) The arbitral panel shall consist of one arbitrator. The arbitrator will be appointed by the agreement of the Disputing Councils or, failing agreement within 10 Business Days of the date of the Arbitration Notice, in accordance with the NZDRC Rules.
- (c) The seat of arbitration shall be Hastings, New Zealand and the arbitration shall be conducted in the English language.
- (d) The award of the arbitration shall be in writing and must include reasons for the decision.
- (e) The award of the arbitration shall be final and binding on the Councils. No Council may appeal to the High Court under Clause 5 of the Second Schedule of the Arbitration Act 1996 on any question of law arising out of an award.
- (f) The award shall allocate or apportion the costs of the arbitration as the arbitrator deems fair.
- (g) Neither the existence of any dispute nor the fact that any arbitration is pending hereunder shall relieve any of the Councils of their respective obligations under this agreement.

7.5 Implementation of agreement: The Councils must do whatever is reasonably necessary to put into effect any negotiated or mediated agreement, arbitral award or other resolution. This includes exercising voting rights and other powers as required.

7.6 Rights and obligations during a dispute: During a dispute, each Council must continue to perform its obligations under this agreement.

7.7 Interlocutory relief and right to terminate: This clause does not restrict or limit the right of a Council to obtain interlocutory relief, or to immediately terminate this agreement where this agreement provides such a right.

8. CONFIDENTIALITY AND INFORMATION DISCLOSURE

8.1 Confidentiality: Each Council will keep confidential and secure all Confidential Information, and no Council shall disclose the other Councils' Confidential information to any person, or use the other Councils' Confidential Information, other than:

- (a) to the extent that use or disclosure is necessary for the purposes of giving effect to or exercising the rights and benefits of this agreement (which for the purpose of each Council, may involve disclosure to that Council's elected members and staff);
- (b) if the discloser of the information has obtained the prior written approval of the providing Council to the use or disclosure;
- (c) if the use or disclosure is required by law including under the Local Government Official Information and Meetings Act 1987 ("**LGOIMA**"), or the Local Government Act 2002, provided that prior to that Council making a disclosure, that Council will use reasonable endeavours to promptly consult in good faith with the other Councils:
 - (i) regarding the requirement under which that Council is required to disclose the Confidential Information; and
 - (ii) so that the other Councils are informed to arrive at a view on whether those Councils would also be required to make such disclosure if a request is made of them; or
- (d) in relation to disclosure, if the information has already become public, other than through a breach of the obligation of confidentiality by one of the Councils.

8.2 LGOIMA: Each Council acknowledges that the other Councils are subject to the LGOIMA. Accordingly, notwithstanding anything else in this agreement, each Council agrees to cooperate fully in providing the other Councils with any documents or other information that the other Council is required to provide pursuant to a request made under the LGOIMA.

9. INTELLECTUAL PROPERTY RIGHTS

9.1 Existing Intellectual Property Rights: Notwithstanding any of the provisions of this agreement, each Council or its licensors retain ownership of all Intellectual Property Rights, including in Existing Material belonging to that Council or its licensors at the Commencement Date ("**Existing Intellectual Property Rights**").

9.2 New Intellectual Property Rights: Any new Intellectual Property Rights which are created as a result of, or in connection with, the provision of the Services or Deliverables, or otherwise in connection with this agreement, shall be jointly owned by the Councils, unless otherwise agreed by the parties.

9.3 Licence: If any Council's Existing Intellectual Property Rights is included in any new Intellectual Property Rights, then that Council grants to the other Councils and the

other Councils accept, a worldwide, perpetual, non-exclusive, transferable, sub-licensable licence during the term of this agreement to use the Council's Existing Material for the purposes relating to giving effect to and performing its obligations under this agreement. That licence will expire immediately on expiry or termination of this agreement.

10. NOTICES

10.1 Giving notices: Any notice or communication given to a Council under this agreement is only given if it is in writing and sent in one of the following ways:

- (a) delivered to that Council at its address and marked for the attention of the relevant department or officer (if any) set out in Schedule 1;
- (b) emailed to that Council at its email address and marked for the attention of the representative set out in Schedule 1.

10.2 Change of details: If a Council gives the other Councils three Business Days' notice of a change of its physical address or email address, any notice or communication is only given by the other Councils if it is delivered or emailed to the latest physical address or email address.

10.3 Time notice is given: Any notice or communication is to be treated as given at the following time:

- (a) If it is delivered, when it is left at the relevant address.
- (b) If it is sent by email, when it is received in readable form addressed in the manner specified above.

However, if any notice or communication is given, on a day that is not a Business Day or after 5pm on a Business Day, in the place of the Council to whom it is sent it is to be treated as having been given at the beginning of the next Business Day.

11. GENERAL

11.1 No partnership, joint venture: Nothing in this agreement shall create or evidence any partnership, joint venture, agency, trust or employer/employee relationship between any of the Councils, and a Council may not make, or allow to be made, any representation that any such relationship exists between any of the Councils. A Council shall not have authority to act for, or to incur any obligation on behalf of, any other Shareholder, except as expressly provided for in this agreement.

11.2 No privity: Other than as expressly provided for in this agreement, this agreement is not intended to confer a benefit on any person or class of persons who is not a party to it.

11.3 Counterparts: This agreement is deemed to be signed by a Council if that Council has signed or attached that Council's signature to any of the following formats of this agreement:

-
- (a) an original;
 - (b) a photocopy; or
 - (c) an electronic copy,

and if every Council has signed or attached that Council's signature to any such format and delivered it to the other Councils, the executed formats shall together constitute a single binding agreement between the Councils.

- 11.4 Entire agreement:** This agreement contains everything the parties have agreed in relation to the subject matter it deals with. No Council can rely on an earlier written agreement or anything said or done by or on behalf of another Council before this agreement was executed.
- 11.5 Severance:** If any provision of this agreement is, or becomes unenforceable, illegal or invalid for any reason it shall be deemed to be severed from this agreement without affecting the validity of the remainder of this agreement and shall not affect the enforceability, legality, validity or application of any other provision of this agreement.
- 11.6 Further assurance:** Each Council shall make all applications, execute all documents and do or procure all other acts and things reasonably required to implement and to carry out its obligations under, and the intention of, this agreement.
- 11.7 Variation:** No variation of this agreement will be of any force or effect unless it is in writing and signed by each Council to this agreement.
- 11.8 Assignments and transfer:** A Council must not assign or transfer any of its rights or obligations under this agreement without the prior written consent of the other Councils.
- 11.9 Costs:** Except as otherwise set out in this agreement, each Council must pay its own costs and expenses, including legal costs and expenses, in relation to preparing, negotiating, executing and completing this agreement and any document related to this agreement.
- 11.10 Waivers:**
- (a) A waiver of any right, power or remedy under this agreement must be in writing signed by the Council granting it. A waiver only affects the particular right, obligation or breach for which it is given. It is not an implied waiver of any other right, obligation or breach or an implied waiver of that right, obligation or breach on any other occasion.
 - (b) The fact that a Council fails to do, or delays in doing, something the Council is entitled to do under this agreement does not amount to a waiver.
- 11.11 Governing law:** This agreement is governed by the laws of New Zealand and the Councils submit to the non-exclusive jurisdiction of the courts of New Zealand in respect of any dispute or proceeding arising out of this agreement.

SCHEDULE 3

PROJECT PLAN

| Activities and Decisions | Timeframes |
|---|---|
| Design phase | |
| (1) Agree project approach and enter into Commitment Agreement | By mid-July 2025 |
| (2) Each Council undertakes public consultation including Hearings, and shares analysis of submissions to inform each others Deliberations reports | Ongoing to mid-July 2025 |
| (3) Consideration of submissions, deliberations and determination of whether to proceed with joint WSCCO | Mid-July 2025 |
| (4) Prepare and adopt joint WSDP including: <ul style="list-style-type: none"> • Finalising approach to financial arrangements, debt transfer etc – which must demonstrate that financial sustainability (which involves revenue sufficiency, investment sufficiency and financing sufficiency) will be achieved. In doing so, a key consideration for the Councils will be ensuring affordability of water charges for consumers. • Identifying all relevant water related assets either owned by the Councils, or by third parties or other local authorities, that will require consideration for potential transfer to ensure that the WSCCO is responsible for all required infrastructure • Develop Implementation Plan • Stormwater arrangements CE certification /assurance process before submitting joint WSDP to Secretary for Local Government. | Refer (6) |
| (5) Plan arrangements for the WSCCO, including: <ul style="list-style-type: none"> • develop and document each Council's technical, operational, legal and other requirements for the joint operating model and agree reasonable and realistic timeframes for delivery of the joint operating model via the establishment and operationalisation of the WSCCO (to be set out in the Implementation Plan); and • draft and agree the form of the foundational agreements including Constitution, Shareholders' Agreement, Transfer Agreement(s) and other agreements required. | Ongoing |
| (6) Adoption of joint WSDP | By no later than 1 September, due to due date of 3 September 2025 |
| Implementation | |

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| Activities and Decisions | Timeframes |
|--|---|
| <p><u>Establishment phase</u></p> <p>Led by Councils initially, and then led by WSCCO Establishment Board and Establishment Chief Executive</p> <p>Actions and timing as per the Implementation Plan in the adopted WSDP, but expected to include:</p> <ul style="list-style-type: none"> • Agree and execute the documents required to establish the WSCCO • Establish the WSCCO • Appoint WSCCO Establishment Board, which will be responsible for transition and establishment of WSCCO, including in particular: <ul style="list-style-type: none"> • Setting up operational arrangements for the WSCCO • Establishing financial arrangements for the WSCCO • WSCCO Establishment Board to appoint Establishment Chief Executive, who will be responsible for advising the Establishment Board and Councils on all establishment actions, and will work with Project Team. • Developing Transfer Agreement(s), Service Agreements and Shared Services Agreements, with involvement from both Councils and WSCCO Establishment Board | <p>[Formal establishment can only proceed after acceptance of the WSDP]</p> |
| <p><u>Transition Phase – led by WSCCO Establishment Board / supported by Shareholders Representative Forum</u></p> <p>Led by WSCCO; High level actions and timing as per the Implementation Plan in the adopted WSDP, but detail to be developed by TGG and WSCCO Establishment Board.</p> <p>Individual Councils to establish internal project teams and resourcing to ensure they are able to be ready to complete their individual water service business transfers as per the Implementation Plan.</p> <p>The target commencement date for the WSCCO to commence operations as a water organisation will be 1 July 2026</p> | <p>Intention to aim for establishment by 1 July 2026 (subject to officer confidence and further developed Project Plan)</p> |

Local Water Done Well Legislative and Policy Framework – Final Bill Update

On 3 July 2025, the Finance and Expenditure Select Committee reported back on the Local Government (Water Services) Bill. This is the final piece of legislation to implement the Government’s Local Water Done Well policy.

The select committee has recommended the bill pass, with extensive amendments (the select committee report notes there are more than 360 amendments proposed – although most are technical). From here, the bill is expected to pass in the coming weeks.

A summary of changes relevant to Local Government and/or the Hawke’s Bay Councils’ submission on the Bill includes:

| Clause / Bill Section | Comments |
|---|---|
| Clause 15 - Objectives of water service providers | <ul style="list-style-type: none"> • The committee has agreed with submitters that an additional objective be added to support housing growth and urban development. This was a request included in the joint submission provided to select committee by the four Hawke’s Bay Councils. • The Hawke’s Bay joint submission also suggested that objectives be added around being resilient and responsive to population growth and supporting economic development objectives, however these were not added. Our submission had also suggested a more explicit objective around water services being provided in a “cost-effective and financially sustainable manner”, as well as provide direction on the relationship between water organisations and Māori (such as acting consistently with the obligations of its shareholding councils) but these suggestions were not picked up. • The select committee did amend the way that Treaty settlement obligations are referred to in the legislation, by bringing the requirement to act consistently with Treaty settlement obligations earlier in the bill, and to make it clear that it is a requirement for all persons in relation to the Act (not just the water services providers, as previously drafted). • The select committee has also removed the objective to provide water services that do not have adverse effects on the environment, noting that any environmental effects would be regulated under the Resource Management Act 1991 rather than this legislation. |
| Clauses 184 – 189 – Statement of Expectations: <i>Shareholder role and influence in water organisations</i> | <ul style="list-style-type: none"> • The select committee report notes that some submissions were concerned that the statement of expectations would give shareholders too much power and control over a water organisation. While the report notes that the accountability framework in the bill, including the statement of expectations, is intended to be flexible and differ from the existing provisions around CCOs in the Local Government Act, the select committee has made some amendments. • In particular, the select committee has removed one of the purposes of the statement of expectation – to set the priorities and strategic |

| | |
|---|--|
| | <p>direction of the water organisation – noting that instead strategic priorities should be set by the board of the water organisation.</p> <ul style="list-style-type: none"> • The amendments also now state that, unless provided for in the foundational documents of a water organisation, a statement of expectations cannot include any requirements or expectations relating to the water organisation’s performance or exercise of a duty, function or power under the Act, or require the water organisation to perform, or not perform, a specified act, or to achieve a specified result, in relation to a specified person or persons. |
| Clauses 190 – 199, Schedule 3, Clause 9: Process for making water services strategy | <ul style="list-style-type: none"> • The select committee has inserted a new clause to increase transparency in shareholder involvement in water services strategies, by requiring the final strategy to include a summary of the comments provided by shareholders, and an explanation of whether shareholders required changes and approved the final strategy. • The Hawke’s Bay joint submission did note that proposals in the bill as introduced around allowing shareholders to amend water services strategies and annual budgets seemed to undermine the purpose of the legislation and having water organisations operate independently of political influence. |
| Development contributions | <ul style="list-style-type: none"> • The transitional provisions in the bill around development contributions have been amended. This is to ensure a smoother transition from the status quo (where councils charge development contributions) to water organisations charging development contributions under this bill – and ahead of the Government’s future development levy regime under its “Going for Housing Growth” work programme. • Amendments include enabling asset-owning water organisations to adopt the relevant aspects of councils’ policies as their first development contributions policy, and ensuring that water organisations can calculate development contributions based on previous capital expenditure incurred by the council. • The Hawke’s Bay joint submission noted there was a lack of clarity around how developers were meant to interact between a water organisation and the Territorial Authority. |
| Facilitating transfers to new arrangements | <ul style="list-style-type: none"> • The select committee has made a series of changes around transfer agreements, including to clarify that a council can discharge most of its responsibilities for providing water services by entering into a transfer agreement, and to make it clear that no person can require councils or water organisations to provide them with water services. Amendments have also been made to remove "gaps" in the process for entering into transfer agreements, and to expand on the required content of transfer agreements to add transparency. |
| The financial sustainability of | <ul style="list-style-type: none"> • In the Hawke’s Bay submission, we noted that ‘financial sustainability’ was a core requirement of Water Services Delivery Plans under the Preliminary Arrangements Act, but that this had not |

| | |
|---------------------|---|
| water organisations | <p>been carried over to the financial principles for water services providers, and suggested that this be added for consistency. This was not included, but several amendments to the principles have been made, particularly relating to dividend payments.</p> <ul style="list-style-type: none">• The select committee made changes to support greater transparency and financial disciplines including to require information around dividends must be transparent to the public (in the same way as revenue and expenses are) and that water organisations must not pay a dividend that would compromise a water organisation's ability to act in accordance with the financial principle that revenue and funding is sufficient to sustain the provider's long-term investment in its water services.• There have also been changes to the clauses around the Commerce Commission's regulation of water services, including to more directly link the Commission's monitoring and enforcement powers to the financial principle of spending revenue and funding on providing water services, and enabling the Commerce Commission to limit dividends paid by a water organisation. |
|---------------------|---|

Local Water Done Well Modelling and Criteria Assessment



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Background

This document provides further detail of the Hawke's Bay Local Water Done Well financial modelling and non-financial criteria development to support public consultation across the region in May/June 2025 on the different delivery models. It accompanies individual council consultation documents.

Local Water Done Well

The Government's Local Water Done Well (LWDW) policy and legislation propose to introduce several new requirements for water service providers, including:

- **water services delivery system changes**, including new delivery model options and structural arrangements, financial principles and financing options, and reporting and planning requirements
- a **new economic regulation and consumer protection regime** for water services, with tools available to the Commerce Commission as the regulator, including information disclosure, revenue thresholds, quality regulation and financial ring-fencing
- **changes to the water quality regulatory framework** including arrangements for stormwater, drinking water quality regulation, and wastewater and stormwater environmental performance standards

These requirements mean that significant changes to the way that water services are delivered will be required, regardless of the delivery model chosen. As a first step towards implementing the changes required by the LWDW policy, councils (or groupings of councils) are required to consult on their delivery model option and then submit Water Services Delivery Plans (WSDP) to central Government by 3 September 2025.

These plans are a way for councils to demonstrate their approach and commitment to providing water services that meet new regulatory requirements, support growth and urban development, and are financially sustainable.

Through the development of the plans, councils need to provide an assessment of their water infrastructure, how much they need to invest, and how they plan to finance and deliver water services in the longer term. To do this, councils need to understand what that will look like under the different delivery models available.

From the long list of options provided by central Government, the work in Hawke's Bay has focused on analysing the pros and cons of three delivery model options. These options were identified as the reasonably practicable options for the councils involved, being:

| Shortlisted options – delivery models |
|---|
| In-house delivery (enhanced council delivered services) |
| Single council-owned water organisation |
| Multi-council owned water organisation |

Further information on these delivery model options is outlined in Tables 1, 2 and 3.

Two other models - consumer trust and mixed council/consumer trust - were discounted at this time as they create significant additional financial complexity, particularly because they are currently unable to access Local Government Funding Agency (LGFA) financing and would have to source alternative finance, which requires an operational track record.

Modelling

Hawke's Bay councils have undertaken scenario modelling and analysis to understand the implications of the new requirements and what these would mean for the different delivery models.

Initial indicative modelling was undertaken over the second half of 2024 to understand the financial sustainability of each council's water services under different LWDW delivery options. This assessed whether each water service delivery option could be financially sustainable, where water services revenue and costs are 'ring-fenced' from July 2028 and meet the financial sustainability criteria of the new LWDW requirements. This includes requirements in legislation, likely requirements of the Department of Internal Affairs (DIA) when assessing WSDPs, and the financial requirements set to be required by the LGFA.

For this work, a number of financial outcomes were modelled across a 10-year period and assessed, including indicative costs for delivering water to a property connected to all three waters under the delivery model options provided for under LWDW. Resulting Council debt and financial positions were also modelled and assessed to determine how they might be affected by the characteristics of different delivery models. A 10-year period was used for the modelling to align with Council Long-Term Plan (LTP) projections; financial projections beyond the LTP period are subject to significant uncertainty. However, assessing Council and water services entity positions at the end of the period (2034) allows for comparable assessment of how well-placed each option is to continue delivering financially sustainable water services over the long-term.

The modelling presented in this report and the consultation document has been updated from the initial indicative modelling. It has utilised further guidance from DIA, the LGFA - where most New Zealand councils source their borrowing from - and the legislative requirements under the LWDW policy to determine a set of inputs and assumptions for the modelling. The latest LTP or updated Annual Plan data of each council was inputted to create a set of central scenarios for each delivery option, for each council.

The data includes financial information from each Hawke's Bay council - like asset valuation, depreciation, funding approach and financing costs - as well as their key statistics like their population size, number of connected and non-connected properties, and the length and age of the reticulated network.

This provides for a clear, standardised and comparable assessment of what each delivery model option would look like for each council across key metrics like debt and cost per connection for a property with all three waters. It builds off modelling previously carried out for the region from 2018-2023.

These inputs and assumptions are detailed further in the Financial Modelling section of this report.

Financial modelling can only provide indicative projections at a point in time, but provides a useful guide for the direction for costs and Council debt under the different delivery models being analysed. The analysis is based on several assumptions about how the new economic regulation regime will be applied by the Commerce Commission, as well as final financial assessments by entities including the LGFA and credit rating agencies. Establishment and ongoing costs have been estimated using previous analysis and benchmarking.

Given this, it does not consider detailed implementation arrangements, such as organisational design (e.g. which particular staff from each council shift to a joint entity) or commercial agreements (e.g. whether contracts will be entered into with different construction firms). If councils agree to progress the development of a Regional Water Services CCO (WSCCO), then further work would be undertaken on detailed operational design and transitional arrangements, including shareholding splits between the parent councils. The modelling assumes no one Council holds a majority stake in a Regional WSCCO.

Financial sustainability

The Act requires that water services be delivered in a financially sustainable manner by 30 June 2028. DIA guidance is that financial sustainability means water services revenue is sufficient to meet the costs of delivering water services.

The costs of delivering water services includes meeting all regulatory standards, and long-term investment requirements in water services.

There are three key factors to how financial sustainability will be assessed:

1. Revenue sufficiency - is there sufficient revenue to cover the costs (including servicing debt) of water services delivery?
2. Investment sufficiency - is the projected level of investment sufficient to meet levels of service, regulatory requirements and provide for growth?
3. Financing sufficiency - are funding and finance arrangements sufficient to meet investment requirements?

Financial sustainability is to be demonstrated initially through the preparation of a one-off, transitional WSDP, which must be submitted to DIA for approval in September 2025. These WSDPs are to provide a full stocktake of current water assets, investment planning, and growth strategies, and show how financially sustainable water services provision will be achieved by 30 June 2028 at the latest.

Under LWDW, the LGFA has committed to WSCCOs being able to gain access to additional lending from the LGFA, if they are financially supported (through a guarantee or uncalled capital facility) by their parent council or councils.

The LGFA is the lowest cost provider of financing to local government (ex-Auckland Council) and is already utilised by the majority of councils and many CCOs across the country. While the LGFA's approach to lending to WSCCOs will open up borrowing capacity for water infrastructure, councils are still concerned over affordability issues for the ratepayer base.

In terms of funding, water organisations (which are WSCCOs or organisations other than the Council) will be able to assess, set and collect water services charges from consumers. They will also be able to use the 'development contributions regime' to collect contributions from developers where additional demand or growth is created for water-related infrastructure. This ensures a fair share of the capital costs associated with new infrastructure like roads, transport, parks and drainage is apportioned directly rather than borne equally across all ratepayers. Councils will still be able to use rates, charges and development contributions if they retain delivery of water services in-house.

The LWDW legislation does not expressly embed or require price harmonisation in instances where Councils come together for the future delivery of water services, e.g. where every water user served by a multi-council WSCCO would move to paying the same cost-per-connection at a point in the future. It is still unknown as to whether the new economic regulator for water services - the Commerce Commission - will allow for price harmonisation, or specific types of harmonisation options, if at all.

The intention of LGFA providing a specific lending facility is to better enable councils who decide to move to a WSCCO option to address water investment needs and enable 'balance sheet separation' with the advantage of reducing non-water Council debt. This will potentially freeing-up debt 'headroom' for other Council activities if desired or allow Councils to keep pressure off other Council rates.

Under the WSCCO model (single or multi-council), LGFA will not 'consolidate' a water services WSCCO's debt with the overall Council's debt position, instead it will be considered as separate debt (and ring-fenced to water related revenue). However, LGFA guidance is that credit rating agencies, which influence the cost of borrowing for Councils from LGFA through the issuance of credit ratings, will treat the debt of a WSCCO - which is more than 50 percent owned by a single Council - as on the balance sheet when it reviews the Council's credit-worthiness. This means the parent Council under a Single WSCCO option may be provided a lower credit rating (and higher resulting finance costs), than under a multi-council WSCCO option (see below).

For a multi-council, or Regional WSCCO where no council owns a majority of the organisation, LGFA will treat the debt of the WSCCO separately to the parent Council. Credit rating agencies like Standard and Poor's and Fitch are expected to do the same, according to guidance provided by LGFA to Councils. Credit rating agencies are expected to recognise the WSCCO as a contingent liability for the shareholding Councils.

If a council decides to maintain In-house Delivery of water services through a new business unit, their existing water debt will remain on the council's balance sheet, despite the ring-fencing provisions in the LWDW legislation. This will generally mean considerably less debt headroom for Councils against their existing LGFA covenant limits from both an LGFA and credit rating agency perspective.

LGFA has issued guidance on how it will assess its lending to WSCCOs. This will not be controlled by a specific net debt/revenue limit (which is currently applied to generic LGFA lending to Councils). Rather, a combination of cashflow covenants will apply:

- A Funds from Operation (FFO) to Gross Debt ratio of between 8% and 12%
- A Funds from Operation (FFO) to Cash Interest Coverage of between 1.5 times and 2.0 times.
- WSCCOs will have up to five years to comply with the covenants
- WSCCOs will be able to recognise a percentage of development contributions as operational revenue for the purposes of determining the above covenants.

LGFA stresses that the covenants it has published are just for guidance; negotiations will still be held with Councils / WSCCO when arranging lending from LGFA. However, Hawke's Bay Councils have received confirmation from LGFA that an 8% FFO/Gross Debt ratio would apply to a Regional WSCCO.

Ahead of the LGFA releasing these covenants, previous guidance was that it would lend up to an 'equivalent' of 500% net debt/revenue to WSCCOs. In the absence of more specific guidance before an LGFA announcement on 20 December 2024, this ratio was being applied in modelling (for Hawke's Bay Councils and others across the country) as a 'control' on debt from 2028, which in turn required pricing to be lifted in the model to keep debt positions down. Removing a net debt/revenue limit from the WSCCO pricing models has allowed for smoother price increases in the initial years of new water services delivery models, compared to earlier analysis.

Further detail – short-listed delivery model options:

Based on the options available under new Government legislation, Hawke's Bay Councils shortlisted three options for detailed assessment:

- In-house delivery (Internal business unit/enhanced council delivered services)
- Single WSCCO
- Regional (four council) WSCCO

DIA describes the features of the shortlisted delivery models as follows:¹

Table 1: Key features – In-house delivery (Internal business unit/council delivered services)

| In-house delivery | |
|-----------------------|---|
| Overall | <ul style="list-style-type: none"> • Subject to all the new requirements that apply to water service providers – including meeting statutory objectives and financial principles (ring-fencing and financial sustainability requirements), separate planning and reporting requirements for water services, and being subject to new economic regulation regime |
| Ownership | <ul style="list-style-type: none"> • 100% council owned as a business unit or division within the organisation • No new organisation is established |
| Governance | <ul style="list-style-type: none"> • Internal business unit or division responsible to the elected council members, with other usual council governance oversight |
| Strategy | <ul style="list-style-type: none"> • Councils will need to prepare a water services strategy |
| Accountability | <ul style="list-style-type: none"> • Water division reports to council per established internal processes • Water services delivery will be accountable to the public through usual democracy practices • Water services annual report – including new financial statements on water supply, wastewater and stormwater – will be completed to enhance current requirements |
| Borrowing | <ul style="list-style-type: none"> • Borrowing undertaken by council with water activity groups meeting their share of financing costs (on internal and any external borrowing) |

¹ [https://www.dia.govt.nz/diawebsite.nsf/Files/Water-Services-Policy/\\$file/LWDW-guidance-Water-services-delivery-models-\(updated-December-2024\).pdf](https://www.dia.govt.nz/diawebsite.nsf/Files/Water-Services-Policy/$file/LWDW-guidance-Water-services-delivery-models-(updated-December-2024).pdf)

Table 2: Key features – Single council-owned water organisation

| Single council-owned water organisation (Single WSCCO) | |
|---|--|
| Overall | <ul style="list-style-type: none"> Subject to all the new requirements that apply to water service providers – including meeting statutory objectives and financial principles (ring-fencing and financial sustainability requirements), separate planning and reporting requirements for water services, and being subject to new economic regulation regime |
| Ownership | <ul style="list-style-type: none"> Limited liability company, 100% owned by the council Ownership rights spelled out in a constitution, subject to compliance with the legislation Council can transfer or retain ownership of assets, subject to transfer of asset use rights |
| Governance | <ul style="list-style-type: none"> Council has flexibility to design governance and appointment arrangements Appointments made directly or via an Appointments and Accountability Committee (or similar body) Board comprised of independent, professional directors Current council staff and elected members cannot be appointed to boards |
| Strategy | <ul style="list-style-type: none"> Shareholding council issues Statement of Expectations (SoE) Water organisation board prepares a water services strategy and consults the shareholding council |
| Accountability | <ul style="list-style-type: none"> Water organisation board is accountable to council shareholders and reports regularly on performance (shareholders are accountable to community) Water organisation required to give effect to SoE and meet statutory requirements Water organisation prepares annual report, including financial statements, and information on performance and other matters outlined in water services strategy |
| Borrowing | <ul style="list-style-type: none"> Borrowing via council or from Local Government Funding Agency directly supported by council guarantee or uncalled capital |

Table 3: Key features – Multi-council-owned water organisation

| Multi-council-owned water organisation (Regional WSCCO) | |
|--|---|
| Overall | <ul style="list-style-type: none"> • Two or more councils establish a jointly-owned organisation • Subject to all the new requirements that apply to water service providers – including meeting statutory objectives and financial principles (ringfencing and financial sustainability requirements), separate planning and reporting requirements for water services, and being subject to new economic regulation regime |
| Ownership | <ul style="list-style-type: none"> • Limited liability company owned by two or more councils • Ownership arrangements and rights set out in a constitution and/or shareholder agreement, within legislative requirements • Each council prepares transfer agreement setting out matters being transferred to water organisation and those retained |
| Governance | <ul style="list-style-type: none"> • Councils agree how to appoint and remove directors, for example through a shareholder council or similar • Board comprised of independent, professional directors • Current council staff and elected members cannot be appointed to boards |
| Strategy | <ul style="list-style-type: none"> • Shareholding councils agree the process for issuing a combined SoE • Water organisation board prepares a water services strategy and consults shareholding councils |
| Accountability | <ul style="list-style-type: none"> • Water organisation board is accountable to council shareholders and reports regularly on performance (shareholders are accountable to community) • Water organisation required to give effect to SoE and meet statutory requirements • Water organisation prepares annual report, including financial statements, and information on performance and other matters outlined in water services strategy |
| Borrowing | <ul style="list-style-type: none"> • Borrowing arrangements and credit rating implications dependent on whether shareholding councils provide financial support • Water organisation could access LGFA financing, subject to meeting LGFA financial metrics and with shareholding councils providing proportionate guarantees to the WSCCO • The WSCCO will be entirely self-funded, without financial support or revenue from shareholding councils |

Financial modelling

This section analyses the two key financial criteria established to assess and compare the three options for water services delivery models under Local Water Done Well.

The assessment follows the DIA guidance on available water service delivery models under LWDW, potential financing arrangements, and key financial sustainability indicators.

Financial criteria

The table below outlines the two key financial criteria developed as part of the indicative modelling process to assess and compare the potential water services delivery model options, through the process of indicative financial modelling. Modelling ensured financial sustainability and revenue sustainability requirements were met, with the following assumptions given LWDW policy:

- Financial ringfencing is met from July 2028
- For WSCCOs, LGFA guidance is these organisations will have up to five years to meet covenants such as FFO/Gross debt ratios. It has been assumed that this will be allowed for in DIA's assessment of WSDPs.
- For modelling purposes, it has also been assumed that In-house Delivery models will have the same time to reach the same FFO/Gross debt ration required for Single-Council WSCCOs. While it is expected that DIA's financial sustainability assessment of In-house Delivery will use the same financial metric requirements as for Single-Council WSCCOs, it is possible DIA will require the metrics to be met earlier, for example by July 2028. This introduces the risk that the price paths for In-house Delivery models spike earlier than modelled, meaning larger price increases, earlier.

Table 4: Two key financial criteria to assess and compare delivery models

| Criteria | Explanation | Evaluation |
|--|--|---|
| Cost of delivering water services at FY34 | <p>This models the average annual cost per property to deliver water services, for a property connected to all 3-waters at the end of the current forecast period in 2033/34. This is an indicative, nominal cost path for standardised assessment of the attributes of each delivery option, and comparison across TAs. Note, numbers are rounded to the nearest \$100.</p> <p>Analysis includes the difference in cost-per-connected property per delivery option, nominally and proportionately, and cumulative savings under the most affordable option compared to the other two over the 10 years to 2034.</p> | Blue shading = Option is the most affordable to the rate payer |
| Council balance sheet and debt position | This measures a council's debt position through the ten-year period to 2034 against the limits imposed on it by itself or by regulators, including likely treatment by credit ratings agencies. | <p>✓✓ Option allows for modelled three waters investment and contributes to best Council balance sheet and debt position.</p> <p>✓ Option allows for modelled three-waters investment, with resulting Council debt position able to be within covenants, but with caveats, for example meets LGFA covenant but Council debt to be considered higher by rating agency.</p> <p>– As with ✓ but least amount of balance sheet capacity.</p> <p>✗ Option does not have sufficient balance sheet capacity at FY34 and exceeds the current LGFA limit, with no option for mitigation (e.g. securing a credit rating).</p> |

Options evaluation – financial

The following tables present the results of the quantitative assessment of each of the shortlisted options, broken down by council. Numbers are rounded to the nearest \$100.

Hastings District Council

| Criteria | In-house delivery | Single WSCCO | Regional WSCCO |
|---|--|--|---|
| Cost of delivering water services at FY34 | \$3,500 | \$3,500 | \$3,100 |
| Council balance sheet and debt position | – Least amount of Council balance sheet capacity of the three options from LGFA point of view | ✓ LGFA to consider WSCCO debt separate to Council; Ratings agencies to assess combined debt | ✓✓ LGFA to consider WSCCO debt separate to Council; Ratings agencies to treat water debt as contingent liability for Council |

Napier City Council

| Criteria | In-house delivery | Single WSCCO | Regional WSCCO |
|---|--|--|---|
| Cost of delivering water services at FY34 | \$3,100 | \$3,100 | \$2,800 |
| Council balance sheet and debt position | – Least amount of Council balance sheet capacity of the three options from LGFA point of view NCC's combined net debt/revenue may go above the LGFA 175% threshold for unrated Councils in from FY30-34, but this would be overcome by NCC securing a credit rating as debt rises, allowing for a 280% limit | ✓ LGFA to consider WSCCO debt separate to Council; Ratings agencies to assess combined debt | ✓✓ LGFA to consider WSCCO debt separate to Council; Ratings agencies to treat water debt as contingent liability for Council |

Central Hawke's Bay District Council

| Criteria | In-house delivery | Single WSCCO | Regional WSCCO |
|--|---|--|---|
| Cost of delivering water services at FY34 | \$7,400 | \$7,600 | \$7,000 |
| Council balance sheet and debt position | <p>– Least amount of Council balance sheet capacity of the three options from LGFA point of view</p> <p>Modelling shows combined council debt above current LGFA 175% net debt/ revenue covenant from FY26-FY29</p> | <p>✓ LGFA to consider WSCCO debt separate to Council; Ratings agencies to assess combined debt</p> | <p>✓✓ LGFA to consider WSCCO debt separate to Council; Ratings agencies to treat water debt as contingent liability for Council</p> |

Wairoa District Council

| Criteria | In-house delivery | Single WSCCO | Regional WSCCO |
|--|--|--|---|
| Cost of delivering water services at FY34 | \$6,400 | \$6,800 | \$5,400 |
| Council balance sheet and debt position | <p>– Least amount of Council balance sheet capacity of the three options from LGFA point of view</p> | <p>✓ LGFA to consider WSCCO debt separate to Council; Ratings agencies to assess combined debt</p> | <p>✓✓ LGFA to consider WSCCO debt separate to Council; Ratings agencies to treat water debt as contingent liability for Council</p> |

Current modelling assumptions

| Parameter | Assumption |
|------------------------------------|---|
| FFO/Gross debt | <ul style="list-style-type: none"> Pricing (revenue) is adjusted to ensure that the FFO/Gross Debt ratio remains at a minimum of 11% for the In-house Delivery and Single WSCCO options, and 8% for the Regional WSCCO option, from FY30 to 2034. |
| Cash interest ratio | <ul style="list-style-type: none"> Single WSCCO and Regional WSCCO option: Funds from operation to cash interest coverage of a minimum of 1.5 times from FY30. |
| Debt covenants | <ul style="list-style-type: none"> Five years to meet key LGFA metrics (LGFA finance covenants). |
| Capex | <ul style="list-style-type: none"> CAPEX delivery factors to be reduced to 80% from current plans, given historical underinvestment, DIA guidance. Subsequent reduction in depreciation, through standardised method across councils. |
| Debt/revenue covenant | <ul style="list-style-type: none"> Existing Council debt/revenue covenants are used to assess balance sheet capacity. Previous modelling imposed a 500% debt/revenue constraint on 3-waters finances due to previous central Government guidance; this measure does not appear in LGFA's guidance anymore and so has been removed as a control. No changes to In-house Delivery debt limits: <ul style="list-style-type: none"> Central Hawke's Bay, Napier*, Wairoa: Current LGFA: 175% Net Debt/Revenue Hastings: Current LGFA: 280% Net Debt/Revenue; Internal 250% limit <p>*Note if Napier were to secure a credit rating its LGFA limit would be expected to be 280%</p> |
| Regional WSCCO efficiencies | <ul style="list-style-type: none"> Conservative modelling assumes the joint WSCCO capital efficiencies will start at 1% in year 3, growing 1% per annum (5% by FY34). Conservative modelling assumes operating efficiencies of 2% in year 3, growing to 12% by FY34. |
| Establishment costs | <ul style="list-style-type: none"> Regional WSCCO and In-house Delivery: The indicative estimated cost is based on the figures provided in the 2020 Morrison Low business case for Hawke's Bay Councils, adjusted for inflation. Single WSCCO: As above, but costs are adjusted to 50% of the estimates of establishing a Regional WSCCO. |
| Ongoing operational costs | <ul style="list-style-type: none"> Regional WSCCO and In-house Delivery: The indicative estimated cost is based on the figures provided in the Morrison Low business case, adjusted for inflation. Single WSCCO: As above, but costs are adjusted to 50% of the Morrison Low estimates. |
| Stranded costs | <ul style="list-style-type: none"> Councils provided guidance on potential stranded costs (see below). |

Establishment and additional operational/capex costs as a result of the change

The costs in the following indicative estimate are variable and will depend on the level of activities that can be completed by any new WSCCO, at their own cost, after establishment. All figures are based on analysis conducted by Morrison Low during the previous reforms. The costs below are shown indexed to FY25 values from the FY20 values using historical inflation. The forecast has been indexed using NZIER inflation rates through FY28 and 3% thereafter.

| Establishment costs (\$000s) | In-house delivery | Single WSCCO | Regional WSCCO |
|------------------------------|-------------------|--------------|----------------|
| Operating costs | 1,373 | 1,769 | 3,538 |
| Capital costs | 1,507 | 2,174 | 4,347 |

Stranded costs

All figures are based on analysis conducted by the councils and where this has not been available, we have used the analysis by Morrison Low during the previous reforms.

| Council | Updated modelling (\$000s) |
|---------------------|-----------------------------------|
| Central Hawke's Bay | 1,125 |
| Hastings | 3,131 |
| Napier | 573 Morrison Low analysis used |
| Wairoa | 902 |

Ongoing operational costs created as a result of the change

| Establishment costs (\$000s) | In-house delivery | Single WSCCO | Regional WSCCO |
|------------------------------|-------------------|--------------|----------------|
| Directors | 49 | 92 | 183 |
| Tier 1 additional costs | 305 | 214 | 427 |
| Tier 2 additional costs | 0 | 305 | 610 |
| ICT – extra operating | 61 | 61 | 122 |
| Harmonisation of salary | 177 | 89 | 177 |
| Audit remuneration | 18 | 101 | 201 |
| Regulatory auditing | 18 | 101 | 201 |
| Accommodation – office rent | 549 | 275 | 549 |
| Office overheads | 33 | 24 | 47 |
| Staff overheads | 81 | 148 | 295 |
| Additional resources | 418 | 833 | 1,665 |

Modelling overview

In the charts below, previous council cost and pricing projections have not been included as these projections are not considered viable options, given the new regulations and financial sustainability requirements expected to be mandated by the LWDW framework legislation.

The financial modelling covers a ten-year horizon, based on the latest LTPs, and in Napier's case new Annual Plan numbers. For modelling purposes, a capex delivery factor of 0.8 and an accompanying depreciation reduction has been applied across Councils, given historical under-delivery of capex plans. This also follows guidance from DIA to Councils that forward-looking plans, while acknowledging the scale of investment required, need to be realistic regarding delivery capacity. The lower capex delivery factor is not a proposal to reduce capex, but rather used to present what might be more realistic debt and cost-per-connection outputs from the modelling to what the community and Councils might face expenditure-wise over the timeframe modelled. A combined regional capex programme of \$1.32 billion is modelled out to FY34.

Modelling of 100% of current capex plans was conducted through this process, although with slightly different assumptions regarding the LGFA covenants which would apply. A high-level observation across this previous modelling and the current modelling outputs is that a Regional WSCCO may be able to deliver 100% of current capex plans at a similar or lower cost-per-connection than each individual Council would have to charge to deliver 80% of their current capex plans through either In-House or the Single WSCCO delivery options.

A Hawke's Bay Regional WSCCO will be able to utilise its financial resources to borrow more efficiently and effectively than individual councils. It requires less additional revenue compared to the other options because less stringent financial metrics will be imposed on it by the LGFA than individual Councils.

The Regional WSCCO option considers non-harmonised pricing for each shareholding council, given strong central Government statements against harmonisation and guidance that the economic regulator may not allow for price harmonisation. The purpose of the modelling was to assess the relative benefits of the different delivery models allowed for under Local Water Done Well, assessed across the region's Councils.

More cost-effective service delivery

With increased scale, the region can achieve operational and capital investment savings. The freed-up funds can be reinvested to complete more projects within the same budget. Savings may arise from avoided mobilisation and demobilisation costs, better project sequencing, bulk discounts, and standardised plants.

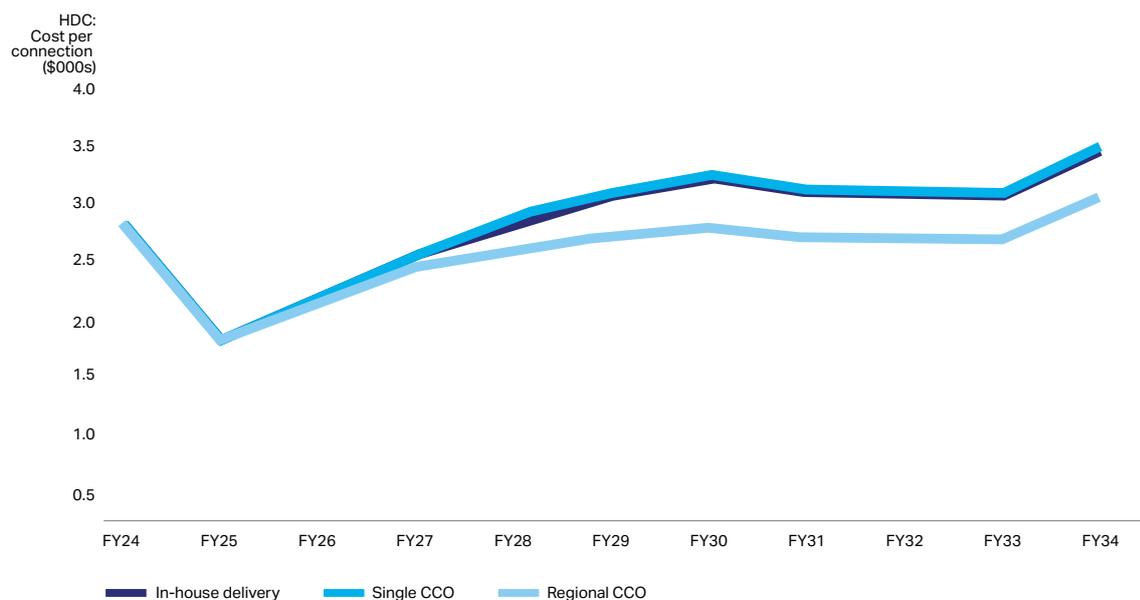
A joint organisational structure can also benefit from sharing operational costs, enabling the councils to optimise overheads and workforce within their operations and balance them effectively. These benefits of the Regional WSCCO should endure as efficiency gains improve over time and as a focussed workforce grows in terms of capability and capacity to deliver the required water investment across the region.

Hastings

Financial modelling – Hastings affordability – key observations:

- The regional WSCCO results in a lower cost of water per connected property in FY34 than the other two options.
- Under a regional WSCCO model, the average ratepayer in Hastings will pay c.\$400 less in annual water charges in 2034, than under the In-House or Single WSCCO option.
- At 2034, cost per connection under the In-House and Single WSCCO options is 13% more expensive than under the Regional WSCCO cost path.
- Cumulative savings over the 10-year period for the average connected property amount to \$2,646 under the Regional WSCCO option compared to the In-House option, and \$2,855 compared to the Single WSCCO option.

| Cost per connection (\$000s) | FY24 | FY25 | FY26 | FY27 | FY28 | FY29 | FY30 | FY31 | FY32 | FY33 | FY34 |
|------------------------------|------|------|------|------|------|------|------|------|------|------|------|
| In-house delivery | 2.8 | 1.8 | 2.2 | 2.6 | 2.9 | 3.1 | 3.2 | 3.1 | 3.1 | 3.1 | 3.5 |
| Single CCO | 2.8 | 1.8 | 2.2 | 2.6 | 2.9 | 3.1 | 3.2 | 3.1 | 3.1 | 3.1 | 3.5 |
| Regional CCO | 2.8 | 1.8 | 2.2 | 2.5 | 2.6 | 2.7 | 2.8 | 2.7 | 2.7 | 2.7 | 3.1 |



Financial modelling – Hastings balance sheet and Council debt position

For Hastings, all options are within existing debt covenants, indicating capacity to finance the modelled water services investment. The regional WSCCO results in lower all-of-council debt due to water debt under this option being a contingent liability to council, and not 'on balance sheet'.

Hastings District Council can borrow up to 280% net debt to revenue under the LGFA foundation covenant and has an internal council limit of 250%.

Modelling shows that HDC has sufficient balance sheet capacity under all three options to stay within the LGFA covenant. However, under the In-house Delivery and Single WSCCO options, combined net debt revenue is above HDC's internal limit in the early years of operation, limiting the Council's ability to respond to unexpected shocks or non-water capital investment requirements.

Under the In-house Delivery option:

- 3-waters net debt held by HDC is modelled to increase from \$324.3 million in FY26 to \$353.1 million in 2034, representing 71% of total Council net debt at FY34. Ringfenced 3-waters net debt/revenue will fall over that time from 641% to 381%.
- Council net debt excluding three waters is modelled to rise from \$223.7 million in FY26 to \$286.6m in FY30, before falling to \$143.0 million in FY34. Council (ex 3-waters) net debt/revenue will rise from 137% in FY26 to 143% in FY27, before falling to 57% in FY34.
- **Combined, Council net debt is modelled to rise from \$548.1 million in FY26 to \$623.1 million in FY29, before falling to \$496.1 million in FY34. Combined council net debt/revenue is modelled to fall from 257% in FY26 to 145% in FY34.**

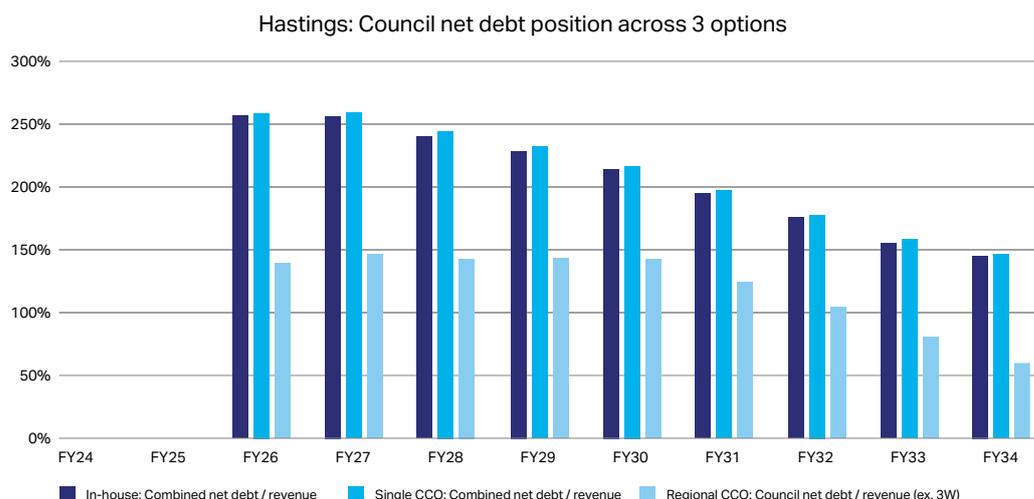
Under the Single WSCCO option:

- 3-waters net debt held by the WSCCO is modelled to increase from \$325.4 million in FY26 to \$358.9 million in FY28 and moderating to \$354.4 million at FY34. Three-waters net debt/revenue will fall over that time from 643% in FY26 to 379% in FY34.
- Council net debt excluding three waters is modelled to rise from \$226.9 million in FY26 to \$293.1 million in FY30, before falling to \$149.4 million in FY34. **Council (ex 3-waters) net debt/revenue will rise from 139% in FY26 to 147% in FY27, before falling to 60% in FY34 (LGFA focus).**
- **Combined, Council net debt is modelled to rise from \$552.3 million in FY26 to \$631.7 million in FY29, before falling to \$503.8 million in FY34. Combined council net debt/revenue is modelled to fall from 259% to 147% in FY34 (rating agency focus).**

Under the Regional WSCCO option:

- Combined three-waters debt across the four Councils under a Regional WSCCO is modelled to increase from \$489.2 million in FY26 to \$912.7 million in FY34. The Regional WSCCO's (Three-waters) net debt-revenue will rise from 473% in FY26 to 490% in FY28, before falling to 451% in FY34. Note there is no '500% limit' on this metric, based on guidance from LGFA. HDC's contribution to the combined three-waters debt of a regional WSCCO will rise from \$323.2 million in FY26 to \$387.0 million in FY34.
- HDC's Council debt (excluding three-waters) under a Regional WSCCO option is modelled to rise from \$226.9 million in FY26 to \$293.1 million in FY30, before falling to \$149.4 million in FY34. **With three-waters debt off balance sheet under a Regional WSCCO option, HDC's Council net debt/revenue will rise from 139% in FY26 to 147% in FY27, before falling to 60% in FY34.**

| HDC | FY24 | FY25 | FY26 | FY27 | FY28 | FY29 | FY30 | FY31 | FY32 | FY33 | FY34 |
|---|------|------|------|------|------|------|------|------|------|------|------|
| In-house: Combined net debt / revenue | - | 0% | 257% | 256% | 241% | 229% | 214% | 195% | 176% | 155% | 145% |
| Single CCO: Combined net debt / revenue | 0% | 0% | 259% | 259% | 244% | 232% | 216% | 197% | 178% | 157% | 147% |
| Regional CCO: Council net debt / revenue (ex. 3W) | 0% | 0% | 139% | 147% | 143% | 142% | 141% | 124% | 104% | 80% | 60% |



Napier

Financial modelling – Napier affordability

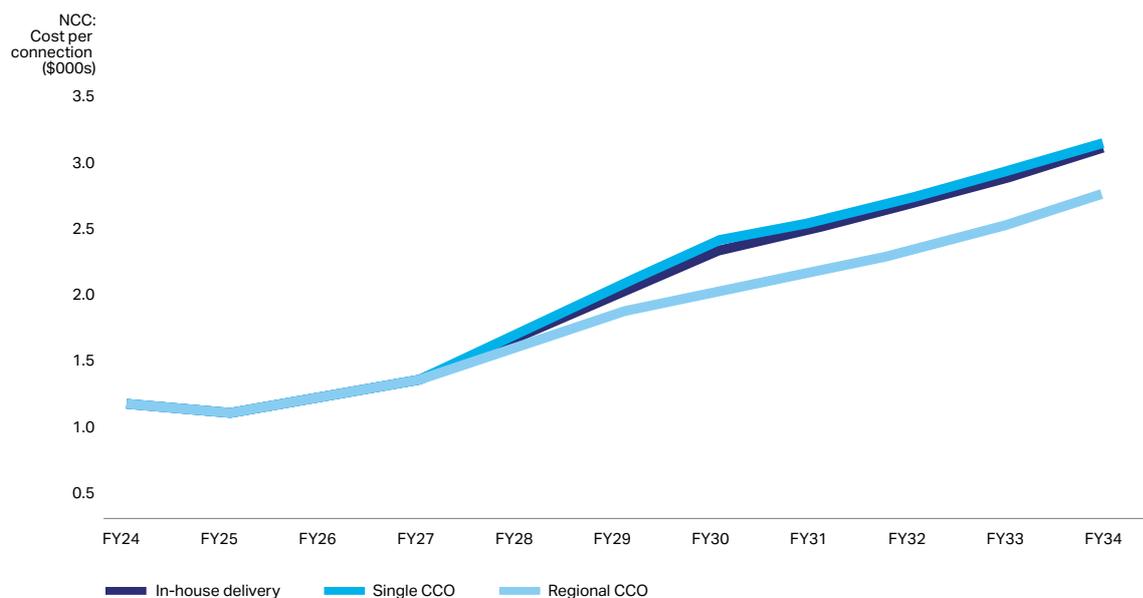
The regional WSCCO results in a lower cost of water per connected property in FY34 than the other two options.

Under a regional WSCCO model, the average ratepayer in Napier will pay c.\$300 less in annual water charges in 2034, than under the In-House or Single WSCCO option.

At 2034, cost per connection under the In-House and Single WSCCO options is 11% more expensive than under the Regional WSCCO cost path.

Cumulative savings over the 10-year period for the average connected property amount to \$1,983 under the Regional WSCCO option compared to the In-House option, and \$2,169 compared to the Single WSCCO option.

| Cost per connection (\$000s) | FY24 | FY25 | FY26 | FY27 | FY28 | FY29 | FY30 | FY31 | FY32 | FY33 | FY34 |
|------------------------------|------|------|------|------|------|------|------|------|------|------|------|
| In-house delivery | 1.2 | 1.1 | 1.2 | 1.3 | 1.7 | 2.0 | 2.3 | 2.5 | 2.7 | 2.9 | 3.1 |
| Single CCO | 1.2 | 1.1 | 1.2 | 1.3 | 1.7 | 2.0 | 2.3 | 2.5 | 2.7 | 2.9 | 3.1 |
| Regional CCO | 1.2 | 1.1 | 1.2 | 1.3 | 1.6 | 1.8 | 2.0 | 2.1 | 2.3 | 2.5 | 2.8 |



Note on financial modelling used for NCC

Napier's 3-waters option modelling was provided through the same modelling as for other Councils. However, due to significant changes in NCC's 3-waters capital plan (reflected in the 2026 Annual Plan compared to the 2024/25 Three-Year Plan), NCC remodelled the impact on the Council (ex 3-waters and combined) using updated Annual Plan numbers. This has been done to ensure the most accurate modelling based on NCC's revised capital programme. The changes do not affect modelling for the Regional WSCCO.

Under the In-house Delivery option:

- 3-waters net debt held by NCC is modelled to increase from \$61.8 million in FY26 to \$333.1 million in FY34, representing 53% of total Council net debt at FY34. Ringfenced 3-waters net debt/revenue will increase over that time from 205% in FY26 to 404% in FY33 400% in FY34.
- Council net debt excluding three waters is modelled to rise from \$107.9 million in FY26 to \$262.6 million in FY31, before falling to \$173.8 million in FY34. Council (ex 3-waters) net debt/revenue will rise from 58% in FY26 to 119% in FY32, before falling to 75% in FY34.
- **Combined, Council net debt is modelled to rise from \$169.6 million in FY26 to \$506.9 million in FY34. Combined council net debt/revenue is modelled to rise from 77% in FY26 to 181% in FY32, before falling to 156% in FY34.** Note Napier has the option of obtaining a credit rating, to provide ability to secure a 280% net debt/revenue limit from LGFA.

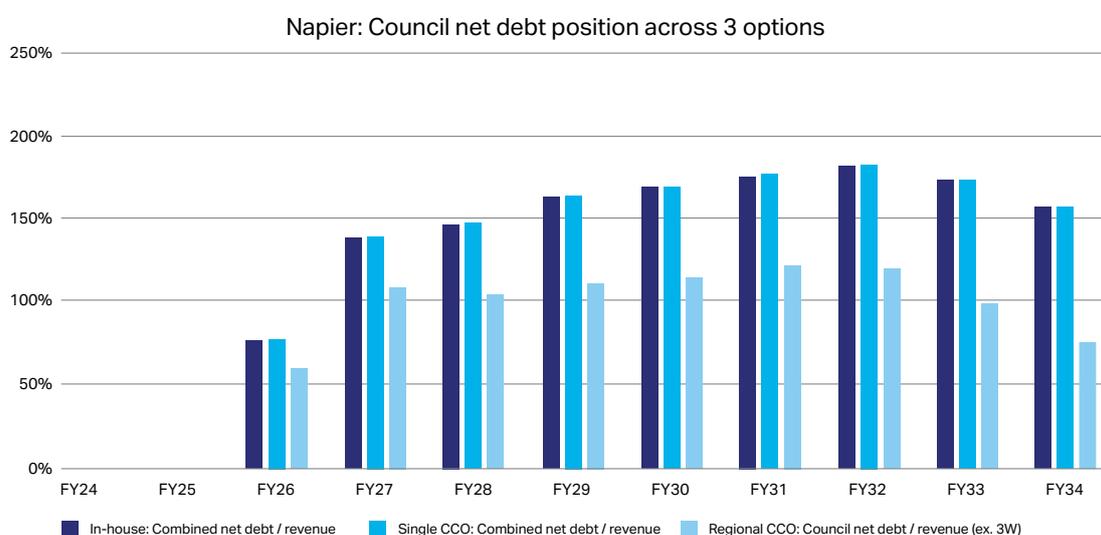
Under the Single WSCCO option:

- 3-waters net debt held by the WSCCO is modelled to increase from \$62.9 million in FY26 to \$334.8 million in FY34. Three-waters net debt/revenue will rise from 209% in FY26 to 402% in FY33, before falling to 398% in FY34.
- Council net debt excluding three waters is modelled to rise from \$107.9 million in FY26 to \$262.6 million in FY31, before falling to \$173.8 million in FY34. **Council (ex 3-waters) net debt/revenue will rise from 58% in FY26 to 119% in FY32, before falling to 75% in FY34** (LGFA focus).
- **Combined, Council net debt is modelled to rise from \$170.8 million to \$532.8 million in FY26 to \$508.5 million in FY34. Combined council net debt/revenue is modelled to rise from 77% in FY26 to 182% in FY33 before falling to 157% in FY34** (rating agency focus).

Under the Regional WSCCO option:

- Combined three-waters debt across the four Councils under a Regional WSCCO is modelled to increase from \$489.2 million in FY26 to \$912.7 million in FY34. The Regional WSCCO's (Three-waters) net debt-revenue will rise from 473% in FY26 to 490% in FY28, before falling to 451% in FY34. Note there is no '500% limit' on this metric, based on guidance from LGFA. NCC's contribution to the combined three-waters debt of a regional entity will rise from \$60.7 million in FY26 to \$349.9 million in FY34.
- NCC's Council debt (excluding three-waters) under a Regional WSCCO option is modelled to rise from \$107.9 million in FY26 to \$262.6 million in FY31, before falling to \$173.8 million in FY34. **With three-waters debt off balance sheet under a Regional WSCCO option, NCC's Council net debt/revenue will rise from 58% in FY26 to 121% in FY31, before falling to 75% in FY34.**

| NCC | FY24 | FY25 | FY26 | FY27 | FY28 | FY29 | FY30 | FY31 | FY32 | FY33 | FY34 |
|---|------|------|------|------|------|------|------|------|------|------|------|
| In-house: Combined net debt / revenue | 0% | 0% | 77% | 138% | 146% | 163% | 168% | 176% | 181% | 173% | 156% |
| Single CCO: Combined net debt / revenue | 0% | 0% | 77% | 139% | 147% | 164% | 169% | 177% | 182% | 173% | 157% |
| Regional CCO: Council net debt / revenue (ex. 3W) | 0% | 0% | 58% | 109% | 103% | 110% | 113% | 121% | 119% | 99% | 75% |



Central Hawke's Bay

Financial modelling – Central Hawke's Bay affordability

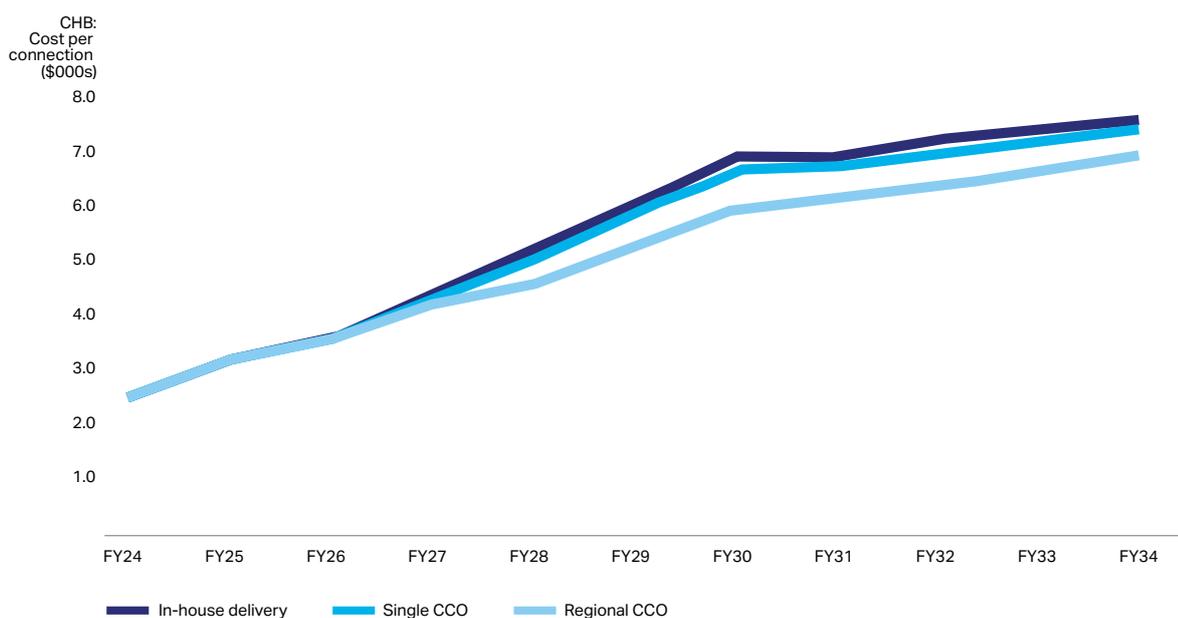
The regional WSCCO results in a lower cost of water per connected property in FY34 than the other two options.

Under a regional WSCCO model, the average ratepayer in Central Hawke's Bay will pay c.\$400 less in annual water charges in 2034, than under the In-house Delivery option and c.\$600 less than under the Single WSCCO option.

At 2034, cost per connection under the In-house Delivery option is 6% more expensive than under the Regional WSCCO cost path, and 9% more expensive under the Single WSCCO option than the Regional WSCCO cost path.

Cumulative savings over the 10-year period for the average connected property amount to \$4,515 under the Regional WSCCO option compared to the In-house Delivery option and \$5,627 compared to the Single WSCCO option.

| Cost per connection (\$000s) | FY24 | FY25 | FY26 | FY27 | FY28 | FY29 | FY30 | FY31 | FY32 | FY33 | FY34 |
|------------------------------|------|------|------|------|------|------|------|------|------|------|------|
| In-house delivery | 2.5 | 3.2 | 3.6 | 4.3 | 5.0 | 5.9 | 6.7 | 6.8 | 7.0 | 7.2 | 7.4 |
| Single CCO | 2.5 | 3.2 | 3.6 | 4.3 | 5.1 | 6.0 | 6.8 | 7.0 | 7.2 | 7.4 | 7.6 |
| Regional CCO | 2.5 | 3.2 | 3.6 | 4.1 | 4.6 | 5.2 | 5.9 | 6.1 | 6.3 | 6.7 | 7.0 |



Financial modelling – Central Hawke’s Bay balance sheet

For CHB, all options are within existing LGFA debt covenants by FY34, indicating capacity to finance the modelled water services investment at that point. Debt does rise above CHBDC's LGFA limit in the early years of a Single WSCCO, which could be alleviated through CHBDC securing a credit rating, as well as the Council's current internal limit. The Regional WSCCO results in lower all-of-council debt due to water debt under this option being a contingent liability to council, and not 'on balance sheet'.

Central Hawke’s Bay District Council can borrow up to 175% net debt to revenue under the LGFA foundation covenant and has an internal limit of 150%.

Under the In-house Delivery option:

- 3-waters net debt held by CHBDC is modelled to increase from \$79.6 million in FY26 to \$118.1 million in FY33, before dropping to \$113.6 million in FY34, representing 76% of total Council net debt at FY34. Ringfenced 3-waters net debt/revenue will fall over that time from 540% to 320%.
- Council net debt excluding three waters is modelled to rise from \$16.5 million in FY26 to \$35.2 million in FY34. Council (ex 3-waters) net debt/revenue will rise from 44% in FY26 to 62% in FY34.
- **Combined, Council net debt is modelled to rise from \$96.1 million in FY26 to \$148.8 million in FY34. Combined council net debt/revenue is modelled to fall from 185% in FY26 (above the LGFA limit) to 161% in FY34.**

Under the Single WSCCO option:

- 3-waters net debt held by the WSCCO is modelled to increase from \$80.7 million in FY26 to \$119.6 million in FY33, before falling to \$115.1 million in FY34. Three-waters net debt/revenue will fall over that time from 547% in FY26 to 318% in FY34.
- Council net debt excluding three waters is modelled to rise from \$17.7 million in FY26 to \$37.5 million in FY34. **Council (ex 3-waters) net debt/revenue will rise from 47% in FY26 to 66% in FY34 (LGFA focus).**
- **Combined, Council net debt is modelled to rise from \$98.3 million in FY26 to \$152.6 million in FY34. Combined council net debt/revenue is modelled to rise from 189% in FY26 to 192% in FY27 before falling to 164% in FY34 (rating agency focus).**

Under the Regional WSCCO option:

- Combined three-waters debt across the four Councils under a Regional WS is modelled to increase from \$489.2 million in FY26 to \$912.7 million in FY34. The Regional WSCCO's (Three-waters) net debt-revenue will rise from 473% in FY26 to 490% in FY28, before falling to 451% in FY34. Note there is no '500% limit' on this metric, based on guidance from LGFA. CHBDC's contribution to the combined three-waters debt of a regional entity will rise from \$78.5 million in FY26 to \$123.0 million in FY33, before falling to \$117.7 million in FY34.
- CHBDC's Council debt (excluding three-waters) under a Regional WSCCO option is modelled to rise from \$17.7 million in FY26 to \$37.5 million in FY34. **With three-waters debt off balance sheet under a Regional WSCCO option, CHBDC's Council net debt/revenue will rise from 47% in FY26 to 66% in FY34.**

| HDC | FY24 | FY25 | FY26 | FY27 | FY28 | FY29 | FY30 | FY31 | FY32 | FY33 | FY34 |
|---|------|------|------|------|------|------|------|------|------|------|------|
| In-house: Combined net debt / revenue | 0% | 0% | 185% | 185% | 181% | 179% | 169% | 164% | 172% | 166% | 161% |
| Single CCO: Combined net debt / revenue | 0% | 0% | 189% | 192% | 187% | 184% | 173% | 168% | 175% | 169% | 164% |
| Regional CCO: Council net debt / revenue (ex. 3W) | 0% | 0% | 47% | 55% | 53% | 57% | 58% | 54% | 63% | 58% | 66% |

Wairoa

Financial modelling – Wairoa affordability

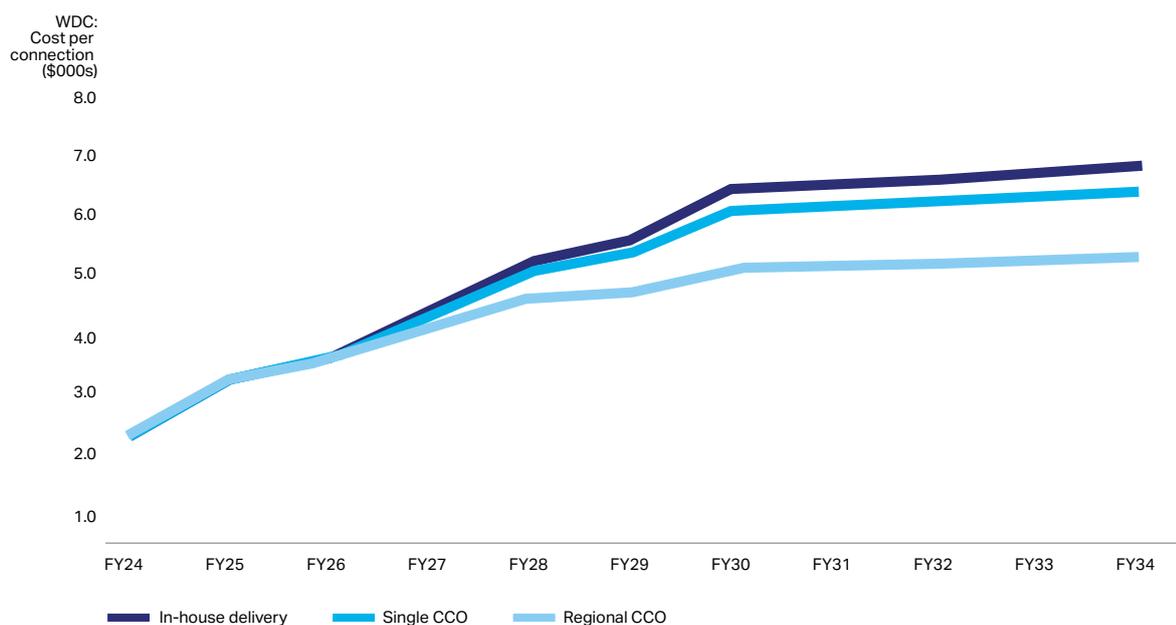
The Regional WSCCO results in a lower cost of water per connected property in FY34 than the other two options.

Under a Regional WSCCO model, the average ratepayer in Wairoa will pay c.\$1,000 less in annual water charges in 2034 than under the In-house Delivery option and c.\$1,400 less than under the Single WSCCO option.

At 2034, cost per connection under the In-house Delivery option is 19% more expensive than under the Regional WSCCO cost path, and 26% more expensive under the Single WSCCO option than the Regional WSCCO cost path.

Cumulative savings over the 10-year period for the average connected property amount to \$6,237 under the Regional WSCCO option compared to the In-house Delivery option, and \$8,559 compared to the Single WSCCO option.

| Cost per connection (\$000s) | FY24 | FY25 | FY26 | FY27 | FY28 | FY29 | FY30 | FY31 | FY32 | FY33 | FY34 |
|------------------------------|------|------|------|------|------|------|------|------|------|------|------|
| In-house delivery | 2.4 | 3.3 | 3.6 | 4.3 | 5.1 | 5.5 | 6.1 | 6.2 | 6.2 | 6.4 | 6.4 |
| Single CCO | 2.4 | 3.3 | 3.6 | 4.3 | 5.2 | 5.7 | 6.5 | 6.6 | 6.6 | 6.8 | 6.8 |
| Regional CCO | 2.4 | 3.3 | 3.6 | 4.1 | 4.7 | 4.8 | 5.2 | 5.2 | 5.2 | 5.3 | 5.4 |



Financial modelling – Wairoa balance sheet

For Wairoa District Council all options are within existing LGFA covenants, indicating ability to finance modelled three-waters investment. Combined net debt under the In-house Delivery option (and Single WSCCO option) is above WDC's internal debt-revenue limit. The regional WSCCO results in lower all-of-council debt due to water debt under this option being a contingent liability to council, and not 'on balance sheet'.

Wairoa District Council can borrow up to 175% net debt to revenue under the LGFA foundation covenant, and has an internal limit of 100%.

Under the In-house Delivery option:

- 3-waters net debt held by WDC is modelled to increase from \$27.8 million in FY26 to \$55.6 million in FY34, representing 89% of total Council net debt at FY34. Ringfenced 3-waters net debt/revenue will increase over that time from 349% in FY26 to 389% in FY27 before fluctuating and ending at 388% in FY 34.
- Council net debt excluding three waters is modelled to rise from \$13.7 million in FY26 to \$14.9 million in FY27, before falling to \$7.1 million in FY34. Council (ex 3-waters) net debt/ revenue will rise from 47% in FY26 to 48% in FY27, before falling to 19% in FY34.
- **Combined, Council net debt is modelled to rise from \$41.5 million in FY26 to \$63.8 million in FY32 before falling to \$62.7 million in FY34. Combined council net debt/ revenue is modelled to rise from 112% in FY26 to 127% in FY29, before falling to 120% in FY34.**

Under the Single WSCCO option:

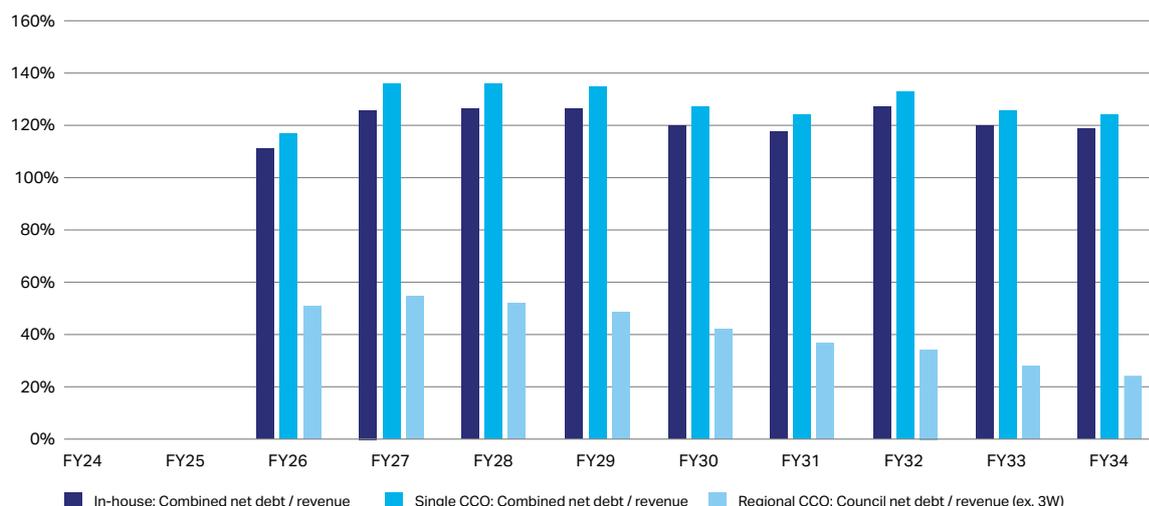
- 3-waters net debt held by the WSCCO is modelled to increase from \$28.9 million in FY26 to \$57.0 million in FY34. Three-waters net debt/revenue will rise from 363% in FY26 to 409% in FY27, before falling to 375% in FY34.
- Council net debt excluding three waters is modelled to rise from \$14.8 million in FY26 to \$17.2 million in FY27, before falling to \$9.3 million in FY34. **Council (ex 3-waters) net debt/revenue will rise from 51% in FY26 to 55% in FY27, before falling to 25% in FY34** (LGFA focus).
- **Combined, Council net debt is modelled to rise from \$43.7 million in FY26 to \$67.9 million in FY32, before falling to \$66.4 million in FY34. Combined council net debt/ revenue is modelled to rise from 118% in FY26 to 137% in FY28 before falling to 125% in FY34** (rating agency focus).

Under the Regional WSCCO option:

- Combined three-waters debt across the four Councils under a Regional WSCCO is modelled to increase from \$489.2 million in FY26 to \$912.7 million in FY34. The Regional WSCCO's (Three-waters) net debt-revenue will rise from 473% in FY26 to 490% in FY28, before falling to 451% in FY34. Note there is no '500% limit' on this metric, based on guidance from LGFA. WDC's contribution to the combined three-waters debt of a regional entity will rise from \$26.7 million in FY26 to \$58.1 million in FY34.
- WDC's Council debt (excluding three-waters) under a Regional WSCCO option is modelled to rise from \$14.8 million in FY26 to \$17.2 million in FY27, before falling to \$9.3 million in FY34. **With three-waters debt off balance sheet under a Regional WSCCO option, WDC's Council net debt/revenue will rise from 51% in FY26 to 55% in FY27, before falling to 25% in FY34.**

| HDC | FY24 | FY25 | FY26 | FY27 | FY28 | FY29 | FY30 | FY31 | FY32 | FY33 | FY34 |
|---|------|------|------|------|------|------|------|------|------|------|------|
| In-house: Combined net debt / revenue | – | 0% | 112% | 127% | 127% | 127% | 121% | 118% | 128% | 121% | 120% |
| Single CCO: Combined net debt / revenue | 0% | 0% | 118% | 137% | 137% | 136% | 128% | 125% | 134% | 127% | 125% |
| Regional CCO: Council net debt / revenue (ex. 3W) | 0% | 0% | 51% | 55% | 53% | 49% | 42% | 37% | 35% | 28% | 25% |

Waroa: Council net debt position across 3 options



Non-financial analysis

Alongside the financial criteria, a set of non-financial criteria were developed to assess the different delivery models.

These criteria were developed with the legislative requirements in mind, as well as to align with the shared principles the region has agreed on to guide the decisions on water service delivery.

The shared principles were first developed for the Morrison Low work. These were re-tested with councils, mana whenua and other stakeholders in Hawke's Bay in September 2024, where they were updated to reflect the current circumstances.

The updated principles are:

- To deliver water services in a way that is affordable, effective and allows for equitable access
- To deliver water services that are safe, resilient and balance cost-effectiveness with high standard
- To deliver water services through a model that enables a meaningful role for Māori through governance and outcome-setting
- To deliver water services through a model that has the value and water at the centre in addressing both current and future needs
- To deliver water services in a way that supports out urban and rural communities ensuring targeted solutions that develop local capabilities for effective support and service delivery
- To deliver water services that builds enduring capability and capacity
- To deliver water services informed by meaningful community engagement and collaboration

Non-financial criteria

| Criteria | Explanation and measures |
|--|---|
| Service provision | <ul style="list-style-type: none"> • The extent to which a delivery model would be able to provide and maintain levels of service across water networks, including supporting equitable access to water services, and ensuring safe and environmentally sustainable outcomes. • The ability to identify and manage risks in alignment with industry best practices. |
| Resilience | <ul style="list-style-type: none"> • The extent to which a delivery model would support resilience, from both a financial and operational perspective, including the ability to support and respond to climate adaptation and emergencies. • The ability to respond to increasing demand and managing that demand effectively. |
| Capital delivery and asset management | <ul style="list-style-type: none"> • Ability to deliver the capital programme and improve asset management maturity. |

Non-financial criteria continued

| Criteria | Explanation and measures |
|---|---|
| Capability and capacity | <ul style="list-style-type: none"> Ability to build sustainable regional capability in three water development and operations. Ability to build a long-term stable pipeline of work at scale and build regional supplier capacity and capability. Capacity to satisfy regulatory requirements. |
| Scale and opportunities for efficiency | <ul style="list-style-type: none"> Ability to lower unit cost of infrastructure through standardisation and modular approach to infrastructure development and operations. |
| Mana whenua involvement | <ul style="list-style-type: none"> The extent to which each option is designed to reflect the priorities of, and agreed outcomes for, mana whenua. |
| Community influence and engagement | <ul style="list-style-type: none"> The extent to which each option enables the ability for communities to engage with water decision-making. |

High-level option evaluation – non-financial criteria

The table below provides a high-level overview of the results of the option evaluation results against the non-financial criteria, developed together across the four councils. For further commentary on each of these criteria, please see the following pages, as well as council-specific information in each consultation document.

| Criteria | In-house delivery | Single WSCCO | Regional WSCCO |
|-------------------------------|--|--|--|
| Service provision | <ul style="list-style-type: none"> ✓ Levels of service will need to meet new government requirements, regional variation remains | <ul style="list-style-type: none"> ✓ Levels of service will need to meet new government requirements, regional variation remains | <ul style="list-style-type: none"> ✓✓ Scale gives greatest ability to meet new government requirements, equity of service levels, combining networks / infrastructure, lowering the cost of services through efficiencies |
| Scale and efficiencies | <ul style="list-style-type: none"> – No efficiency gains (noting councils could opt to work together via agreements) | <ul style="list-style-type: none"> ✓ Potential to achieve some efficiency gains through new competency-based board appointment and key performance indicators | <ul style="list-style-type: none"> ✓✓ Maximum efficiency gains due to scale and potential to standardised / share resources |
| Resilience | <ul style="list-style-type: none"> ✓ Some resilience improvements, although limited by the lack of scale / geographic diversification | <ul style="list-style-type: none"> ✓ Some resilience improvements, although limited by the lack of scale / geographic diversification | <ul style="list-style-type: none"> ✓✓ Greatest resilience improvements due to scale and diversification revenues |

High-level option evaluation – non-financial criteria continued

| Criteria | In-house delivery | Single WSCCO | Regional WSCCO |
|--|--|--|---|
| Capability and capacity | – No improvements beyond existing arrangements | ✓ Potentially some improvements due to focus on water services. Potential to offer clear career pathways | ✓✓ Can scale, offering clear career pathways and specialisation in water services |
| Capital delivery and asset management | ✓ New requirements drive potential to improve capital delivery but limited by scale | ✓ Water focus drives potential to improve capital delivery but limited by scale | ✓✓ Potential for broader network considerations and efficient capital works planning |
| Mana whenua involvement | ✓ Mana whenua engaged by councils directly through current arrangements | ✓ Opportunity for dedicated mana whenua governance role, regional variation remains | ✓✓ Opportunity for dedicated mana whenua governance role, regional consistency more likely |
| Community engagement | ✓✓ Direct community engagement, direct accountability to council | ✓ Single WSCCO responsible for one district only, engagement with communities through shareholding council, or through accountability documents / direct communications | ✓ Regional WSCCO responsible to multiple districts / communities, engagement with communities through shareholding councils, or through accountability documents / direct communications |

Detailed option evaluation – non-financial criteria

Service Provision

The extent to which a delivery model would be able to meet and maintain levels of service across water networks, including supporting equitable access to water services, and ensuring safe and environmentally sustainable outcomes, including through regulatory compliance.

| | |
|-------------------------------|--|
| In-house delivery ✓ | <ul style="list-style-type: none"> Levels of service are set by the council but must be consistent with all legislative and regulatory requirements. Council will need to fund and prioritise recovering the full cost of services to meet financial sustainability requirements, with regulation driving investment decisions. |
| Single WSCCO ✓ | <ul style="list-style-type: none"> Council staff can remain local and continue delivering existing service levels. The council will hold the WSCCO accountable for the delivered service levels via a SoE. However, service levels, and standards will ultimately be set by the WSCCO and regulators. The board will have the flexibility to determine the necessary pricing and allocation of funding to meet the required service levels, driven by compliance with economic, service and consumer regulation. |
| Regional WSCCO ✓✓ | <ul style="list-style-type: none"> Shareholding councils will influence district service levels through a joint SoE. The boards will have the flexibility to determine pricing and allocate funding to meet these service levels, driven by economic, service and consumer regulation. Centralising investment planning, service delivery, and customer engagement may lead to efficiencies and improved customer service. The WSCCO can work towards standardising service levels across districts over time. |

Scale and efficiencies

This criterion assesses the delivery model's ability to lower the unit cost of infrastructure through standardisation, scale in procurement and a modular approach to infrastructure development and operations.

| | |
|-------------------------------|--|
| In-house delivery - | <ul style="list-style-type: none"> Assumed that this option will not provide efficiencies or resilience benefits above and beyond assumptions in the 2024-34 LTPs. Note that there could be some efficiencies gained if Councils worked collectively on a shared water services procurement strategy, single professional services and contractor construction panel arrangements. |
| Single WSCCO ✓ | <ul style="list-style-type: none"> WSCCO operates with increased commercial focus, a dedicated board and performance metrics which could provide some minor efficiency improvements and potentially operating cost reductions associated with WSCCO establishment. |
| Regional WSCCO ✓✓ | <ul style="list-style-type: none"> The entity can focus on optimising operations and processes to reduce overall costs. Savings may arise from avoided mobilisation and demobilisation costs, better project sequencing, bulk discounts, and standardised plants. A joint organisational structure can also benefit from sharing operational costs, enabling the councils to optimise overheads and labour within their operations and balance them effectively. |

Resilience

The extent to which a delivery model would support resilience, from both a financial and operational perspective, including the ability to support and respond to climate adaptation and emergencies.

| | |
|---------------------------------------|--|
| <p>In-house delivery ✓</p> | <ul style="list-style-type: none"> • Operating within a single district on a smaller scale reduces geographic diversification, limiting the ability to share costs and resources across districts. • Each council will apply resilience differently, with less collective emphasis on funding resilient options across the region. • Opportunities to build financial and operational resilience against economic or environmental shocks are limited. Funding will come from the entire council's balance sheet, requiring decision-making to balance community needs across various activities competing for limited resources and funding, potentially affecting financial resilience. |
| <p>Single WSCCO ✓</p> | <ul style="list-style-type: none"> • Similar to In-house Delivery, operating within a single district and on a smaller scale results in less geographic diversification, limiting the ability to share costs and resources across districts. • The WSCCO model is expected to have greater autonomy for efficient decision-making, e.g. to better respond to severe weather events. |
| <p>Regional WSCCO ✓✓</p> | <ul style="list-style-type: none"> • Joint service delivery across district boundaries has the potential to improve climate resilience, providing greater geographic diversification. • A Regional WSCCO has the scale and potentially greater financial capacity to manage severe weather events. It also has the flexibility to divert operational resources providing additional operational resilience. • Developing a shared workforce among neighbouring councils would provide more workforce resilience and potentially enable operational efficiencies. |

Capability and capacity

The ability to build sustainable and enduring capability in the development and operations of three waters services across the region.

| | |
|---------------------------------------|--|
| <p>In-house delivery -</p> | <ul style="list-style-type: none"> • Water services are delivered by council teams focused on operations and maintenance across their individual water networks. • Employees / staff will need to be shared with non-water services, with workforce capability and capacity currently constrained within all councils. • Operating within a single employment market can limit recruitment of new staff and capability. |
| <p>Single WSCCO ✓</p> | <ul style="list-style-type: none"> • Similar to In-house Delivery, the entity's scale may limit the ability to attract talent and develop enduring capability due to competition among districts for staff. • However, a competency-based board may enable greater focus on recruitment and retention of high-quality staff who might not typically join a local authority. • May lead to greater capability and specialisation among operational and maintenance staff (compared to an In-house Delivery model, where teams may have wider functions). |

| | |
|-------------------------------------|--|
| <p>Regional WSCCO ✓✓</p> | <ul style="list-style-type: none"> • Increased scale creates opportunities for more specialised roles and builds enduring capability, alongside a larger market of suppliers. • Operating as a single employer in Hawke’s Bay region attracts a diverse range of skills and reduces competition for staff. • Improved capability and capacity provide clear career pathways and opportunities for professional development and specialisation in water services delivery. |
|-------------------------------------|--|

Capital delivery and asset management

This criterion assesses the ability of a delivery model to support the efficient and effective delivery of a council’s capital programme and improve their asset management maturity.

| | |
|---------------------------------------|--|
| <p>In-house delivery ✓</p> | <ul style="list-style-type: none"> • The council retains control over investment prioritisation in water services, in line with the water services strategy provided that they are consistent with all economic and water regulations, including ring-fencing requirements which mean water revenues cannot be put towards non-water expenses. • Capital delivery and asset management, including any required trade-offs, continues to be undertaken by councils themselves within existing financial constraints. • The council delivers its capital works programme using existing / local suppliers. Potential to collaborate with other districts in joint procurement strategies. |
| <p>Single WSCCO ✓</p> | <ul style="list-style-type: none"> • The WSCCO board will have a dedicated single focus on investment in water infrastructure, eliminating the need for trade-offs on investment decisions against other non-water related / council activities. • The WSCCO can maintain / share procurement arrangements with the council as well as participate in joint procurement arrangements with other neighbouring districts to improve capital delivery. However, this is not guaranteed. |
| <p>Regional WSCCO ✓✓</p> | <ul style="list-style-type: none"> • The WSCCO board will have a dedicated single focus on investment in water infrastructure, eliminating the need for trade-offs on investment decisions against other non-water related / council activities. • The board will determine the approach to investment prioritisation, with input from shareholding councils on priorities. • More confined focus will enable broader regional outcomes and efficient capital works planning across the regional network. • Aligning procurement and project management approaches, along with coordinating large-scale work programmes, can help attract contractors to the regions. • The scale of the operations is likely to also lead to procurement and operational efficiencies. |

Mana whenua involvement

For the purpose of this document, the term 'mana whenua' refers to the Post-Settlement Governance Entities (PSGE) and Taiwhenua. This criterion measures how well a delivery model ensures that existing partnership arrangements (which may include Treaty settlement commitments) and commitments to mana whenua are maintained and enhanced by ensuring that they have a meaningful role in water services decision-making and outcome setting into the future.

It is important to emphasise that mana whenua hold dual roles across and are entitled to all the rights and privileges afforded to the wider community. Therefore, in addition to the 'community influence and engagement' criteria outlined below, the subsequent criteria are also pertinent to mana whenua.

| | |
|-------------------------------|--|
| In-house delivery ✓ | <ul style="list-style-type: none"> • Council engagement with Māori on water is guided by the Local Government Act and existing Treaty settlement commitments. • Governance of water services remains within existing council and regional structures, preserving any pre-existing governance arrangements with mana whenua and other Māori partnership groups. • Non-governance arrangements between councils and mana whenua also remain unchanged. The role of mana whenua may differ across the region. |
| Single WSCCO ✓ | <ul style="list-style-type: none"> • The SoE from shareholding councils to the WSCCO board can include how the WSCCO must conduct its relationships with hapū, iwi, and other Māori organisations. • The WSCCO model could enable new and innovative approaches to collaborating with mana whenua, providing new opportunities for representation and input. • The role of mana whenua in each council area will likely continue in the same manner as with In-house Delivery. |
| Regional WSCCO ✓✓ | <ul style="list-style-type: none"> • The SoE from shareholding councils to the WSCCO board can include how the WSCCO must conduct its relationships with hapū, iwi, and other Māori organisations. • There is an opportunity for councils and mana whenua to have a role in governance and outcome setting. This may involve jointly appointing a competency-based board and management team. • The new entity offers the opportunity to leverage innovation through the WSCCO, model while also ensuring to engage with mana whenua in a consistent manner across the region. This prevents engagement and influence differing across multiple different councils, resulting in different outcomes across the region. • The final details of any such arrangements will need to be determined following the decision to establish a Regional WSCCO in consultation with mana whenua and other stakeholders. |

Community influence and engagement

This criterion measures how effectively a delivery model enables communities and councils across Hawke's Bay to engage with the delivery of water services and influence outcomes through that engagement. Mana whenua are also included within this criterion in their role as community members.

| | |
|--|---|
| <p>In-house delivery ✓✓</p> | <ul style="list-style-type: none"> • Councils will continue to regularly consult communities on water services delivery planning and infrastructure development through processes such as the LTP, which determine council's strategic direction as well as how it sets budgets and prioritises projects. • Economic regulation and consumer protection will require providers to increase level of engagement to confirm levels of service and evidence that investments are being made. • Communities will still be able to express their views on decisions related to future water services, but councils will be subject to economic regulation, which will set prices and minimum investment levels, driving prioritisation decisions. |
| <p>Single WSCCO ✓</p> | <ul style="list-style-type: none"> • Each WSCCO can establish and maintain a direct relationship with its respective community and will be solely accountable to its independent board. • The council will engage with the WSCCO to understand and align financial impacts on the community and influence in the governance of the WSCCO via the SoE and the LTP requirements. Provisions are likely to need to be put in place to ensure that consumers' voices are heard through a consumer panel and/or advocacy council, a disputes resolution process, and through public consultation requirements. • Mana whenua will engage with the WSCCO as well as the council as per pre-existing arrangements. |
| <p>Regional WSCCO ✓</p> | <ul style="list-style-type: none"> • The WSCCO can establish and maintain a direct relationship with customers and will be accountable to its independent board and to all communities within Hawke's Bay. • Provisions are likely to need to be put in place to ensure that consumers' voices are heard through a consumer panel and/or advocacy council, a disputes resolution process, and through public consultation requirements. • Shareholding councils will engage with the WSCCO to understand and align financial impacts on the community and influence the governance of the WSCCO via the SoE and the LTP requirements. |

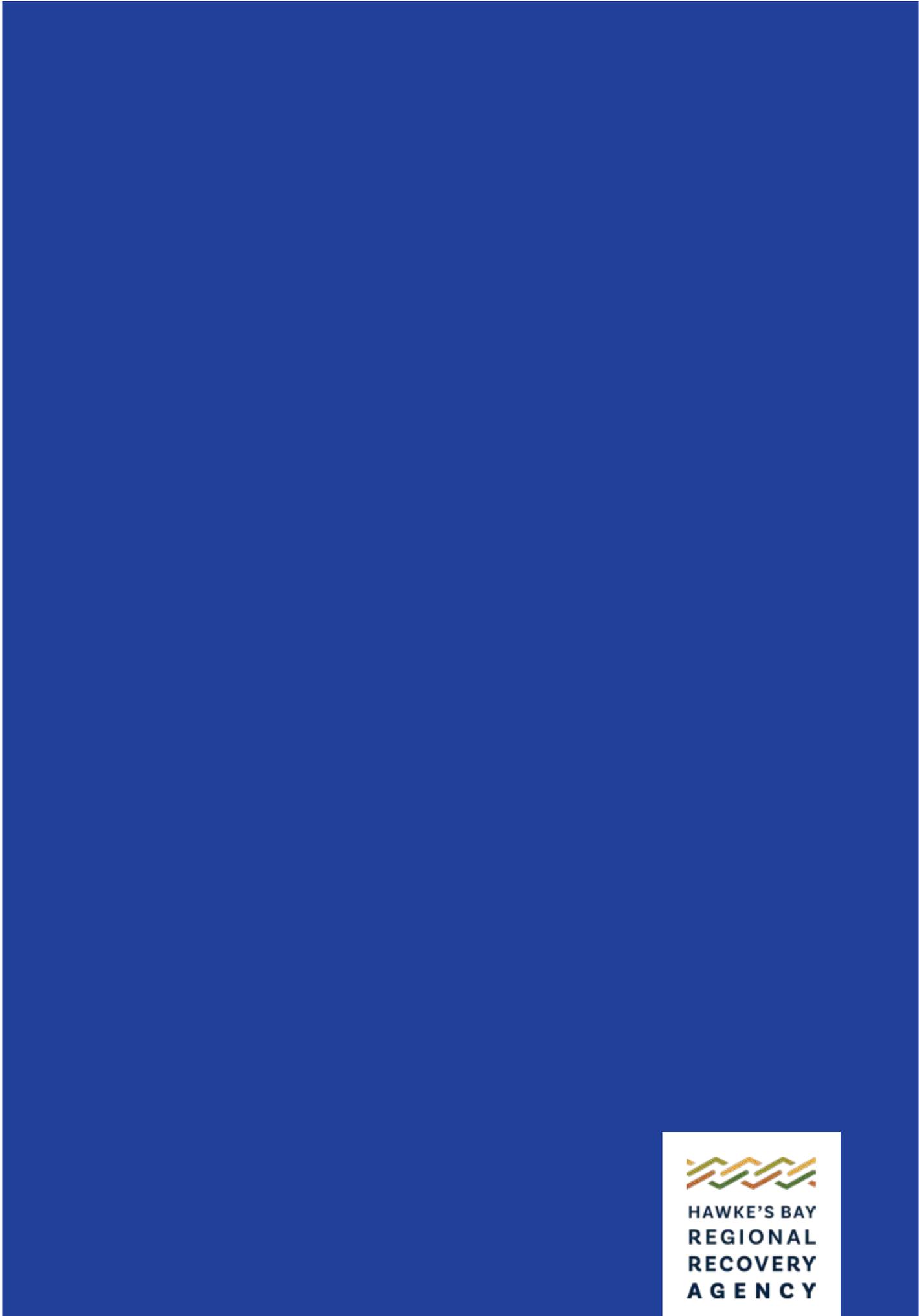
Have your say Hawke's Bay

Your input is needed to help shape the future delivery of water services in Hawke's Bay for generations to come. Each council is seeking feedback on this from its residents, asking you if you support their preferred option of a Regional Water Services Organisation.

Visit **www.hbwater.co.nz** to find out more and to be directed to your council's webpage where you will find:

- A copy of your council's consultation documents
- More information on what this means for you as residents and/or ratepayers in your area
- A schedule of engagement opportunities
- Details on where and how you can have your say.

Submissions for all councils close 5pm, June 15, 2025.



| ASSESSMENT CRITERIA | | | OPTION 1 - REGIONAL MODEL (HBY WO) | | OPTION 2 - NCC WO | | OPTION 3 - INTERNAL BUSINESS UNIT | |
|---------------------|--------------------------------------|-----------|--|--|----------------------------------|--|--|---|
| | | | Establishment of a joint WO across the 4 HB Councils | | Establishment of an NCC owned WO | | Ongoing management and delivery of water services remains in-house with financial ringfencing and other changes to meet legislation. | |
| | Principles | Weighting | Score (1-5) | Comment | Score (1-5) | Comment | Score (1-5) | Comment |
| 1 | Value for Money | 25% | 5 | Fully meets this principle. This model provides the lowest cost to ratepayers over the long-term. Strongest position to meet financial sustainability. | 3 | Meets the expectation of this principle. However, modelling indicates the highest costs to ratepayers due to the requirements of an external board for its operation. | 4 | Strongly meets this principle with marginal cost-savings over the Napier owned WO. Financial sustainability in question and would require tradeoffs to achieve. |
| 2 | Enhanced Delivery and Capability | 20% | 5 | The only model that displays economies of scale and offers employees stronger professional development opportunities because of size. | 4 | Some enhancement expected over Internal Business Unit based on the external governance of a board of competence. Still limited professional development as limited scale of the WO | 3 | Meets the expectation of this criteria. No economies of scale to be realised and growth opportunities of staff limited. |
| 3 | Increased Resilience | 20% | 4 | Offers the highest level of available debt in the event of recovery work. However, risk that a larger organisation and personnel may be 'stretched' responding to a significant event. | 4 | Staffing response the same as Internal Business Unit, however, NCC WO would have greater debt capacity to borrow against if recovery work was needed. | 3 | Debt for 3 Waters Activities linked to full council debt and current covenants limiting funding available for recovery work. |
| 4 | Community and mana whenua engagement | 20% | 3 | As this is a regional organisation there is risk that the level of engagement with local community and mana whenua is not as strong as desired. | 4 | As council is the only shareholder, strong connections would remain. However, there could be one degree of separation between community/partners and the WO. | 5 | Council has strong and direct connections with mana whenua and community, therefore, fully delivers against this criteria. |
| 5 | Ease of Implementation | 7.5% | 2 | The most complex of options to implement with the largest work programme and timeline. Presents the highest risks. | 3 | Slightly higher risk and complexity than the internal business unit but not to the scale of the regional model. | 4 | Lowest of risk of the options, but still a moderate work programme to fully meet the requirements of legislation. |
| 6 | Minimises Impact to Community | 7.5% | 3 | Most foreseen impact to community, however, can be managed with adequate planning and resource. | 4 | Minimal impact to community as only a small, step change from the internal business unit. | 5 | Foresee there would be no change and, therefore, no disruption to community. |
| Total | | | 100% | 81% | 74% | 78% | | |

KEY

1 - Little/No Alignment
2
3 - Moderate Alignment
4
5 - Strong Alignment

| ASSESSMENT CRITERIA | | | | | |
|---|--|--|---|---|---|
| Criteria | 1 (Poor) | 2 (Below Expectations) | 3 (Meets Expectations) | 4 (Exceeds Expectations) | 5 (Excellent) |
| Value for Money | High costs. Limited benefits to be achieved. Long-term financial sustainability not sufficient. | Lower costs than poor, however, not delivering any value of scale. Unlikely to meet expectation of costs. | Adequate value, however, costs are not optimized. Long-term outlook achievable but may be called into question. | Strong value with achievable cost-savings. | Savings to rate payers clearly visible. Strong long-term outlook for financial sustainability. |
| Enhanced Delivery and Capability | Limited potential to realise increase to delivery as lacking scale. Unable to provide strong professional development for staff as constraints in options of career development. . | Slight ability to increase delivery but highly reliant on realising internal best practice. Limited scope for meaningful career development. | Some ability to enhance delivery but dependent on internal continuous improvement as opposed to economies of scale. Professional development opportunities available but not to the extent of a larger entity with clear specialised roles. | Opportunity to enhance delivery, however, cannot be fully optimised. Good opportunities for career development and specialisation. | Capital delivery to be fully optimised to allow for efficient and cost-effective delivery. Use of contractor panels possible. Strong growth potential for staff with clear development options and areas to specialise. |
| Increased Resilience | Lacking ability to react to events operationally. Potential fiscal constraint accessing funding in recovery situation due to lack of debt headroom. | Small ability to react to a significant event. Minimal head room to fiscally address recovery. | Ability to just meet the needs during a severe event. Adequate access to lending but may impact future delivery as capital projects may need to be rephased. | Some additional personnel available to be deployed in significant event. Debt headroom not an issue with minimal disruption to future CAPEX delivery. | Strong ability to allocate personnel to react to significant event. Adequate debt headroom and access to funding if required to respond to recovery without impacting future delivery. |
| Community and mana whenua engagement | Struggles to engage with adequately and meet the expectations of community and mana whenua. | Engagement has challenges but is achieved. Large trade-offs required to meet community expectations. | Engagement is fit for purpose but not as meaningful and connected as could be. Ability to meet expectations but may need some trade-offs. | Good opportunity for engagement and able to meet expectations with minimal trade-offs. | Enables strong engagement with community and mana whenua and has the best ability to meet their requirements. |
| Ease of Implementation | Highest degree of risk. Transition process seen as challenging with numerous obstacles to overcome. Higher establishment costs anticipated. | Moderate risk of implementation with considerable disruption. Notable costs. | Achievable implementation but will require adequate resourcing and planning to action effectively. Moderate costs. | Achievable implementation with minimal risk and minor disruption. Minor costs. | Essentially no, or very limited, risk of implementing. Minimal establishment costs. |
| Minimises Impact to Community | High disruption to end user. Completely new supplier with changes being reflected in billing, customer service, and fault attention. Significant planning and resource required to enable. | Noticeable disruption to consumer. Requires adequate planning and resource. | Some change to the end user but manageable and well communicated. Changes are well planned and worked through causing minimal disruption. | Minimal change resulting in effectively no disruption to end user. | Essentially no disruption of service and minimal notice of change to end user. Everything stays the same as much as possible. |

RECOMMENDATION TO EXCLUDE THE PUBLIC

That the public be excluded from the following parts of the proceedings of this meeting, namely:

Agenda Items

6. Local Water Done Well - Draft Heads of Agreement

The general subject of each matter to be considered while the public was excluded, the reasons for passing this resolution in relation to each matter, and the specific grounds under Section 48(1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution were as follows:

| General subject of each matter to be considered. | Reason for passing this resolution in relation to each matter. | Ground(s) under section 48(1) to the passing of this resolution. | Plain English reason for passing this resolution in relation to each matter |
|--|---|---|---|
| Agenda Items | | | |
| 6. Local Water Done Well - Draft Heads of Agreement | 7(2)(h) Enable the local authority to carry out, without prejudice or disadvantage, commercial activities 7(2)(i) Enable the local authority to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations) | 48(1)(a) That the public conduct of the whole or the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding would exist: (i) Where the local authority is named or specified in Schedule 1 of this Act, under section 6 or 7 (except 7(2)(f)(i)) of the Local Government Official Information and Meetings Act 1987. | All Council to continue negotiations in confidence without possible disadvantage. |
| Public Excluded Text | | | |
| Council has considered the public interest in the information above and balanced those interests with the reason(s) for withholding this information. This ensures Council has met the requirements for withholding information under section 7(2) of the Local Government and Official Information and Meetings Act 1987. | | | |