



NAPIER
CITY COUNCIL
Te Kaunihera o Ahuriri

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ORDINARY MEETING OF COUNCIL

Open Agenda

Meeting Date: Thursday 17 April 2025

Time: 9.30am (Local Water Done Well)

Venue: Large Exhibition Hall
War Memorial Centre
Marine Parade
Napier

Livestreamed via Council's Facebook page

Council Members **Chair:** Mayor Wise

Members: Deputy Mayor Brosnan, Councillors Boag, Browne, Chrystal, Crown, Greig, Mawson, McGrath, Price, Simpson, Tareha and Taylor

Officer Responsible Chief Executive

Administrator Governance Team

Next Council Meeting
Thursday 24 April 2025

2022-2025 TERM OF REFERENCE - COUNCIL

<i>Chairperson</i>	<i>Her Worship Mayor Kirsten Wise</i>
<i>Deputy Chairperson</i>	<i>Deputy Mayor Annette Brosnan</i>
<i>Membership</i>	<i>All elected members</i>
<i>Quorum</i>	<i>7</i>
<i>Meeting frequency</i>	<i>At least 6 weekly and as required</i>
<i>Executive</i>	<i>Chief Executive</i>

Purpose

The Council is responsible for:

1. Providing leadership to and advocacy on behalf of the people of Napier.
2. Ensuring that all functions and powers required of a local authority under legislation, and all decisions required by legislation to be made by local authority resolution, are carried out effectively and efficiently, either by the Council or through delegation.

Terms of Reference

The Council is responsible for the following powers which cannot be delegated to committees, subcommittees, officers or any other subordinate decision-making body¹:

1. The power to make a rate
2. The power to make a bylaw
3. The power to borrow money, or purchase or dispose of assets, other than in accordance with the long-term plan
4. The power to adopt a long-term plan, annual plan, or annual report
5. The power to appoint a chief executive
6. The power to adopt policies required to be adopted and consulted on under the Local Government Act 2002 in association with the long-term plan or developed for the purpose of the local governance statement, including the 30-Year Infrastructure Strategy
7. The power to adopt a remuneration and employment policy.
8. The power to establish a joint committee with another local authority or other public body².
9. The power to approve or change the District Plan, or any part of that Plan, in accordance with the Resource Management Act 1991.
10. The power to make the final decision on a recommendation from the Parliamentary Ombudsman, where it is proposed that Council not accept the recommendation.
11. The power to make a final decision whether to adopt, amend, revoke, or replace a local Easter Sunday shop trading policy, or to continue a local Easter Sunday shop trading policy without amendment following a review.³

1 Schedule 7, clause 32. Local Government Act 2002.

2 Schedule 7, clause 30A

3 Shop Trading Hours Act 1990, section 5D.

Delegated Power to Act

The Council retains all decision making authority, and will consider recommendations of its committees prior to resolving a position.

Specific matters that will be considered directly by Council include without limitation unless by statute:

1. Direction and guidance in relation to all stages of the preparation of Long Term Plans and Annual Plans
2. Approval or amendment of the Council's Standing Orders⁴.
3. Approval or amendment the Code of Conduct for Elected Members⁵.
4. Appointment and discharging of committees, subcommittees, and any other subordinate decision-making bodies⁶.
5. Approval of any changes to the nature and delegations of any Committees.
6. Appointment and discharging of members of committees (as required and in line with legislation in relation to the role and powers of the Mayor) ⁷.
7. Approval of governance level strategies, plans and policies which advance council's vision and strategic goals.
8. Resolutions required to be made by a local authority under the Local Electoral Act 2001, including the appointment of an electoral officer.
9. Reviewing of representation arrangements, at least six yearly⁸.
10. Approval of any changes to city boundaries under the Resource Management Act.
11. Appointment or removal of trustees, directors or office holders to Council's Council-Controlled Organisations (CCOs) and Council Organisations (COs) and to other external bodies.
12. Approval the Local Governance Statement as required under the Local Government Act 2002.
13. Approval of the Triennial Agreement as required under the Local Government Act 2002.
14. Allocation of the remuneration pool set by the Remuneration Authority for the remuneration of elected members.
15. To consider and decide tenders for the supply of goods and services, where tenders exceed the Chief Executive's delegated authority, or where projects are formally identified by Council to be of particular interest. In addition, in the case of the latter, milestone reporting to Council will commence prior to the procurement process.

4 Schedule 7, clause 27,

5 Schedule 7, clause 15,

6 Schedule 7, clause 30,

7 Schedule 7, clause 30,

8 Local Electoral Act 2001, section 19H.

ORDER OF BUSINESS

Karakia

Apologies

Nil

Conflicts of interest

Public forum

Announcements by the Mayor including notification of minor matters not on the agenda

Note: re minor matters only - refer LGOIMA s46A(7A) and Standing Orders s9.13

A meeting may discuss an item that is not on the agenda only if it is a minor matter relating to the general business of the meeting and the Chairperson explains at the beginning of the public part of the meeting that the item will be discussed. However, the meeting may not make a resolution, decision or recommendation about the item, except to refer it to a subsequent meeting for further discussion.

Announcements by the management

Confirmation of minutes

There are no minutes to confirm.

Information items

Agenda items

1 Local Water Done Well - Consultation Options.....5

Minor matters not on the agenda – discussion (if any)

Reports under Delegated Authority

Recommendation to Exclude the Public

AGENDA ITEMS

1. LOCAL WATER DONE WELL - CONSULTATION OPTIONS

Type of Report:	Procedural
Legal Reference:	N/A
Document ID:	1845529
Reporting Officer/s & Unit:	Andrew Lebioda, Manager Water Reforms Transition

1.1 Purpose of Report

The purpose of this report is to seek Council's approval of the water service delivery model options to be included in formal consultation required under the Local Government (Water Services Preliminary Arrangements) Act 2024. The options being proposed for consultation are;

- 1) Internal Business Unit.
- 2) Single-council Water Organisation (WO).
- 3) Regional, Hawke's Bay WO.

With the Regional, Hawke's Bay WO being the preferred option.

Approval of the officer's recommendation will enable development of the consultation document and material, proposed for adoption at the 29 April Council meeting with consultation to run from 12 May through to 15 June.

Officer's Recommendation

That Council:

- a) **Note** the Local Government (Water Services Preliminary Arrangements) Act 2024 requires councils to produce a Water Services Delivery Plan by 3 September 2025
- b) **Note** that Council is required by Government to:
 - i. Consider and consult with community on at least two options for future delivery of water services.
 - ii. Demonstrate compliance with financial sustainability tests by 30 June 2028.
 - iii. Ring-fence revenue for three waters activities so these operations are separate from other Council activities from 30 June 2028.
- c) **Approve** that Council consult on
 - i. Option 1 – Internal Business Unit (also referred to as In-House and Council Delivered Services), the current delivery model with needed changes to meet legislation; and
 - ii. Option 2 – a Single-council Water Organisation (WO), also known as Napier Water Services Council Controlled Organisation (NCCWSCCO); and

- iii. Option 3 – a Regional, Hawke's Bay Multi-owned Water Organisation (HBWO). This would include Central Hawke's Bay District Council (CHBDC), Hastings District Council (HDC), Napier City Council (NCC) and Wairoa District Council (WDC).
- d) **Agrees** to identify that Option 3 – a Regional, Hawke's Bay WO as the preferred option for public consultation, pending approval of the other member councils of CHBDC, HDC, and WDC.
- e) **Endorse** that officers will prepare a Consultation Document and present to Council on 29 April 2025 for approval.
- f) **Note** that officers will summarise the outcomes of consultation considering community feedback, submissions, and hearings and provide a final advice via a report to Council on 31 July 2025 to confirm the delivery model to be identified in the Water Service Delivery Plan.

1.2 Background Summary

Hawke's Bay councils have a long-standing history with water services, pre-dating the various reform agendas of the last two Governments. It has been considered through multiple reports and Council workshops.

The current Government has repealed the previous Three Waters legislation and developed a replacement model under the Local Water Done Well policy. A summary of the history is attached as **Attachment 1**.

Local Water Done Well Legislative and Policy Framework

Local Water Done Well is the Government's reform programme to address New Zealand's long-standing water infrastructure challenges. It recognises the importance of local decision-making for communities and provides councils with a framework to determine how their water services will be delivered in the future. There is a strong emphasis on meeting economic, environmental and water quality regulatory requirements.

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. There are five options for new water service delivery entities that can be considered:

1. In-house business unit / council delivered service, or a
2. Single council-owned council-controlled organisation (CCO), also referred to as a single-council Water Organisation (WO), or a
3. A council-controlled organisation (CCO) owned by the council and one or more other local authorities. Also referred to as a joint/regional WO, or a
4. Mixed council / consumer trust – a consumer trust established as the majority

- shareholder with one or more councils owning a minority of shares, or a
5. Consumer trust – council assets would transfer to a consumer-trust owned organisation.

This paper and recommendations before Council focuses on consideration of the first three options. The last two options do not have access to Local Government Funding Agency (LGFA) enhanced financing and, therefore, have been assessed to not meet the legislated financial sustainability measures.

Irrespective of the model chosen - there are legislative restrictions against privatisation. The existing responsibilities, commitments, and obligations under the Local Government Act (LGA) and Treaty settlement legislation continue to apply, and all revenue, assets, expenses, and debt for water services must be separated or ring-fenced from all other Council services. It allows councils to retain control of water infrastructure but requires them to adhere to new investment, borrowing, and pricing rules. A new economic regulator will be put in place to enforce compliance.

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 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?

Water Service Providers (WSPs) including CCOs will be 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. While the LWDW model opens-up borrowing capacity, Council is still concerned over affordability issues with our ratepayer base.

Water organisations will be able to assess, set and collect water services charges from consumers and will be able to use the development contributions regime in the Local Government Act 2002 to charge developers where additional demand or growth is created.

The intention of providing this lending facility is to better enable councils, via a CCO, to address water investment needs and spread the cost of these investments over the lifespan of the asset. Further, 'balance sheet separation' adds the advantage of freeing-up debt 'headroom' for other Council activities 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 the in-house delivery, their existing water debt will remain on the council's books, despite the ring-fencing provisions under the LWDW legislation. This will mean considerably less debt headroom for Councils against their LGFA limits from both an LGFA and a rating agency perspective.

LGFA has issued guidance on how it will assess its lending to Water CCOs. 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.
- Water CCOs will have up to five years to comply with the covenants.
- Water CCOs 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. However, Hawke's Bay Councils have received confirmation from LGFA that an 8% FFO/Gross Debt ratio would apply to a joint WO.

Ahead of the LGFA releasing these covenants, previous guidance was that it would lend up to an equivalent of 500% net debt/revenue to water CCOs. 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 CCO pricing models has allowed for smoother price increases in the initial years of new water services delivery models, compared to earlier analysis.

Stormwater

Under the Bill, councils retain legal responsibility and control of stormwater services. However, they retain the flexibility to choose arrangements that best suit their circumstances.

If a new water organisation is established, the new entity could provide stormwater services under contract, or stormwater assets and debt may be transferred in full.

Given the challenges associated with managing Napier's stormwater network, including its capital-intensive needs, in evaluating and assessing the options asset ownership and management of stormwater services has been assumed to transfer to a Water Organisation.

Water Service Delivery Plans

Council must submit a WSDP by 3 September 2025, which explicitly shows its preferred proposed water services delivery model. A WSDP can be for drinking and wastewater only

and can exclude stormwater. Decisions that must be made include:

1. Proposed water services delivery model
2. Whether to transfer (or not) its stormwater services and/or assets (as well as drinking water and wastewater)
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 Department of Internal Affairs (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 sustainability. A council can also request the appointment of a Crown Facilitator and/or Water Services Specialist.

Planning and Accountability Framework

The Government is also proposing a new planning and accountability framework for water services. The framework is intended to improve transparency and accountability for future delivery of water services.

There are three documents (below) that form the framework, within which each water service provider's strategic and investment priorities, and performance settings, will be developed, explained and reported.

1. A statement of expectations, for service delivery arrangements that include separate water organisations (prepared by shareholders)

A statement of expectations is prepared by shareholders and issued to the water organisation they own. It will set out the expectations, priorities, and strategic direction 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.

2. 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.

3. 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.

Under the options where a water organisation is responsible for providing water services instead of a council, the council will not include information about water services in its long-term plan, infrastructure strategy, or annual report.

Water organisations will be required to consult shareholders (as the elected members/community representatives) on the proposed water services strategies. It will be up to the shareholders of water organisations to determine their involvement in preparing and finalising the water services strategy, including whether to approve the final strategy.

Consultation Requirements

The Act specifies that consultation is mandatory on the Council's proposed model or arrangement for its water service delivery, but optional on the balance of the WSDP. However, a streamlined consultation is outlined in the Act, simplifying the process to assist with the preparation, consultation and adoption of a WSDP. This consultation process replaces the Part 6 of the LGA provisions.

The Act also specifies the information that must be provided about the proposed delivery model during consultation. These include:

1. Specifying the proposed model or arrangements for delivering water services and the reasons for it
2. An analysis of the advantages and disadvantages of at least two options (including the proposed arrangements/model) that have been considered; one of these is expected to be a status quo approach. Council may decide to include analysis of additional options.
3. Potential impacts of proceeding or not proceeding with the proposal, including on rates, debt, levels of service, and any charges for water services.
4. For a joint model, the implications for communities and accountability arrangements for communities throughout the joint service area.

1.3 Issues

Issues are addressed in appended documentation.

1.4 Significance and Engagement

Assessing this report against the Significance and Engagement Policy concludes that this has a high degree of significance. In response to this Council will progress with a formal consultation process adhering to the alternative requirement, consultation process outlined in the Local Government (Water Services Preliminary Arrangements) Act 2024.

A high-level outline of the consultation document along with a communications and engagement plan summary is appended to this report. Consultation with the public on LWDW is expected to run from 12 May to 15 June but other councils are still working through their own processes later in April, so this date is yet to be confirmed.

1.5 Implications

Financial

Detailed financial modelling was completed comparing the options and is appended.

Social & Policy

At this stage no formal assessment has been made against Council's Policy settings. This is a discreet package of work to be completed during the implementation of the decided option.

Risk

Risks are identified in appended documentation.

1.6 Options

The options available to Council are as follows:

a. Internal Business Unit

This model maintains the current delivery method where Council retains the responsibility and governance of all water services (water supply, wastewater, and stormwater). Ultimate decision-making will continue to remain with Council.

b. Single Council WO

NCC establishes a Water Organisation in which it is the sole shareholder. Ownerships of assets would transfer to this new organisation along with the responsibility for delivering water services. An independent board of competence, as outlined in legislation, will be established and will be responsible for the governance of the organisation. Council will set strategic direction of the organisation through a Statement of Expectations issued to the board along with the role of approving a Water Services Strategy that the organisation must prepare and present to Council as the shareholder.

c. Joint Hawke's Bay WO (preferred)







NCC, along with the member councils of CHBDC, HDC, and WDC establish a Water Organisation and transfers all three waters assets and responsibility of delivering services to the organisation. At this stage, shareholding position has not been considered and is a key task to be undertaken once a substantive decision is made in July. Council's ability to set strategic direction of the organisation remains through the State of Expectations issued to the board. However, this may be limited by Napier City Council's determined level of shareholding.

1.7 Development of Preferred Option

Determining the Assessment Criteria

Previous Work

Considerable work has been done previously through the Morrison Low "Hawke's Bay Three Waters – Business Case of Three Waters Service Delivery Options" that set out key investment objectives and principles to form that report's recommendation. The investment objectives were identified as:

To provide three water services in a way that is affordable and effective		The three waters service's model must address the challenge of providing for an effective, affordable service in a fiscally responsible way
To provide services that are safe, reliable and resilient		Access to safe and reliable three waters service are fundamental to all the urban and rural communities of Hawke's Bay
To provide services through a model that enables a meaningful role for Māori		The Local Government Act requires a local authority to provide opportunities for Māori to contribute to its decision making processes
To provide services through a model that has the value of water at the centre		Water is vital to community life and as such three water services are part of a holistic water system
To provide three waters services in a way that supports our urban and rural communities		The services influence how people across Hawke's Bay live, work, gather, socialise, recreate and value environmental amenity
To provide three waters services that build enduring capability and capacity		The three waters model must be capable of, and have the capacity to, deliver quality sustainable planning, management and operation of three water services now and into the future

With the following underlying principles.

Value Te Ao Māori	Incorporating and implementing mātauranga Māori, culture and values (i.e. Te Aranga Design Principles) are a core element for any potential framework to realise and enhance the region's commitment to Māori to protecting/enhancing water
Value water	Wai is the essence of all life and the world's most precious resource. It is of high importance to Māori, as it is the life giver of all things, a precious taonga, part of our whakapapa
Whakapapa – genealogical links	Recognise and respect the relationship and whakapapa (genealogical link) that mana whenua has with water.
Te mauri o te wai – the life force of water	Mauri is the integrated and holistic well-being and life support capacity of water. The well-being/healthiness of the water, the land and the people are intrinsically connected.
Holistic approach to water	Although the project is based around the review of the service and delivery of the three waters (infrastructure), the proposed model needs to take into account a holistic water approach: there is only one water.
Enabling of Te Tiriti o Waitangi	Involving mana whenua in governance and decision making required to ensure Te tiriti o Waitangi obligations are met, as well as making sure they are able to actively exercise kaitiakitanga in a practical way
Mana motuhake - identity, self-determination	The identity of mana whenua in Hawke's Bay should not be lost in any potential model. But inclusion and co-governance whilst keeping their identity is an opportunity

The objectives and principles identified in the Morrison Low Business Case were confirmed still valid by councils, mana whenua partners, and other community stakeholders at a Regional Collaboration Day held in September 2024. However, it was acknowledged that they needed to be reassessed to address the current legislative environment.

Regional Criteria

Through the coordination efforts of the RRA a set of key principles was developed and circulated for approval to the elected members of the member councils of CHBDC, HDC, NCC, WDC. The agreed principles were broken down into the following financial principles;

Average cost of delivering water services FY26 - FY34

- This measures the average cost per connected residential property, and non-residential property for drinking water, wastewater, and stormwater services.

Average total cost to the ratepayer FY26 - FY34

- This measures the average cost to the ratepayer from FY26 - FY34, including all rates (water services and non-water services)

Balance sheet and debt headroom

- This measures a council's debt headroom (i.e. the amount of potential debt that it could borrow within the limits imposed on it by itself or by regulators) and how that debt would be recognised on the council's balance sheet.

Along with the below non-financial principles;

Service provision

- 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.

Resilience

- The extent to which a delivery model would support resilience, including the ability to support and respond to climate adaptation and emergencies.

Capital delivery and asset management

- Ability to deliver the capital programme and improve asset management maturity.

Capability and capacity

- Ability to build sustainable regional capability in three waters development and operations.

- Ability to build a long-term stable pipeline of work at scale.

Scale and opportunities for efficiency

- Ability to lower unit cost of infrastructure through standardisation and modular approach to infrastructure development and operations.

Mana Whenua Engagement

- The extent to which each option is designed to reflect the priorities of, and agreed outcomes for, mana whenua.

Community influence and engagement

- The extent to which each option enables the ability for communities to engage with water decision-making.

NCC Criteria

Finally, council officers workshopped the above with the elected members of Napier City Council to create a concise distillation that council believes best reflects the principles deemed most important to their community. This final list of principles formed the criteria that each delivery option was assessed against in a multi-criteria assessment. They are as follows;

Value for Money	Services are cost effective, and efficiencies are realised where possible. Provides long-term financial sustainability.
Enhanced Delivery and Capability	Ability to optimise the delivery of capital programme, increased service levels, and overall customer satisfaction. Model provide long-term, sustained growth potential for employees and enables a high-level of professionalism. Ability to maximise the output of an internal operations workforce to realise operational efficiencies.
Increased Resilience	How well can the organization respond to a significant event both from an operational level but also access to funding if large-scale recovery works are required?
Community and mana whenua engagement	The organisation has the capacity to meaningfully consult and engage with mana whenua partners and community. The organisation has a strong ability to meet partner and community expectations.
Ease of Implementation	The difficulty and risk of establishing an organisation or implementing the requirements needed to meet legislation, regulation, and new water quality standards.
Minimises Impact to Community	Upon implementation, what is the expected disruption to customers. What is the change requirement to mitigate effects?

The principles in blue were classified as 'lasting principles', that is, they are anticipated to hold true over the lifespan of the chosen delivery model. The principles in green were classified as 'barrier' principles and reflected the establishment risks of the delivery model.

Assessing the Options

The assessment of each option was conducted at a workshop held on 8 April 2025. The agreed upon principles were given a scoring range of 1 – 5 where 1 indicated that the proposed delivery model had a poor ability to meet the principle and 5 indicated an excellent ability.

The first step of this process involved councillors attributing a weighting to each principle illustrated below.

Principles		Weighting
1	Value for Money	25%
2	Enhanced Delivery and Capability	20%
3	Increased Resilience	20%
4	Community and mana whenua engagement	20%
5	Ease of Implementation	7.5%
6	Minimises Impact to Community	7.5%
Total		100%

After the weightings were agreed upon, councillors then worked through each option and attributed the relevant score of 1 – 5 against each principle.

Internal Business Unit

Internal Business Unit	
Ongoing management and delivery of water services remains in-house with financial ringfencing and other changes to meet legislation.	
Score (1-5)	Comment
4	Strongly meets this principle with marginal cost-savings over the Napier owned WO. Financial sustainability in question and would require trade-offs to achieve.
3	Meets the expectation of this criteria. No economies of scale to be realised and growth opportunities of staff limited.
3	Debt for 3 Waters Activities linked to full council debt and current covenants limiting funding available for recovery work.
5	Council has strong and direct connections with mana whenua and community, therefore, fully delivers against this criteria.
4	Lowest of risk of the options, but still a moderate work programme to fully meet the requirements of legislation.
5	Foresee there would be no change and, therefore, no disruption to community.
78%	

Single Council WO

NCC WO	
Establishment of an NCC owned WO	
Score (1-5)	Comment
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	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
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.
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.
3	Slightly higher risk and complexity than the internal business unit but not to the scale of the regional model.
4	Minimal impact to community as only a small, step change from the internal business unit.
74%	

Joint Hawke's Bay WO

Regional Model (HBY WO)	
Establishment of a joint WO across the 4 HB Councils	
Score (1-5)	Comment
5	Fully meets this principle. This model provides the lowest cost to ratepayers over the long-term. Strongest position to meet financial sustainability.
5	The only model that displays economies of scale and offers employees stronger professional development opportunities because of size.
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.

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.
2	The most complex of options to implement with the largest work programme and timeline. Presents the highest risks.
3	Most foreseen impact to community, however, can be managed with adequate planning and resource.
81%	

From the options analysis the Joint Hawke's Bay Water Organisation was determined to be the preferred option.

Consultation On the Options

Public consultation is required before these decisions are taken, as legislated in the Act.

While the analysis of the advantages and disadvantages of at least two delivery models is required for streamlined consultation under the Act, Council may decide to include analysis of additional delivery models.

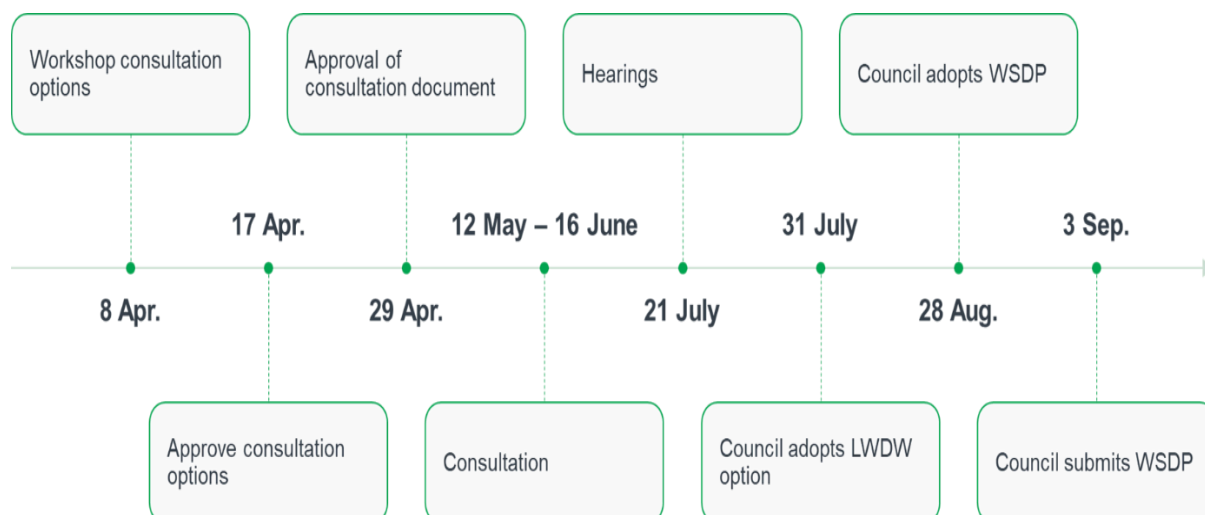
As detailed analysis has been completed on three delivery models 1) In-House/Council Delivered Service, 2) NCC WO, 3) Joint Hawke's Bay WO - it is recommended that all three delivery models are included in consultation materials.

Including all viable delivery models also ensures we receive feedback on the full scope of reasonably practicable options, in the circumstance that any regional partners opt out or select alternative preferred options to the Joint Hawke's Bay WO.

Next Steps

Key next steps are Officers will prepare consultation material based on today's recommendations, for consideration and adoption at 29 April Council Meeting. This will include proposed consultation, hearing and deliberation dates and an engagement plan.

Summary of key dates and milestones:



Key Considerations for Implementation of Preferred Option

Establishment Date

Agreement among the member councils will have to be made regarding a realistic, achievable establishment date. Further understanding of key financial data, systems integration, and complexity of the organisation is required to get a strong understanding of the workstreams required to progress to achieve the go-live date.

Governance

A governance structure will need to oversee multiple phases of implementation. From transition through establishment and into the operational phase. Strong governance across all of these phases is crucial.

Shareholding

Determining the level of shareholding of each council will take significant discussion considering current debt positions, levels of revenue, asset valuation, and project capital investment for a start.

Change Management Plan

Assessing and planning for the change impact on staff and customers will be imperative to minimise these impacts and mitigate the identified risks.

1.8 Attachments

- 1 Summary of the History (to be circulated separately) (Under separate cover 1)
- 2 Issues addressed in documentation (to be circulated separately) (Under separate cover 1)
- 3 Detailed Financial Modelling (to be circulated separately) (Under separate cover 1)
- 4 Communications and Engagement plan (to be circulated separately) (Under separate cover 1)