

# Wairarapa and Tararua Water Done Well

## SOUTH WAIRARAPA DISTRICT COUNCIL

**Assessment of the financial sustainability of South Wairarapa  
District Council's water services delivery and considerations for  
potential joint Wairarapa/Tararua water services CCO**

11 November 2024

*This document has been prepared to provide information to South Wairarapa District Council on the financial sustainability of water services provision (as indicatively assessed against the requirements for Water Services Delivery Plans), and to provide information relating to a potential Joint Wairarapa/Tararua water services CCO.*

*The Department of Internal Affairs has relied on information provided by South Wairarapa District Council in the development of the analysis and guidance included in this report.*

*This guidance is not legal advice; and is intended to support South Wairarapa District Council's decision-making requirements under Local Water Done Well.*

# Wairarapa and Tararua Joint Council Project

Carterton District Council, Masterton District Council, South Wairarapa District Council and Tararua District Council are investigating a joint arrangement under Local Water Done Well (referred to as 'WAI + T').

The Council Grouping approached the Department of Internal Affairs ('The Department') for analytical and guidance support to investigate the financial sustainability and viability of status quo in-house water services delivery, and that of potential new joint delivery arrangements for water services.

The Department has worked with each participating council to confirm baseline positions and provide guidance on the financial sustainability of status quo water services delivery. A report on the viability of a potential 'WAI + T' Water CCO has been developed and provided to Wairarapa and Tararua councils (titled *Wairarapa and Tararua Water Done Well*, 1 November 2024).

This pack has been developed as an addendum report which provides further analysis and guidance on trade-offs and benefits that could be obtained for South Wairarapa District Council and South Wairarapa communities through establishing a 'WAI + T' Water CCO.

A similar report has been developed and provided to the other Wairarapa and Tararua councils.

The analysis within this pack should be considered alongside the *Wairarapa and Tararua Water Done Well* report.

# A 'WAI + T' Water CCO would be financially viable

Our analysis on the financial information provided by Wairarapa and Tararua councils demonstrates that a **'WAI + T' Water CCO would be financially sustainable** at LTP projected levels of investment, revenues and debt financing.

A **'WAI + T' Water CCO would also meet the financial sustainability requirements** of Water Services Delivery Plans.

A 'WAI + T' Water CCO will:

- Be **able to access additional debt financing from LGFA** up to the equivalent of 500% of operating revenues (a significant uplift against what Wairarapa and Tararua councils can achieve on a stand-alone basis).
- **Improve the financial resilience for water services delivery** across the Wairarapa and Tararua.
- Provide the ability to **fund the required levels of water services investment**, with **scope to increase and/or accelerate proposed investment**.
- Provide the opportunity to deliver **lower water charges to Wairarapa and Tararua consumers** than what councils could deliver on a stand-alone in-house basis.
- Create **new borrowing headroom for owning councils** if water services revenues and debt are transferred to 'WAI + T' Water CCO. This new borrowing headroom could be **used to fund non-water investment** that is projected to be revenue funded, leading to a **reduction in projected rates increases**.
- Enable an **efficient financing strategy for water services** to be developed and implemented.

# Further analysis is required with trade-offs to consider for each council to unlock the benefits of Local Water Done Well

Based on the current set of financial projections for each council, a **combined 'WAI + T' Water CCO would be financially sustainable.**

Wairarapa and Tararua councils should however **continue to investigate their water services financial projections and financial strategies to realise the full set of benefits** that Local Water Done Well and the LGFA financing solution for water CCOs provide.

This report sets out the considerations and trade-offs to be considered by South Wairarapa District Council.

Each council should look to **strike an effective balance between levels of investment, debt financing and affordability** for consumers when developing a Water Services Delivery Plan, confirming financial projections and developing implementation plans.

A 'WAI + T' Water CCO established under Local Water Done Well enables **debt financing to be more effectively utilised to increase and/or accelerate investment, or to reduce charges for consumers.**

Each council should also review the projected water services investment included in their 2024-34 LTP (or other council projections) against the minimum requirements required in Water Services Delivery Plans guidance and look to identify any potential savings or efficiencies that could be gained to reduce the total investment requirement.

Savings to investment programmes could be identified through:

- Wairarapa and Tararua councils working together on joint investment programmes, including identifying new opportunities to deliver regional solutions at lower cost, rephasing of investment, or developing efficient joint procurement approaches to lower costs; and/or
- Working through the impact that expected changes to regulatory standards signalled by the Government will have on water services investment requirements.

# South Wairarapa District Council numbers

South Wairarapa District Council deferred its 2024-34 Long-term Plan (LTP) this year, instead preparing an Enhanced Annual Plan for FY24/25. An LTP will be developed for consultation and adoption in 2025.

We have worked with officers from South Wairarapa District Council to develop a baseline set of ten-year water services projections.

The financial projections have been developed using the following material assumptions:

- \$145 million of capital investment required for water services over ten years (from SWDC LTP workings provided to the Department).
- FY24/25 numbers are taken from SWDC's Enhanced Annual Plan.
- Debt financing is used for capital investment to the extent possible, whilst ensuring debt to revenue does not exceed 500% of operating revenues, and that sufficient operating cashflows are generated through revenue setting to align with LGFA's expected prudent credit criteria for lending to Water CCOs.
- Operating expenses have been projected to align with Tararua District Council's levels of water opex by FY27/28, on a per connection basis. This shows a reduction in projected operating expenses over three years as Wellington Water's current per connection operating costs are significantly higher than that faced by other Wairarapa and Tararua councils.
- Assumptions have been applied so that, for the given \$145 million capital investment requirement, the financial projections would likely meet the revenue, investment and financing sufficiency tests for Water Services Delivery Plans, subject to SWDC submitting a joint 'WAI + T' arrangement.

We have included scenarios at different levels of investment (\$122.5 million and \$100 million) to demonstrate the relationship between levels of investment and charges to consumers. Levels of investment versus affordability of charges to consumers is the key trade-off dynamic for SWDC as part of a 'WAI + T' regional solution.

South Wairarapa District Council should continue to refine these financial projections over the course of the next year, before developing and finalising a Water Services Delivery Plan.

# The financial sustainability of South Wairarapa District Council's water services and opportunities under a 'WAI + T' Water CCO

This pack includes analysis and guidance on:

- Financial sustainability considerations for South Wairarapa District Council's water services delivery based on financial projection information developed with SWDC officers.
- An indicative assessment of SWDC's water services requirements against the financial sustainability measures in Water Services Delivery Plans.
- Trade-offs and opportunities from the potential establishment of a 'WAI + T' water services CCO that can access additional debt financing (up to 5x revenues) through LGFA, to the benefit of South Wairarapa communities .

## Key conclusions of analysis for South Wairarapa District Council

### Financial sustainability review of status quo water services delivery for South Wairarapa District Council

On a stand-alone basis, SWDC would face significant challenges in meeting the financial sustainability requirements for Water Services Delivery Plans. **Establishing a regional water CCO is critical to SWDC's ability to be able to submit a financially sustainable plan.**

LTP projections for water services would **likely meet the 'revenue sufficiency' test**, as part of a 'WAI + T' Water CCO.

LTP projected investment represents a significant capital programme that would **meet the 'investment sufficiency' test**.

On a stand-alone basis, SWDC would likely face significant challenges in financing the \$145 million investment requirement.

However, **if included in a 'WAI + T' Water CCO**, this investment requirement could be financed and would **likely meet the 'financing sufficiency' test**.

### A 'WAI + T' water CCO would be viable

A **'WAI + T' Water CCO would be financially sustainable** at LTP projected levels of investment, revenues and debt financing.

A 'WAI + T' Water CCO would also **likely meet the financial sustainability requirements** of Water Services Delivery Plans.

A 'WAI + T' Water CCO will:

- Be able to **access additional debt financing** from LGFA (500% of operating revenues).
- **Improve financial resilience** for water services delivery.
- Provide the **ability to fund the required levels of water services investment**, with scope to increase and/or accelerate proposed investment.
- Result in **lower water charges** to South Wairarapa consumers, than what SWDC could deliver on a stand-alone in-house basis, if debt financing is appropriately utilised to fund investment.
- Create **new borrowing headroom for SWDC**.
- **Enable an efficient financing strategy** for water services to be developed and implemented.

### Comment provided by SWDC officers

*"The benefits to SWDC on being able to deliver a full capital programme under a 'WAI + T' Water CCO accrue to the community as adequate investment is made at least cost, using a portfolio optimization approach to capital delivery across a greater population/area in a prioritised way. This is complimented by an efficient financing structure with adequate headroom, setting us up for success and allowing intergenerational equity in paying for long term infrastructure.*

*Without this, SWDC would struggle to deliver a full suite of wastewater treatment plant upgrades for compliance and capacity needs and the burden would unfairly fall on today's ratepayers over-burdening them and/or stymying growth in our townships."*

### Trade-offs and opportunities for South Wairarapa District Council and communities under 'WAI + T'

The transfer of SWDC's water services into a joint CCO could:

- Enable the full \$145 million **water services capital investment requirement to be funded sustainably**;
- Provide a **stable delivery model** for SWDC to **continue to refine its investment requirement**, considering different levels of investment against affordability for consumers; and
- Enable **water services debt to be treated separately from SWDC** as owning council by LGFA, **improving SWDC's credit position**.

Establishing a 'WAI + T' Water CCO will **enable financially sustainable water services** for SWDC and South Wairarapa communities, which **cannot be achieved on a stand-alone basis**.

'WAI + T' will enable the **delivery of a substantial capital programme** for water services infrastructure, enabling SWDC to **meet regulatory standards, uplift levels of service and enable housing growth**.

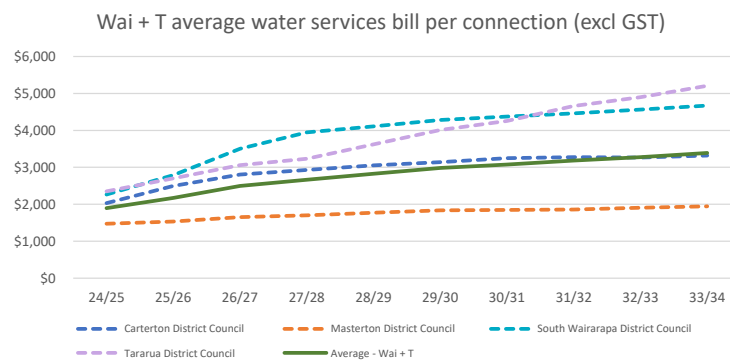
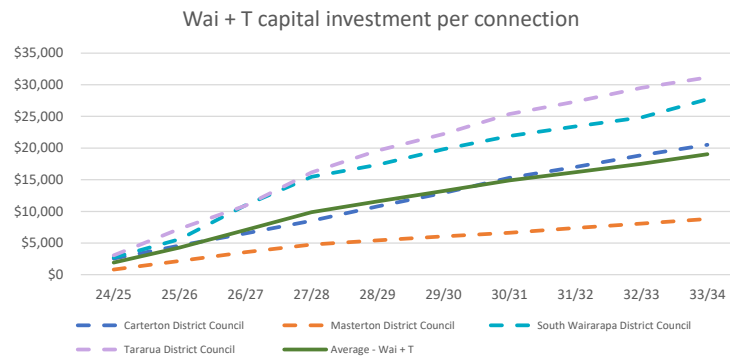
# Investment requirements drive household bills for water services

## SWDC's proposed levels of investment result in higher charges than the 'WAI + T' average

The 2024-34 LTP is projecting \$145 million of capital investment over ten years. This is a significant capital programme over ten years. Total proposed water services infrastructure investment is four times depreciation charges over the period.

The level of proposed investment on a per connection basis is significantly higher than the 'WAI + T' average, which in turn sees average household bills for South Wairarapa consumers that are higher than the 'WAI + T' average.

Average investment and bills per connection from the *Wairarapa and Tararua Water Done Well* report are shown below.



## Sensitivity analysis on capital investment and the impact on household charges

To demonstrate the relationship between investment and price we have included scenarios below which show the projected price path at different levels of investment, compared to 'WAI + T' average projected charges.

These scenarios compare:

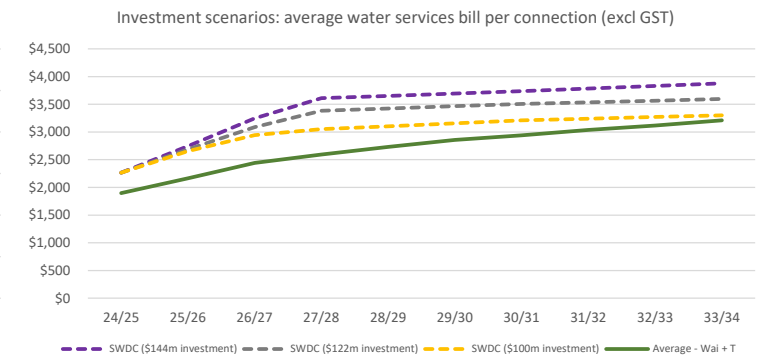
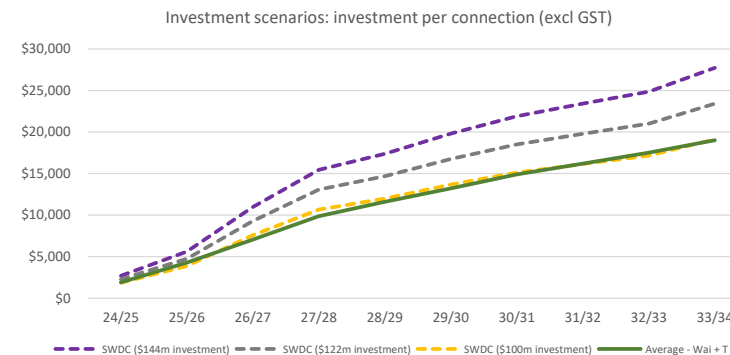
- Projected average household charges with \$145 million capital investment over ten years (as set out in the financial projections provided by South Wairarapa District Council);
- Projected average household charges with \$122.5 million capital investment over ten years (15% reduction); and
- Projected average household charges with \$100 million capital investment over ten years (30% reduction).

These scenarios show a significant reduction in average household charges with a smaller capital envelope.

SWDC may wish to review the projected water services investment against the minimum requirements required in Water Services Delivery Plans guidance and look to identify any potential savings or efficiencies that could be gained to reduce the total investment requirement.

Savings to investment programmes could be identified through:

- Wairarapa and Tararua councils working together on joint investment programmes, including identifying new opportunities to deliver regional solutions at lower cost, rephrasing of investment, or developing efficient joint procurement approaches to lower costs; and/or
- Working through the impact that expected changes to regulatory standards signalled by the Government will have on water services investment requirements.





# South Wairarapa District Council: Water Services in 2024-34 Long Term Plan

## Considerations for Local Water Done Well from review of LTP information

- The \$145 million capital investment programme over ten years is significant. On a stand-alone basis, SWDC would face significant challenges in meeting the financial sustainability requirements for Water Services Delivery Plans.
- It is critical for South Wairarapa District Council to pursue a regional delivery model through the establishment of a new water CCO, such as the 'WAI +T' CCO being investigated by Wairarapa and Tararua councils.
- Substantial water rates increases will be needed over four years to fund the \$145 million capital investment envelope and to meet the financial sustainability requirements under Local Water Done Well. From there, water services are in a financially sustainable 'state' which means that subsequent revenue or price increases would be in line with CPI.
- As part of a 'WAI + T' Water CCO, South Wairarapa District Council could fund this investment requirement.
- Consideration should be given to the relationship between investment requirements and revenues, which ultimately determine the price that South Wairarapa communities pay for their water services.

## Water services funding impact statement: 2024-34 LTP

Funding impact statement (\$'000)	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34	Total
<b>Sources of operating funding</b>											
Targeted rates	10,843	13,525	16,305	18,449	18,968	19,505	20,060	20,635	21,231	21,846	181,367
Fees and charges	45	46	48	49	51	52	54	55	57	59	516
<b>Total operating funding</b>	<b>11,975</b>	<b>13,571</b>	<b>16,353</b>	<b>18,498</b>	<b>19,018</b>	<b>19,557</b>	<b>20,114</b>	<b>20,691</b>	<b>21,288</b>	<b>21,905</b>	<b>182,970</b>
<b>Applications of operating funding</b>											
Payments to staff and suppliers	8,754	8,118	7,538	7,008	7,218	7,435	7,658	7,888	8,124	8,368	78,109
Finance costs	951	1,721	2,586	3,542	3,991	4,200	4,434	4,549	4,572	4,772	35,318
Internal charges and overheads applied	1,018	945	878	817	841	867	893	920	947	975	9,100
<b>Total applications of operating funding</b>	<b>10,723</b>	<b>10,784</b>	<b>11,002</b>	<b>11,367</b>	<b>12,050</b>	<b>12,502</b>	<b>12,985</b>	<b>13,356</b>	<b>13,643</b>	<b>14,115</b>	<b>122,528</b>
<b>Surplus/(deficit) of operating funding</b>	<b>1,252</b>	<b>2,787</b>	<b>5,351</b>	<b>7,130</b>	<b>6,968</b>	<b>7,055</b>	<b>7,129</b>	<b>7,335</b>	<b>7,644</b>	<b>7,790</b>	<b>60,442</b>
<b>Sources of capital funding</b>											
Development and financial contributions	416	428	441	455	468	482	497	512	527	543	4,769
Increase/(decrease) in debt	10,610	11,268	21,474	15,447	2,556	5,475	3,626	485	(175)	7,874	78,640
<b>Total sources of capital funding</b>	<b>11,026</b>	<b>11,696</b>	<b>21,916</b>	<b>15,901</b>	<b>3,024</b>	<b>5,957</b>	<b>4,123</b>	<b>996</b>	<b>352</b>	<b>8,417</b>	<b>83,409</b>
<b>Applications of capital funding</b>											
Capital expenditure - to meet additional demand	0	0	0	3,500	0	0	0	0	0	0	3,500
Capital expenditure - to improve levels of services	7,507	9,700	17,150	9,250	5,216	7,455	6,016	3,618	3,300	8,513	77,725
Capital expenditure - to replace existing assets	5,807	4,784	10,117	10,282	4,776	5,558	5,236	4,713	4,696	7,694	63,662
Increase/(decrease) in reserves	(1,037)	0	0	0	0	0	0	0	0	0	(1,037)
<b>Total applications of capital funding</b>	<b>12,277</b>	<b>14,484</b>	<b>27,267</b>	<b>23,032</b>	<b>9,992</b>	<b>13,013</b>	<b>11,252</b>	<b>8,331</b>	<b>7,996</b>	<b>16,207</b>	<b>143,850</b>
<b>Surplus/(deficit) of capital funding</b>	<b>(1,251)</b>	<b>(2,787)</b>	<b>(5,351)</b>	<b>(7,130)</b>	<b>(6,968)</b>	<b>(7,055)</b>	<b>(7,129)</b>	<b>(7,335)</b>	<b>(7,644)</b>	<b>(7,790)</b>	<b>(60,441)</b>
<b>Funding balance</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1</b>

## Water services metrics: 2024-34 LTP

### Key financial metrics for water services

Metrics	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Rates increase	24.4%	23.7%	20.6%	13.1%	2.8%	2.8%	2.8%	2.9%	2.9%	2.9%
Operating revenue increase	21.4%	13.3%	20.5%	13.1%	2.8%	2.8%	2.9%	2.9%	2.9%	2.9%
Operating expenses increase	26.8%	-7.3%	-7.1%	-7.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Net debt to operating revenue	236.6%	291.8%	373.5%	413.7%	415.8%	432.3%	438.4%	428.5%	415.7%	439.9%
FFO to net debt	4.4%	7.0%	8.8%	9.3%	8.8%	8.3%	8.1%	8.3%	8.6%	8.1%

## Water Services Projected Financial Statements: 2024-34 LTP (\$'k)

Statement of comprehensive revenue and expense (\$'000)	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
<b>Operating revenue</b>	<b>11,975</b>	<b>13,571</b>	<b>16,353</b>	<b>18,498</b>	<b>19,018</b>	<b>19,557</b>	<b>20,114</b>	<b>20,691</b>	<b>21,288</b>	<b>21,905</b>
Other revenue	416	428	441	455	468	482	497	512	527	543
<b>Total revenue</b>	<b>12,391</b>	<b>14,000</b>	<b>16,794</b>	<b>18,952</b>	<b>19,487</b>	<b>20,039</b>	<b>20,611</b>	<b>21,202</b>	<b>21,815</b>	<b>22,448</b>
<b>Operating expenses</b>	<b>8,754</b>	<b>8,118</b>	<b>7,538</b>	<b>7,008</b>	<b>7,218</b>	<b>7,435</b>	<b>7,658</b>	<b>7,888</b>	<b>8,124</b>	<b>8,368</b>
Finance costs	951	1,721	2,586	3,542	3,991	4,200	4,434	4,549	4,572	4,772
Overheads and support costs	1,018	945	878	817	841	867	893	920	947	975
Depreciation & amortisation	2,490	2,612	2,815	3,276	3,475	3,736	3,961	4,127	4,287	4,611
<b>Total expenses</b>	<b>13,213</b>	<b>13,396</b>	<b>13,817</b>	<b>14,643</b>	<b>15,526</b>	<b>16,237</b>	<b>16,946</b>	<b>17,483</b>	<b>17,931</b>	<b>18,727</b>
<b>Net surplus / (deficit)</b>	<b>(822)</b>	<b>604</b>	<b>2,977</b>	<b>4,309</b>	<b>3,961</b>	<b>3,802</b>	<b>3,665</b>	<b>3,719</b>	<b>3,884</b>	<b>3,721</b>
Revaluation of infrastructure assets	0	9,226	0	10,008	0	10,416	0	10,441	0	10,411
<b>Total comprehensive income</b>	<b>(822)</b>	<b>9,830</b>	<b>2,977</b>	<b>14,318</b>	<b>3,961</b>	<b>14,218</b>	<b>3,665</b>	<b>14,160</b>	<b>3,884</b>	<b>14,133</b>
<b>Cash surplus / (deficit) from operations (excl depreciation)</b>	<b>1,668</b>	<b>3,216</b>	<b>5,792</b>	<b>7,585</b>	<b>7,436</b>	<b>7,538</b>	<b>7,626</b>	<b>7,846</b>	<b>8,171</b>	<b>8,333</b>

Statement of cashflows (\$'000)	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
<b>Cashflows from operating activities</b>										
Cash surplus / (deficit) from operations	1,668	3,216	5,792	7,585	7,436	7,538	7,626	7,846	8,171	8,333
<b>Net cashflows from operating activities</b>	<b>1,668</b>	<b>3,216</b>	<b>5,792</b>	<b>7,585</b>	<b>7,436</b>	<b>7,538</b>	<b>7,626</b>	<b>7,846</b>	<b>8,171</b>	<b>8,333</b>
<b>Cashflows from investment activities</b>										
Capital expenditure	(13,314)	(14,484)	(27,267)	(23,032)	(9,992)	(13,013)	(11,252)	(8,331)	(7,996)	(16,207)
<b>Net cashflows from investment activities</b>	<b>(13,314)</b>	<b>(14,484)</b>	<b>(27,267)</b>	<b>(23,032)</b>	<b>(9,992)</b>	<b>(13,013)</b>	<b>(11,252)</b>	<b>(8,331)</b>	<b>(7,996)</b>	<b>(16,207)</b>
<b>Cashflows from financing activities</b>										
New borrowings	10,610	11,268	21,474	15,447	2,556	5,475	3,626	485	(175)	7,874
<b>Net cashflows from financing activities</b>	<b>10,610</b>	<b>11,268</b>	<b>21,474</b>	<b>15,447</b>	<b>2,556</b>	<b>5,475</b>	<b>3,626</b>	<b>485</b>	<b>(175)</b>	<b>7,874</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(1,036)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>803</b>	<b>(233)</b>	<b>(233)</b>	<b>(233)</b>	<b>(233)</b>	<b>(233)</b>	<b>(233)</b>	<b>(233)</b>	<b>(233)</b>	<b>(233)</b>
<b>Cash and cash equivalents at end of year</b>	<b>(233)</b>	<b>(233)</b>	<b>(233)</b>	<b>(233)</b>	<b>(233)</b>	<b>(233)</b>	<b>(233)</b>	<b>(233)</b>	<b>(233)</b>	<b>(233)</b>

Statement of financial position (\$'000)	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
<b>Assets</b>										
Cash and cash equivalents	(233)	(233)	(233)	(233)	(233)	(233)	(233)	(233)	(233)	(233)
Infrastructure assets	139,788	160,886	185,338	215,102	221,619	241,312	248,603	263,248	266,956	288,963
<b>Total assets</b>	<b>139,555</b>	<b>160,653</b>	<b>185,105</b>	<b>214,869</b>	<b>221,386</b>	<b>241,079</b>	<b>248,370</b>	<b>263,015</b>	<b>266,723</b>	<b>288,730</b>
<b>Liabilities</b>										
Borrowings - non-current portion	28,097	39,365	60,839	76,286	78,842	84,317	87,943	88,428	88,253	96,127
<b>Total liabilities</b>	<b>28,097</b>	<b>39,365</b>	<b>60,839</b>	<b>76,286</b>	<b>78,842</b>	<b>84,317</b>	<b>87,943</b>	<b>88,428</b>	<b>88,253</b>	<b>96,127</b>
<b>Net assets</b>	<b>111,458</b>	<b>121,288</b>	<b>124,265</b>	<b>138,583</b>	<b>142,543</b>	<b>156,761</b>	<b>160,427</b>	<b>174,587</b>	<b>178,471</b>	<b>192,603</b>
<b>Equity</b>										
Revaluation reserve	101,245	110,471	110,471	120,479	120,479	130,895	130,895	141,337	141,337	151,748
Other reserves	10,213	10,817	13,794	18,104	22,064	25,866	29,531	33,250	37,134	40,856
<b>Total equity</b>	<b>111,458</b>	<b>121,288</b>	<b>124,265</b>	<b>138,583</b>	<b>142,543</b>	<b>156,761</b>	<b>160,427</b>	<b>174,587</b>	<b>178,471</b>	<b>192,603</b>



# South Wairarapa District Council: Revenue sufficiency

## Projected statement of comprehensive revenue and expense

Statement of comprehensive revenue and expense (\$000)	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Operating revenue	11,975	13,571	16,353	18,498	19,018	19,557	20,114	20,691	21,288	21,905
Other revenue	416	428	441	455	468	482	497	512	527	543
<b>Total revenue</b>	<b>12,391</b>	<b>14,000</b>	<b>16,794</b>	<b>18,952</b>	<b>19,487</b>	<b>20,039</b>	<b>20,611</b>	<b>21,202</b>	<b>21,815</b>	<b>22,448</b>
Operating expenses	8,754	8,118	7,538	7,008	7,218	7,435	7,658	7,888	8,124	8,368
Finance costs	951	1,721	2,586	3,542	3,991	4,200	4,434	4,549	4,572	4,772
Overheads and support costs	1,018	945	878	817	841	867	893	920	947	975
Depreciation & amortisation	2,490	2,612	2,815	3,276	3,475	3,736	3,961	4,127	4,287	4,611
<b>Total expenses</b>	<b>13,213</b>	<b>13,396</b>	<b>13,817</b>	<b>14,643</b>	<b>15,526</b>	<b>16,237</b>	<b>16,946</b>	<b>17,483</b>	<b>17,931</b>	<b>18,727</b>
<b>Net surplus / (deficit)</b>	<b>(822)</b>	<b>604</b>	<b>2,977</b>	<b>4,309</b>	<b>3,961</b>	<b>3,802</b>	<b>3,665</b>	<b>3,719</b>	<b>3,884</b>	<b>3,721</b>
Revaluation of infrastructure assets	0	9,226	0	10,008	0	10,416	0	10,441	0	10,411
<b>Total comprehensive income</b>	<b>(822)</b>	<b>9,830</b>	<b>2,977</b>	<b>14,318</b>	<b>3,961</b>	<b>14,218</b>	<b>3,665</b>	<b>14,160</b>	<b>3,884</b>	<b>14,133</b>
<b>Cash surplus / (deficit) from operations (excl depreciation)</b>	<b>1,668</b>	<b>3,216</b>	<b>5,792</b>	<b>7,585</b>	<b>7,436</b>	<b>7,538</b>	<b>7,626</b>	<b>7,846</b>	<b>8,171</b>	<b>8,333</b>

## Key water services metrics

Metrics	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Rates increase	24.4%	23.7%	20.6%	13.1%	2.8%	2.8%	2.8%	2.9%	2.9%	2.9%
Operating revenue increase	21.4%	13.3%	20.5%	13.1%	2.8%	2.8%	2.8%	2.9%	2.9%	2.9%
Operating expenses increase	26.8%	-7.3%	-7.1%	-7.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Net debt to operating revenue	236.6%	291.8%	373.5%	413.7%	415.8%	432.3%	438.4%	428.5%	415.7%	439.9%
FFO to net debt	4.4%	7.0%	8.8%	9.3%	8.8%	8.3%	8.1%	8.3%	8.6%	8.1%

## Commentary on water services revenue and expenses

- The FY24/25 Enhanced Annual Plan shows a 24.4% uplift in water services revenues for FY24/25, which is primarily due to a 21.4% increase in operating expenses.
- Large water rates increases will be required over the following three years to sustainably fund and finance the \$145 million capital investment requirement over ten years.
- The projected levels of water services revenues included in this pack are sufficient for the level of investment and expenditure proposed, and fully cover all operating costs including depreciation.
- The large projected revenue increases drive significant operating cashflow receipts to part-fund capital investment requirements and support the maximum amount of debt financing that can be introduced under a 'WAI + T' Water CCO.
- Water services are projected to provide funds from operations ('FFO', i.e., operating cashflows) of \$1.2 million in FY24/25, which represents 4% of water services debt.
- With substantial projected revenue increases, free funds from operations would increase to \$8.0 million in FY33/34, which represent 8% of projected FY33/34 water services net debt (including internal borrowings).
- This is in line with what a 'WAI + T' Water CCO that borrows through LGFA would be likely required to maintain.**
- This set of financial projections has been developed to align with the financial sustainability requirements under Local Water Done Well, but results in significant price increases to fully cover the costs of service.**
- Consideration should be given to balancing the level of investment required with an affordable price path for South Wairarapa communities.**

## Revenue sufficiency performance measures

### Average charge per connection including GST

Average charge per connection including GST	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Average drinking water bill (including GST)	1,321	1,560	1,689	1,688	1,686	1,684	1,683	1,681	1,679	1,678
Average wastewater bill (including GST)	1,037	1,378	1,831	2,253	2,306	2,360	2,416	2,473	2,532	2,591
Average stormwater bill (including GST)	246	217	214	211	207	204	201	198	195	192
<b>Average charge per connection including GST</b>	<b>2,604</b>	<b>3,156</b>	<b>3,734</b>	<b>4,151</b>	<b>4,199</b>	<b>4,249</b>	<b>4,299</b>	<b>4,352</b>	<b>4,405</b>	<b>4,460</b>
Projected increase	22.6%	21.2%	18.3%	11.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.3%

### Operating surplus ratio: does operating revenue cover operating costs including depreciation?

Operating surplus ratio	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34	Total
Operating surplus/(deficit) excluding capital revenues	(1,238)	175	2,536	3,855	3,492	3,320	3,168	3,207	3,357	3,179	25,052
Total operating revenue	11,975	13,571	16,353	18,498	19,018	19,557	20,114	20,691	21,288	21,905	182,970
<b>Operating surplus ratio</b>	<b>(10.3%)</b>	<b>1.3%</b>	<b>15.5%</b>	<b>20.8%</b>	<b>18.4%</b>	<b>17.0%</b>	<b>15.8%</b>	<b>15.5%</b>	<b>15.8%</b>	<b>14.5%</b>	<b>13.7%</b>

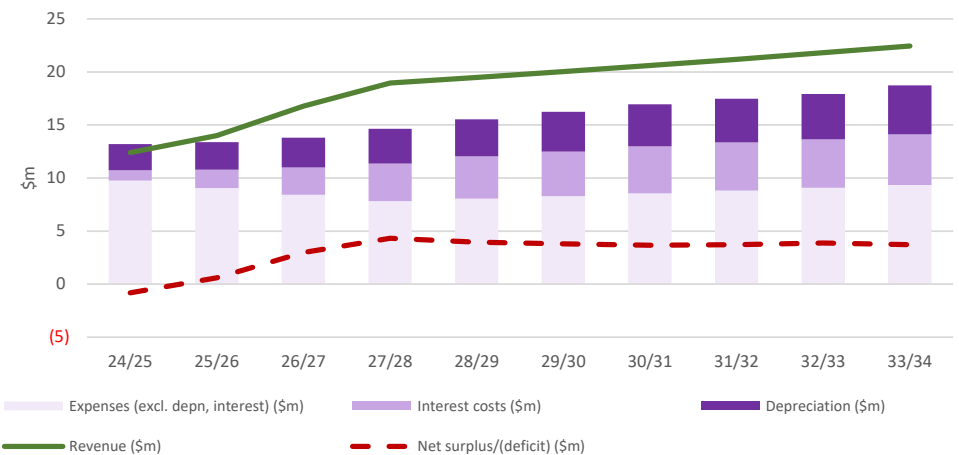
### Operating cash ratio: what much cash is generated from operations?

Operating cash ratio	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34	Total
Operating surplus/(deficit) + depreciation + interest costs - capital revenue	2,203	4,509	7,937	10,673	10,959	11,255	11,564	11,884	12,216	12,562	95,760
Total operating revenue	11,975	13,571	16,353	18,498	19,018	19,557	20,114	20,691	21,288	21,905	182,970
<b>Operating cash ratio</b>	<b>18.4%</b>	<b>33.2%</b>	<b>48.5%</b>	<b>57.7%</b>	<b>57.6%</b>	<b>57.6%</b>	<b>57.5%</b>	<b>57.4%</b>	<b>57.4%</b>	<b>57.3%</b>	<b>52.3%</b>

## Commentary on revenue sufficiency for water services projections

- Projected operating revenues have been set to cover projected operating costs including depreciation.
- These revenue projections have also been set to meet the financial sustainability requirements for Water Services Delivery Plans.

Projected water services revenue and expenses



# South Wairarapa District Council: Investment sufficiency

## Projected water services investment

Projected investment in water services (\$000)	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34	Total
<b>Drinking water</b>											
Capital expenditure - to meet additional demand	0	0	0	0	0	0	0	0	0	0	0
Capital expenditure - to improve levels of services	4,397	200	1,250	1,250	500	0	0	0	0	0	7,597
Capital expenditure - to replace existing assets	4,955	3,302	7,544	7,828	3,179	3,153	2,939	2,866	2,824	4,052	42,643
<b>Total projected investment for drinking water</b>	<b>9,352</b>	<b>3,502</b>	<b>8,794</b>	<b>9,078</b>	<b>3,679</b>	<b>3,153</b>	<b>2,939</b>	<b>2,866</b>	<b>2,824</b>	<b>4,052</b>	<b>50,240</b>
<b>Wastewater</b>											
Capital expenditure - to meet additional demand	0	0	0	3,500	0	0	0	0	0	0	3,500
Capital expenditure - to improve levels of services	3,110	9,500	15,900	8,000	4,716	7,455	6,016	3,618	3,300	8,513	70,128
Capital expenditure - to replace existing assets	646	1,268	2,352	2,227	1,362	2,165	2,051	1,595	1,614	3,379	18,660
<b>Total projected investment for wastewater</b>	<b>3,756</b>	<b>10,768</b>	<b>18,252</b>	<b>13,727</b>	<b>6,079</b>	<b>9,620</b>	<b>8,067</b>	<b>5,213</b>	<b>4,914</b>	<b>11,892</b>	<b>92,288</b>
<b>Stormwater</b>											
Capital expenditure - to meet additional demand	0	0	0	0	0	0	0	0	0	0	0
Capital expenditure - to improve levels of services	0	0	0	0	0	0	0	0	0	0	0
Capital expenditure - to replace existing assets	206	214	221	228	234	240	246	252	257	262	2,359
<b>Total projected investment for stormwater</b>	<b>206</b>	<b>214</b>	<b>221</b>	<b>228</b>	<b>234</b>	<b>240</b>	<b>246</b>	<b>252</b>	<b>257</b>	<b>262</b>	<b>2,359</b>
<b>Total projected investment in water services</b>	<b>13,314</b>	<b>14,484</b>	<b>27,267</b>	<b>23,032</b>	<b>9,992</b>	<b>13,013</b>	<b>11,252</b>	<b>8,331</b>	<b>7,996</b>	<b>16,207</b>	<b>144,887</b>

## Funding sources of projected investment

Investment funding source (\$000)	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34	Total
Capital expenditure - to meet additional demand	0	0	0	3,500	0	0	0	0	0	0	3,500
Capital expenditure - to improve levels of services	7,507	9,700	17,150	9,250	5,216	7,455	6,016	3,618	3,300	8,513	77,725
Capital expenditure - to replace existing assets	5,807	4,784	10,117	10,282	4,776	5,558	5,236	4,713	4,696	7,694	63,662
<b>Total investment</b>	<b>13,314</b>	<b>14,484</b>	<b>27,267</b>	<b>23,032</b>	<b>9,992</b>	<b>13,013</b>	<b>11,252</b>	<b>8,331</b>	<b>7,996</b>	<b>16,207</b>	<b>144,887</b>
Capital revenues	416	428	441	455	468	482	497	512	527	543	4,769
Increase/(decrease) in debt	10,610	11,268	21,474	15,447	2,556	5,475	3,626	485	(175)	7,874	78,640
Funds from operations	2,288	2,787	5,351	7,130	6,968	7,055	7,129	7,335	7,644	7,790	61,478
<b>Total investment funding</b>	<b>13,314</b>	<b>14,484</b>	<b>27,267</b>	<b>23,032</b>	<b>9,992</b>	<b>13,013</b>	<b>11,252</b>	<b>8,331</b>	<b>7,996</b>	<b>16,207</b>	<b>144,887</b>

## Commentary on water services investment

- \$145 million of capital investment is included in financial projections as required for water services over ten years (from SWDC LTP workings provided to the Department).
- \$64 million of this is for renewals, against ten-year depreciation charges of \$35 million.
- \$81 million investment is provided for improving levels of service and growth.
- This is a significant capital programme over ten years. Total projected water services infrastructure investment is four times depreciation charges over the period.
- Significant debt financing and water rates/charges increases are needed over ten years to fund this level of investment proposed.

## Investment sufficiency measures

**Asset sustainability ratio:** comparison of renewals capital expenditure to depreciation

Asset sustainability ratio	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34	Total
Capital expenditure on renewals	5,807	4,784	10,117	10,282	4,776	5,558	5,236	4,713	4,696	7,694	63,662
Depreciation	2,490	2,612	2,815	3,276	3,475	3,736	3,961	4,127	4,287	4,611	35,391
<b>Asset sustainability ratio</b>	<b>133.2%</b>	<b>83.2%</b>	<b>259.4%</b>	<b>213.9%</b>	<b>37.4%</b>	<b>48.8%</b>	<b>32.2%</b>	<b>14.2%</b>	<b>9.5%</b>	<b>66.8%</b>	<b>79.9%</b>

**Asset investment ratio:** comparison of total capital expenditure to depreciation

Asset investment ratio	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34	Total
Capital expenditure	13,314	14,484	27,267	23,032	9,992	13,013	11,252	8,331	7,996	16,207	144,887
Depreciation	2,490	2,612	2,815	3,276	3,475	3,736	3,961	4,127	4,287	4,611	35,391
<b>Asset investment ratio</b>	<b>434.7%</b>	<b>454.5%</b>	<b>868.6%</b>	<b>603.1%</b>	<b>187.5%</b>	<b>248.3%</b>	<b>184.1%</b>	<b>101.8%</b>	<b>86.5%</b>	<b>251.4%</b>	<b>309.4%</b>

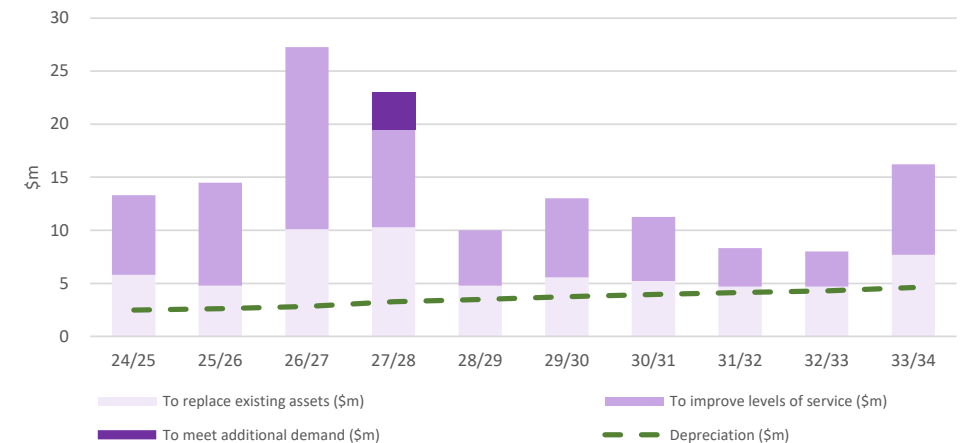
**Asset consumption ratio:** comparison of book value to replacement value

Asset consumption ratio	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Book value of infrastructure assets	139,788	160,886	185,338	215,102	221,619	241,312	248,603	263,248	266,956	288,963
Total estimated replacement value of infrastructure	142,280	165,990	193,257	226,296	236,289	259,718	270,970	289,742	297,738	324,356
<b>Asset consumption ratio</b>	<b>98.2%</b>	<b>96.9%</b>	<b>95.9%</b>	<b>95.1%</b>	<b>93.8%</b>	<b>92.9%</b>	<b>91.7%</b>	<b>90.9%</b>	<b>89.7%</b>	<b>89.1%</b>

## Commentary on investment sufficiency for water services

- Projected renewals investment is significantly higher than depreciation (+80%).
- Total proposed investment over ten years is four times depreciation charges, which represents a significant investment programme.
- This proposed level of investment **would meet the 'investment sufficiency' test**.

Projected water services investment requirements



# South Wairarapa District Council: Financing sufficiency

## Financing sufficiency measures

### Net debt to operating revenue ratio

	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Net debt to operating revenue										
Total net debt (gross debt less cash)	28,330	39,598	61,072	76,519	79,075	84,550	88,176	88,661	88,486	96,360
Operating revenue	11,975	13,571	16,353	18,498	19,018	19,557	20,114	20,691	21,288	21,905
Net debt to operating revenue	237%	292%	373%	414%	416%	432%	438%	429%	416%	440%

### Borrowing headroom/(shortfall) against 500% LGFA limit for water CCO

	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Borrowings headroom/(shortfall) against limit										
Operating revenue	11,975	13,571	16,353	18,498	19,018	19,557	20,114	20,691	21,288	21,905
Debt to revenue limit	500%	500%	500%	500%	500%	500%	500%	500%	500%	500%
Maximum allowable net debt	59,875	67,857	81,764	92,489	95,092	97,785	100,571	103,454	106,438	109,526
Total net debt	28,330	39,598	61,072	76,519	79,075	84,550	88,176	88,661	88,486	96,360
Borrowing headroom/(shortfall) against limit	31,545	28,259	20,692	15,970	16,017	13,235	12,395	14,793	17,952	13,166

### Free funds from operations to debt ratio: The percentage of borrowings balance that is generated in funds from operations each year

	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Free funds from operations (FFO) to debt ratio										
Total net debt	28,330	39,598	61,072	76,519	79,075	84,550	88,176	88,661	88,486	96,360
Funds from operations	1,252	2,787	5,351	7,130	6,968	7,055	7,129	7,335	7,644	7,790
FFO to debt ratio	4.4%	7.0%	8.8%	9.3%	8.8%	8.3%	8.1%	8.3%	8.6%	8.1%

## Commentary on financing sufficiency for water services projections

- The financial projections have been developed to meet the financial sustainability requirements for Water Services Delivery Plans, including the financing sufficiency test. On a stand-alone basis, SWDC would face significant challenges financing the projected investment requirement.
- As part of a 'WAI + T' CCO, net debt to revenue would stay within the 500% of revenues limit, so long as revenues are set appropriately.

## Projected debt to revenue by water service

Debt to revenue by water service (\$k)	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Drinking water - operating revenue	6,414	6,735	7,408	7,519	7,632	7,747	7,863	7,981	8,101	8,223
Drinking water - net debt	9,497	11,528	17,968	24,502	25,827	26,680	27,362	28,009	28,654	30,600
Drinking water - net debt to operating revenue %	148%	171%	243%	326%	338%	344%	348%	351%	354%	372%
Wastewater - operating revenue	4,695	6,057	8,166	10,200	10,607	11,031	11,472	11,931	12,408	12,903
Wastewater - net debt	18,742	28,082	43,292	52,436	53,883	58,703	61,831	61,835	61,166	67,228
Wastewater - net debt to operating revenue %	399%	464%	530%	514%	508%	532%	539%	518%	493%	521%
Stormwater - operating revenue	866	779	779	779	779	779	779	779	779	779
Stormwater - net debt	91	(12)	(188)	(419)	(634)	(833)	(1,017)	(1,184)	(1,334)	(1,469)
Stormwater - net debt to operating revenue %	11%	-2%	-24%	-54%	-81%	-107%	-131%	-152%	-171%	-189%
Three Waters - net debt to operating revenue %	237%	292%	373%	414%	416%	432%	438%	429%	416%	440%

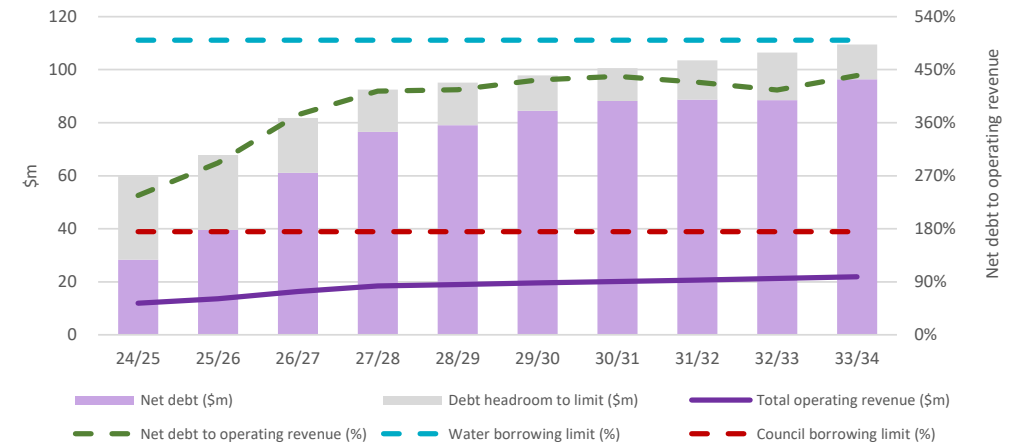
## Funding source of investment

Funding source of investment (\$'000)	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34	Total
Capital revenues	416	428	441	455	468	482	497	512	527	543	4,769
Increase/(decrease) in debt	10,610	11,268	21,474	15,447	2,556	5,475	3,626	485	(175)	7,874	78,640
Funds from operations	2,288	2,787	5,351	7,130	6,968	7,055	7,129	7,335	7,644	7,790	61,478
<b>Total investment funding</b>	<b>13,314</b>	<b>14,484</b>	<b>27,267</b>	<b>23,032</b>	<b>9,992</b>	<b>13,013</b>	<b>11,252</b>	<b>8,331</b>	<b>7,996</b>	<b>16,207</b>	<b>144,887</b>

Of the \$145 million capital investment envelope, \$79 million could be debt financed over ten-years, while staying within borrowing limits for a 'WAI + T' CCO. Approximately \$61 million would be funded through operating revenues – either through using cash operating margins to direct fund investment, or by utilising this to pay down existing debt and borrowing for new capital investment.

## Water services financing

### Projected water services net debt to operating revenue



A 5x operating revenue debt limit is included to compare against projected leverage for water services, in line with what LGFA have indicated could be provided to water services CCOs. This required level of leverage could be sourced from LGFA by a 'WAI + T' CCO.

## All of council financing

Note that as South Wairarapa District Council does not have a ten-year LTP in place with confirmed all-of-council projections that fit within the council's current borrowing covenants, we have not included all-of-council financing analysis.

- On a stand-alone basis, SWDC would have challenges in financing the \$145 million investment requirement.
- However, if included in a 'WAI + T' Water CCO, this investment requirement could be financed and likely meet the 'financing sufficiency' test.
- It is therefore critical for South Wairarapa District Council to pursue a regional delivery model through the establishment of a new water CCO, such as the 'WAI + T' CCO being investigated by Wairarapa and Tararua councils.