Wairarapa and Tararua Water Done Well

'WAI + T' ANALYSIS

Assessment of the financial sustainability of a potential joint Wairarapa/Tararua water services CCO

11 November 2024

This document has been prepared to provide information to Carterton District Council, Masterton District Council, South Wairarapa District Council and Tararua District Council (together 'Wairarapa/Tararua councils') 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 Wairarapa/Tararua councils in the development of the analysis and guidance included in this report.

This guidance is not legal advice; and is intended to support Wairarapa/Tararua councils' decision-making requirements under Local Water Done Well.

Te Kāwanatanga o Aotearoa
New Zealand Government

Te Tari Taiwhenua
Internal Affairs

Wairarapa and Tararua Joint Council Project: ‘WAI + T’

Carterton District Council, Masterton District Council, South Wairarapa District Council and Tararua District Council have entered a joint terms of reference to:

- Enable the councils and communities to make an informed decision on the arrangements under which they will deliver a Water Services Delivery Plan.
- Provide sufficient supporting evidence and a decision-making framework to enable evaluation of a joint operating model against other options for the delivery of water services (including the status quo).

The scope of this project is to develop a joint arrangement option encompassing the Wairarapa and Tararua councils that is sufficiently detailed to enable it to be compared against other options.

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 initial guidance on the financial sustainability of status quo water services delivery.

This report sets out an assessment of the viability of a ‘WAI + T’ Water CCO.

Separate reports for each council have also been developed and provided. These reports provide further analysis and guidance on the financial sustainability of the councils’ water services (for their component part of ‘WAI + T’), trade-off decisions to consider, and benefits that could be realised through establishing a ‘WAI + T’ Water CCO.

Key insights on a 'WAI + T' Water CCO

1. Our analysis of LTP information and additional details provided by Wairarapa and Tararua councils indicates that a **joint 'WAI + T' model would be financially viable** at LTP projected levels of revenue, debt and investment.
2. Each council has different investment requirements and costs of service. Our analysis retains regional differences as this ensures that prices that different communities pay (as modelled) would reflect the direct costs of service to each community. It is important to note that there is **no requirement to harmonise prices across communities under Local Water Done Well**.
3. Our analysis demonstrates that **a more affordable price path for water charges could be realised,** subject to trade-offs between revenues, levels of investment and debt financing.
4. The additional borrowing headroom that can be accessed by establishing at 'WAI + T' Water CCO would create additional flexibility to efficiently deliver water services to the Wairarapa and Tararua communities.
5. For **Carterton District Council and Masterton District Council** this includes an **ability to reduce water services prices** for communities against what is projected in LTPs. Alternatively, these councils would have **scope to increase or accelerate investment** at LTP projected revenues.
6. For **Tararua District Council and South Wairarapa District Council**, the primary benefit is that a 'WAI + T' Water CCO will **enable the funding and delivery of their significant capital programmes**. Optionality remains to **trade off proposed levels of investment versus affordability** for consumers.
7. Establishing **a 'WAI + T' Water CCO will deliver significant financial benefits to all owning councils**, through the establishment of new borrowing headroom, due to water services being higher leveraged than other council activities. Significant financial benefits of establishing a Water CCO accrue to owning councils themselves.
8. The benefits for each council, when compared to status quo delivery, vary by council based on the initial starting point, projected investment requirements and costs of service. This report and supporting reports provided to each council individually outline the **trade-offs that each council will need to consider to realise the full benefits of Local Water Done Well**.

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

Our analysis of 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 a '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.

We have separately provided a report to each council outlining some of these considerations and trade-offs to be considered.

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.

There is **significant scope for 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.

Benefits for each council that could be realised from establishing a 'WAI + T' Water CCO

Carterton District Council

The transfer of Carterton District Council's water services into a 'WAI + T' Water CCO could:

- Create **$30 million of initial borrowing headroom for water services delivery** to Carterton communities; and
- Create **$16 million of new borrowing headroom for Carterton District Council** initially (growing to $31 million by FY33/34). This new borrowing headroom **could be used to fund non-water investment** that is projected to be revenue funded, with a corresponding **reduction in non-water rates requirements**.

The additional capacity for water services through a 'WAI + T' Water CCO could:

- Be retained for future requirements (i.e., with no change to LTP projected revenue or investment requirements); or
- **Enable $13 million more capital investment** over the LTP period at LTP projected revenues (+18%); or
- **Eliminate 10% of projected rates requirements for water services** over the LTP period ($9 million), generating savings of >$300 per household per year; or
- Be applied to some combination of improved financial resiliency, increased investment and reduced prices.

Masterton District Council

The transfer of Masterton District Council's water services into a 'WAI + T' Water CCO could:

- Create **$42 million of initial borrowing headroom for water services delivery** to Masterton communities; and
- Create **$30 million of new borrowing headroom for Masterton District Council**. This new borrowing headroom **could be used to fund non-water investment** that is projected to be revenue funded, with a corresponding **reduction in non-water rates requirements**.

The additional capacity for water services through a 'WAI + T' Water CCO could:

- Be retained for future requirements (i.e., with no change to LTP projected revenue or investment requirements); or
- **Enable $64 million more capital investment** over the LTP period at LTP projected revenues (+68%); or
- **Eliminate 15% of projected rates requirements for water services** over the LTP period ($28 million), generating savings of $300 per household per year; or
- Be applied to some combination of improved financial resiliency, increased investment and reduced prices.

Benefits for each council that could be realised from establishing a 'WAI + T' Water CCO

South Wairarapa District Council

"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." [comment provided by SWDC officers]

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 and will enable financially sustainable water services.

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**.

'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**.

Tararua District Council

The transfer of Tararua District Council's water services into a joint CCO could:

- Enable the full $150 million water services capital investment requirement to be funded sustainably; and
- Create **$42 million of new borrowing headroom for Tararua District Council** initially (growing to $66 million by FY33/34). This would **effectively eliminate all council net debt** by FY33/34.

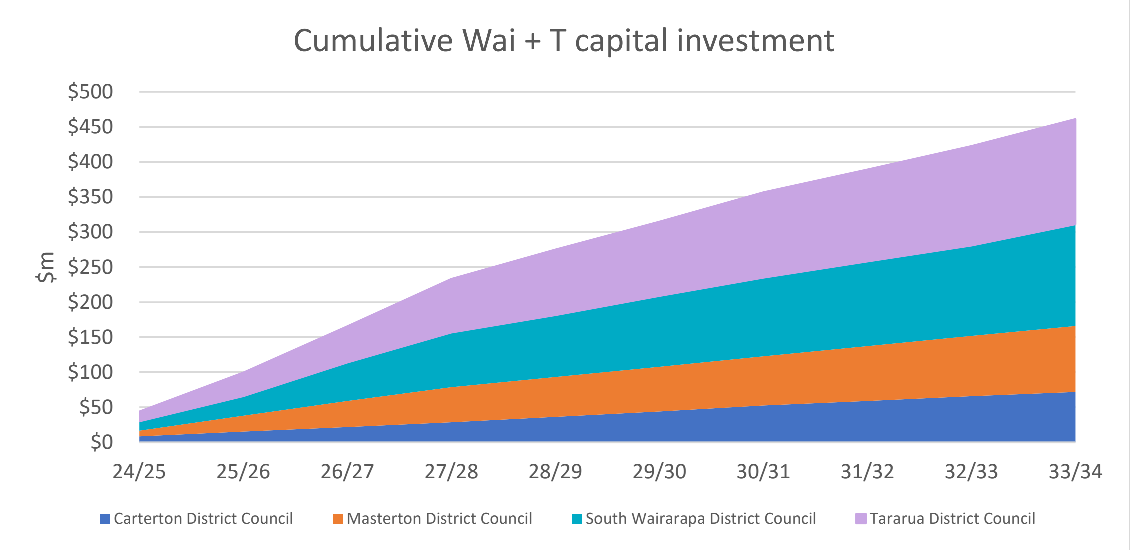
The additional borrowing capacity for Tararua District Council could:

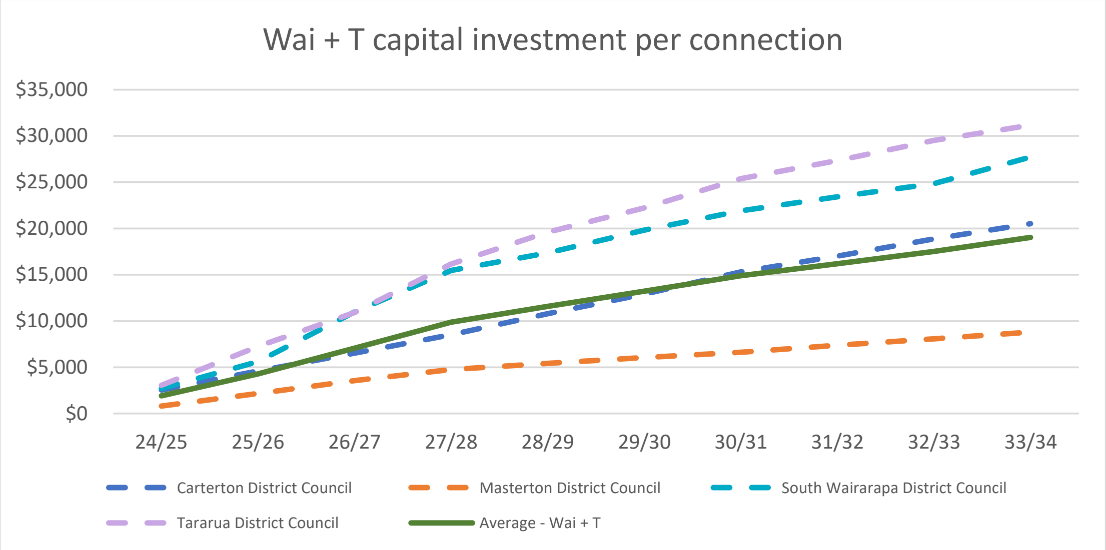
- Be used to **fund non-water investment** that is projected to be revenue funded, to **offset or eliminate projected rates increases**; or
- Potentially be capitalised (e.g., as some form of debt or equity investment in 'WAI + T') to **reduce projected water charges**.

If $50 million of Tararua District Council's headroom is utilised for water services, this could **decrease average water bills by $7,000 + GST per household over the first 8 years** of operation (21% saving).

Proposed levels of investment across ‘WAI + T’ councils

- Wairarapa and Tararua councils are projecting $461 million of capital investment into water services infrastructure over ten years. This proposed level of investment is substantial – and is more than double projected depreciation charges over ten years.
- While this capital programme is fundable under a 'WAI + T' Water CCO, there would be merit in the Wairarapa and Tararua councils developing a joint investment programme to determine the most efficient and deliverable phasing of investment, and to identify opportunities to reduce costs.
- Tararua and South Wairarapa councils’ investment programmes are significantly larger on a per connection basis than Masterton and Carterton councils. Consideration should be given to the relationship between proposed investment and levels of service versus the affordability of charges for consumers to strike an appropriate and financially sustainable balance.
- Masterton and Carterton councils have scope to increase or accelerate investment (against LTP) based on their current projected water revenues.

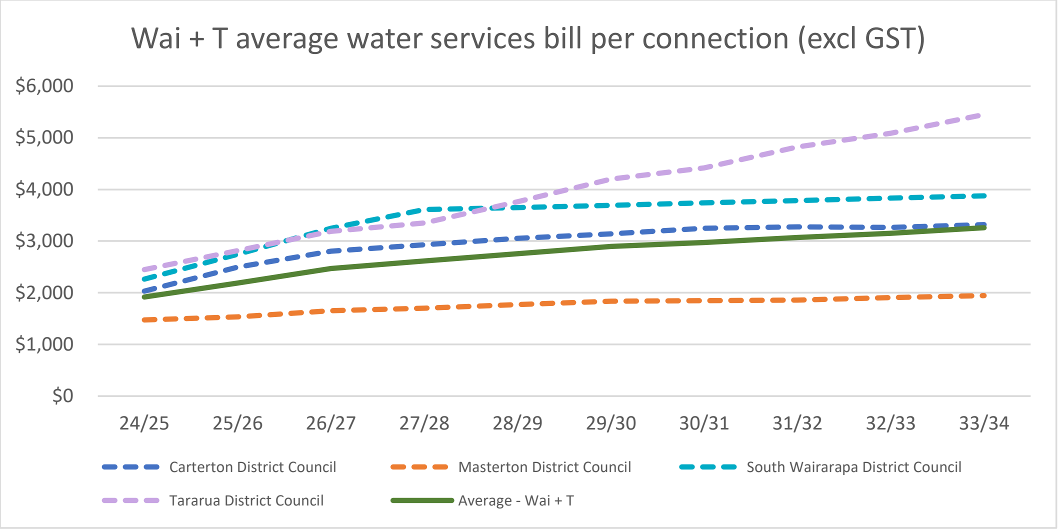


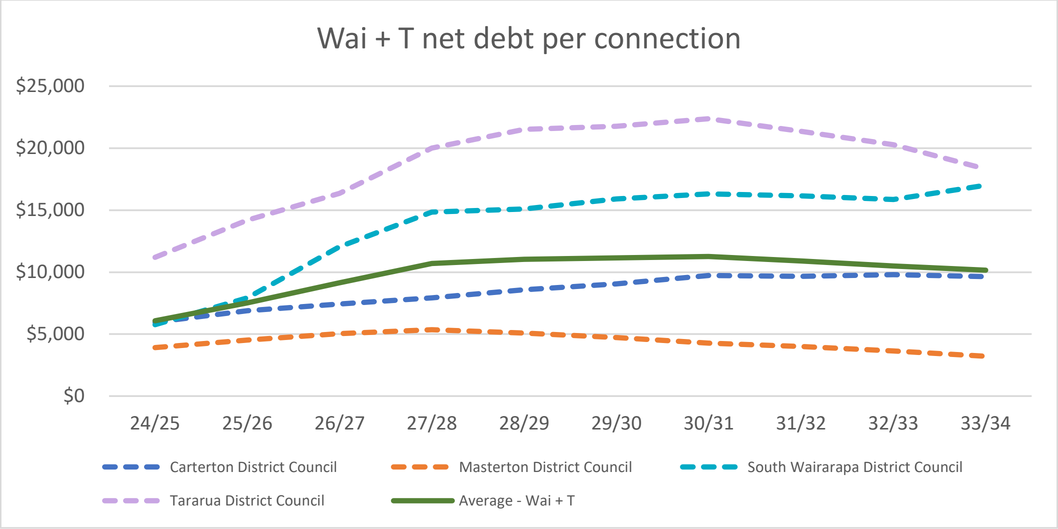


Projected prices and borrowings at proposed levels of investment

Household water charges are directly determined by proposed levels of investment, operating expenses and the utilisation of debt financing versus revenue funding of investment. Each council is facing trade-off decisions on these factors.

- **Carterton District Council:** Projected water charges are materially in line with the 'WAI + T' average. This is due to investment and net debt per connection being in line with the 'WAI + T' averages. CDC could eliminate 10% of projected rates requirements for water services over the LTP period ($9 million), generating savings of >$300 per household per year if debt financing is more appropriately utilised.
- **Masterton District Council:** Projected levels of operating expenses, investment and borrowings are significantly lower than the other 'WAI + T' councils, resulting in lower projected household charges. MDC could eliminate 15% of projected rates requirements for water services over the LTP period ($28 million), generating savings of $300 per household per year if debt financing is more appropriately utilised.
- **South Wairarapa District Council:** Projected household water charges are above the 'WAI + T' average. This is due to the $145 million capital investment programme, which requires substantial debt financing and revenues to be set to a level that is sufficient to cover costs and service borrowings. Any reduction in total projected investment requirements would decrease projected charges to consumers.
- **Tararua District Council:** Projected household water charges are above the 'WAI + T' average. This is due to the $150 million capital investment programme, high initial leverage for water services, substantial projected debt financing, and the need for revenues to be set to a level that is sufficient to cover costs and service borrowings. Any reduction in total projected investment requirements would decrease projected charges to consumers. Tararua District Council could also consider options relating to the treatment of internal borrowings to reduce water services leverage and charges. *Note TDC projected charges are higher in later years due to revenues driving operating cash margins to pay down debt (see charts on slide 29).*



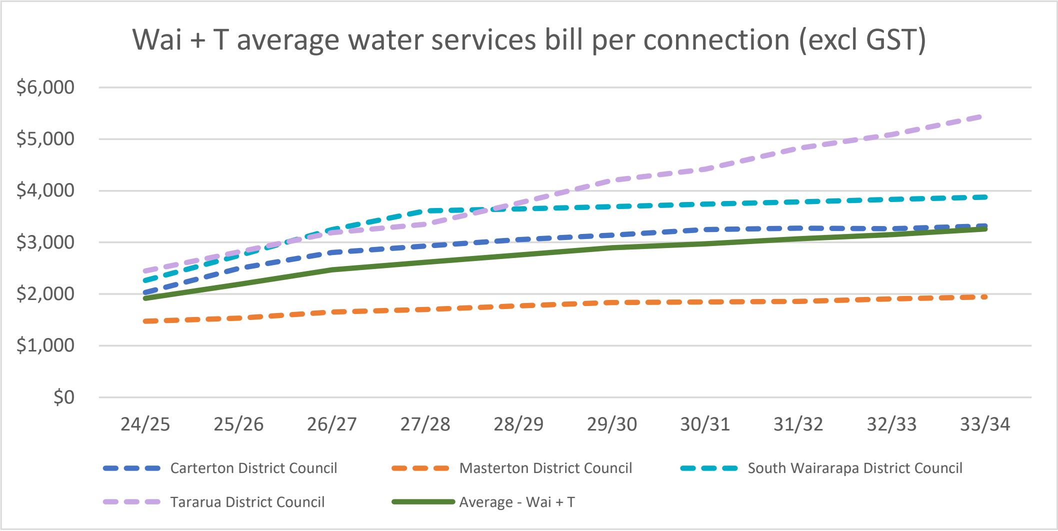


Projected prices could be lowered through trade-off decisions on investment and debt financing for a more affordable service to consumers

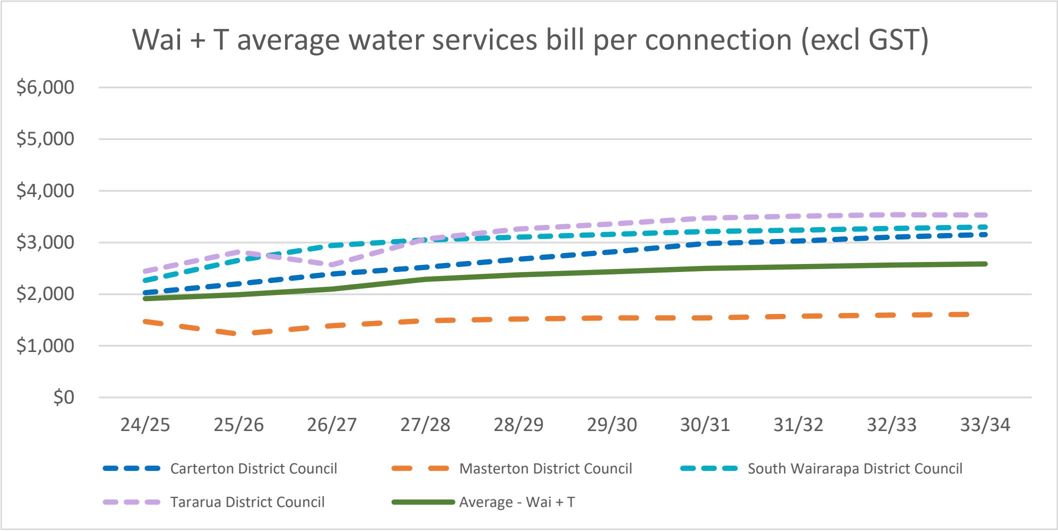
The charts below compare projected charges to households under the 'base case' financial projections included in this report, and an alternative scenario where each council makes trade-off decisions to deliver more affordable services and reduce projected charges to consumers. Key assumptions for each council in this alternative scenario are set out below.

- **Carterton District Council:** Additional utilisation of debt financing for investment requirements means that water revenues could be decreased, while remaining financially sustainable. Under this scenario projected prices are 10% lower, generating savings of >$300 per household per year.
- **Masterton District Council:** Additional utilisation of debt financing for investment requirements means that water revenues could be decreased, while remaining financially sustainable. Under this scenario projected prices are 15% lower, generating savings of $300 per household per year.
- **South Wairarapa District Council:** Opportunities are identified to reduce the ten-year capital investment requirement from $145 million to $100 million through developing a joint capital programme and procurement approach with 'WAI + T' councils, with some non-critical investment deferred. This enables borrowings and revenues to be reset, whilst remaining financially sustainable. Prices reduce by on average approximately $400 per year.
- **Tararua District Council:** Opportunities are identified to reduce the ten-year capital investment requirement from $150 million to $100 million through developing a joint capital programme and procurement approach with 'WAI + T' councils, with some non-critical investment deferred. This enables borrowings and revenues to be reset, whilst remaining financially sustainable. Prices reduce by on average approximately $700 per year. *Note: a similar outcome could be achieved through utilising TDC borrowing headroom to finance out internal borrowing arrangements for water services.*

Base case scenario – 2024-34 LTP and other financial projections provided by 'WAI + T' councils



Alternative scenario where Local Water Done Well is utilised to make trade-off decisions that reduce charges to consumers



Further guidance and analysis to support Wairarapa and Tararua councils

We have attached further information for Wairarapa and Tararua councils' consideration:

- **Annex 1: Local Water Done Well overview and benefits of establishing water CCOs to access increased debt financing** – provides further information on how establishing a regional water CCO will deliver significant benefits to Wairarapa and Tararua councils and communities.
- **Annex 2: 'WAI + T' Water CCO: financial sustainability assessment** – provides further detail on 'WAI + T' investment, revenue and debt financing, and an indicative financial sustainability assessment.
- **Annex 3: Comparison of 'WAI + T' councils' water services** – sets out 'WAI + T' councils' projected water services and compares investment, operating costs, revenue and debt financing across Wairarapa and Tararua councils.
- **Annex 4: 'WAI + T' Water CCO: projected consolidated water services financials** – provides consolidated projected financial statements which aggregate the water services financial projections provided by Wairarapa and Tararua councils.

Separately, we have provided a report to each council which provides further analysis and guidance on trade-offs and benefits that could be attained for each council through establishing a 'WAI + T' Water CCO.

We have also provided a Water Services Delivery Plan financial template to each council, and the aggregated financial model that underpins the analysis in this pack.

Further guidance

The Department is currently preparing a round of guidance relating to the benefits, and practical steps involved with establishing a CCO. This guidance has been prepared in response to feedback from our council engagements over the last two months. Much of this guidance builds on information provided to Council Chief Executives and Mayors in a letter from the LGFA in early October.

The guidance material will include key concepts around the implication of additional borrowing, worked examples, guidance for decision makers regarding the choice of delivery model, and templates for legal documentation required to establish a Water CCO.

We expect to release this guidance towards the end of November.

Local Water Done Well overview and benefits of establishing water CCOs to access increased debt financing

ANENX 1

Local Water Done Well: A new approach to water services delivery

- The Coalition Government believes **communities are best placed** to make decisions about the future of their water assets.
- Local Water Done Well places **obligations on local authorities** to demonstrate their service delivery arrangements are fit for purpose.
- This includes setting out how their **delivery models** will ensure high-quality, financially sustainable services in the long run.
- The Government expects councils will work together to address **financial sustainability and affordability challenges**.
- All councils are required to **develop Water Services Delivery Plans** which will outline how **water services will be delivered in a financially sustainable manner** by 30 June 2028.

Purpose of Water Services Delivery Plans

The Local Government (Water Services Preliminary Arrangements) Act 2024 sets out the content requirements, timeframe, and process for developing and accepting Plans.

Plans are intended to be a strategic decision-making tool for councils to consider current and future delivery of water services, and will:

- Set out how councils will deliver high-quality, financially sustainable water services in the long run; and
- Include information on councils' water services, how much they need to invest, and how they plan to finance and deliver it through their preferred water service delivery model.

Most information required for the Plans is expected to come from councils' existing documents, such as long-term plans, financial accounts and asset management plans.

- One-off, transitional documents
- Cover drinking water, wastewater and stormwater
- Information to support development of economic regulation
- Can be developed by individual or joint councils
- Streamlined approach to consultation
- 10-year timeframe; may cover up to 30 years, with detailed info on first three

LGFA provides financing to deliver financially sustainable water services

LGFA financing of water CCOs

A key pillar of Local Water Done Well is LGFA's commitment to lend to water CCOs and treat their debt as separate to owning councils' debt, where there is a guarantee or uncalled capital from owning councils in place, and adherence to prudent credit criteria.

LGFA can immediately start lending to water CCOs, at a level needed to fund the investment we need to make in water infrastructure.

The benefit for ratepayers in this is that using more long-term borrowing to fund investment in long term infrastructure spreads the cost of this investment over the life of the assets. That in turn reduces the need to fund investment directly from rates and will reduce the upward pressure on rates that we've seen reflected in rates increases in recent months.

Financial covenants will need to be agreed between Councils and LGFA, with a free funds from operations (FFO) to debt ratio the most likely covenant.

The FFO to debt ratio will be set up to an equivalent level of 500% of water revenues. The level of the ratio will be different between water CCOs.

It's important to note that at this time, LGFA will only lend to water CCOs that are financially supported by their parent council and councils. Financially supported means either a guarantee or uncalled capital to match the liabilities of the water CCO (consistent with legislation).

Prudent credit criteria

- Asset owning CCO with the ability to set and collect water revenues
- Professional Board in place with separation from elected members
- Minimum free funds from operations (FFO) requirements to support debt capacity to level equivalent to five times revenues
- CCO to have the characteristics of 'investment grade' over the mid-term (within ten years).

Increasing water borrowing ability to 5x revenues

A water services CCO can borrow up to a level equivalent to five times revenues for water services, subject to meeting LGFA's prudent credit criteria.

This represents a significant uplift against current borrowing limits for councils (175% - 280%).

Given higher leverage for water, this also significantly increases the total borrowing capacity for owning councils.

Benefits for councils and communities enabled by LGFA financing

- Using debt financing for investment in infrastructure is a fundamental aspect of delivering utilities, and water services are no exception.
- The Minister of Local Government has spoken of the infrastructure deficit New Zealand is facing with water. The financing arrangements provided by LGFA provide councils with increased lending flexibility to address these challenges, while ensuring affordability for ratepayers.
- Increased borrowing to fund necessary investment in water infrastructure reduces the need to fund investments directly from rates and other revenue. This can smooth the impact of investments across longer periods of time, which should be reflected in smaller increases in rates and water charges.
- Councils will be keen to spread the cost of upgrading water assets over time. LGFA will endeavour to provide some flexibility in its application of borrowing ratios provided the water CCO is committed to improving its credit metrics over time
- Irrespective of whether the water CCO is wholly or partially owned by a council, LGFA will take the approach of assessing the credit quality and potential borrowing capacity of the water CCO and the parent council(s) separately. This is subject to LGFA being satisfied of the ability of such council and water CCO to meet their financing obligations on a prudent basis.
- **There are real benefits for councils that establish water CCOs to access the additional debt financing LGFA can provide. We encourage councils to consider what a water CCO could achieve for your council and communities.**

The following slide summarises the key benefits of utilising LGFA financing for water services.

Benefits for councils and communities enabled by LGFA financing

The LGFA have agreed in principle to lend up to an equivalent of 500% of revenues to council-controlled water organisations.

This creates additional debt borrowing capacity for both the water organisation and for owning councils.

Having access to additional debt has positive implications for the affordability and sustainability of water services delivery.

Potential to reduce to cost to ratepayers	Utilising debt financing for capital investment reduces the requirement to generate operating revenues and surpluses to direct fund capital expenditure. This leads to lower charges for ratepayers.
Spreading the cost over time	Debt financing allows the CCO to spread the cost of large investments over years or decades. By using debt, the council ensures that the cost of the asset is shared across those who will benefit from it in the future.
Immediate access to funding	Debt provides immediate access to large amounts of capital, enabling the council to undertake necessary investments without having to wait years to accumulate sufficient rates revenue. For water assets, this reduces the risk of further degradation.
Maintaining service levels	Debt financing allows the council to avoid steep rate hikes while still being able to fund important projects and maintain or improve service levels for the community.
Utilising rates for opex and debt servicing	By using debt to fund capital expenditure, critical services are not being compromised or traded off to fund large projects. Operating revenues can be set to the minimum level required to cover the operating cost of service (including servicing debt) only.
Cash reserve and flexibility	Debt financing can allow the council to preserve financial reserves for emergencies or other priority areas.

A 'WAI + T' Water CCO will enable the adoption of a fit-for-purpose financial strategy for water services delivery

An efficient financing strategy for water services enabled by a water CCO that can borrow through LGFA

- **Operating revenues should pay for operating costs.**
- **Capital investment requirements should be funded by capital - i.e., capital revenues (such as Development Contributions) and debt financing.**
- It is highly inefficient to fund capital investment of long-lived water services infrastructure through operating revenues.
- In LTPs, councils nationally are proposing approximately $40 billion of capital investment for water services over ten years. Only $13.4 billion of this investment is proposed to be debt funded (34% of the total); with operating revenues proposed to fund $20.7 billion worth of investment (53% of the total).
- Councils have the opportunity through the new structural and financing tools under Local Water Done Well to reset this imbalance in Water Services Delivery Plans, to increase the amount of debt financing for capital investment and decrease the use of operating revenues to pay for capital investment.

'Operating revenues should pay for operating costs'

- Financial sustainability and ringfencing requirements mean that operating revenues should be set to a level that covers the operating cost (including servicing debt) of water services.
- Operating revenues should cover all cash operating expenses plus a minimum FFO requirement (indicatively equivalent to 8 – 12% of net debt each year, depending on credit profile).
- This ensures that sufficient operating cashflows are secured to support borrowing and investment requirements (including staying below borrowing limits).
- Setting operating revenues to levels higher than needed to cover cash operating costs and debt servicing/support requirements is inefficient when there is available debt capacity to fund investment requirements.
- Operating cashflows should be used to manage or repay existing debt, rather than fund new capital expenditure.

'Capital should pay for capital'

- Capital revenues (such as Development Contributions and capital subsidy revenues) should be applied to capital expenditure.
- Capital expenditure into water services infrastructure assets should be funded from capital sources – i.e., capital revenues and debt financing.
- New debt drawdowns for capital investment reduce the cost burden on current ratepayers and consumers and enable this cost to be spread over the useful life of the asset.
- Capital inflows (including new borrowings) and capital outflows (i.e., investment) should balance, once accounting for any free operating cash flow generated from revenues that is used to manage or pay down debt.
- This means that all new capital investment is funded from capital sources, with surplus cashflows from operations used to pay down debt on existing debt for current infrastructure, rather than to pay for new investment.

Characteristics of a 'WAI + T' Water CCO established under Local Water Done Well

The establishment of a council owned water CCO under Local Water Done Well will enable:

1. Retained local ownership of and direction setting for water services and infrastructure assets, at minimal financial cost to councils;
2. Reform of the water services industry that will create opportunities for new capital and operating efficiencies for water CCOs; and
3. Additional flexibility and financial resilience to ensure financially sustainable water services provision.

Characteristics of water services CCOs established under Local Water Done Well

1. Retained local ownership of and direction setting for water services and infrastructure assets, at minimal financial cost to councils

This means:

- ✓ Councils **retain local ownership** of water services and infrastructure assets.
- ✓ **Direct ownership interest** for councils in the water CCO.
- ✓ Councils **appoint Board members** of a water CCO.
- ✓ Ability to **set performance expectations** to a new water CCO under a new planning and accountability framework.
- ✓ The water CCO will be required to provide a **Water Services Strategy** to shareholding councils under a new planning and accountability framework.
- ✓ Owning council **guarantee (or uncalled capital)** in place to ensure **ongoing ownership and support** arrangement, and enduring interests in the successful and financially sustainable delivery of water services to communities.

2. Reform of the water services industry that will create opportunities for new capital and operating efficiencies for water CCOs

This means:

- ✓ **Professional, skilled, and independent directors** appointed.
- ✓ An **effective and appropriate capital structure** for infrastructure business.
- ✓ **Meeting LGFA's prudent credit criteria** for additional financing.
- ✓ Providing **operational and investment certainty**.
- ✓ Easier to comply with **ringfencing and economic regulation** requirements.
- ✓ Focus on **operational and capital efficiencies** to deliver investment and services to communities at a more optimal cost.

3. Additional flexibility and financial resilience to ensure financially sustainable water services provision

This means:

- ✓ Increased **access to debt financing** through LGFA for water services (to an equivalent 500% of water revenues).
- ✓ **Increased borrowing capacity for owning council**, which enables councils to utilise new borrowing headroom to fund non-water infrastructure requirements and **reduce non-water rates**.
- ✓ Ability to **plan long-term** around investment and financing requirements.
- ✓ **Increase proportion of investment that is debt-funded** rather than rates funded.
- ✓ **Spread the cost of infrastructure over its life**, ensuring intergenerational equity and minimising current consumers' subsidisation of future consumers use of long-lived assets being built now.
- ✓ **More financial resilience and investment** achievable.
- ✓ **Potentially lower charges** to consumers than would be the case under status quo in-house water services delivery arrangements.

Increased access to debt financing for 'WAI + T' delivers significant benefits to Wairarapa and Tararua communities

The establishment of a water CCO under Local Water Done Well and more effective utilisation of debt financing provided by LGFA will enable:

1. Improved financial resilience for water services delivery and councils;
2. Increased or accelerated investment against what councils can currently fund or deliver in-house;
3. Lower prices for communities than achievable under the status quo; and
4. Increased borrowing headroom and financial resilience for owning councils.

Benefits from increased access to debt financing for council owned water CCOs

1. Improved financial resilience for water services delivery and councils

This means:

- ✓ An equivalent five times revenue borrowing limit will **increase the borrowing capacity for water services investment**.
- ✓ This provides **enhanced resilience and ability to respond** to shocks or adverse events.
- ✓ Able to **borrow longer term** to minimise refinance risk and gain **long term financing certainty**.

2. Increased or accelerated investment against what councils can currently fund or deliver in-house

This means:

- ✓ Additional borrowing capacity could be utilised to **deliver additional capital investment** against existing revenue and price paths.
- ✓ Required **capital investment could be accelerated** as financing barriers are reduced.
- ✓ Financing certainty will enable effective signalling of the investment pipeline to the sector to e**nable the sector to invest and grow capacity** and ability to meet the demand of infrastructure investment.

3. Lower prices for communities than achievable under the status quo

This means:

- ✓ Revenues to set to the **minimum level required to cover the efficient cost** of service.
- ✓ Utilising debt financing for capital investment means **less revenue is required to deliver required levels of investment**.
- ✓ Debt financing of investment means **lower charges for current consumers**.
- ✓ Reduces the requirement to fund capital investment for long lived assets that will benefit several generations with rates or charges paid today by current consumers.

4. Increased borrowing headroom and financial resilience for owning councils

This means:

- ✓ Separating water revenues and debt can **create significant borrowing headroom for owning councils**.
- ✓ **Improved financial resiliency for councils**.
- ✓ Created borrowing headroom could be **utilised for non-water services capital investment** requirements to **reduce projected rates rises**.

'WAI + T' Water CCO: financial sustainability assessment

ANNEX 2

'WAI + T' combined water services capital investment

Overview of 'WAI + T' water services capital investment

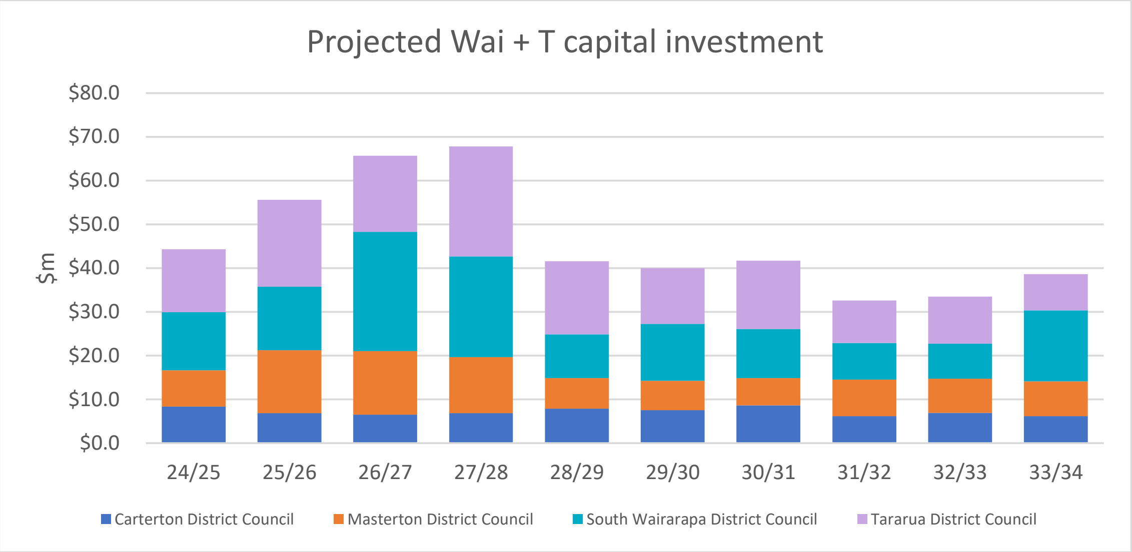
Wairarapa and Tararua councils are projecting $461 million of capital investment into water services infrastructure over ten years. This proposed level of investment is substantial – and is more than double projected depreciation charges over ten years.

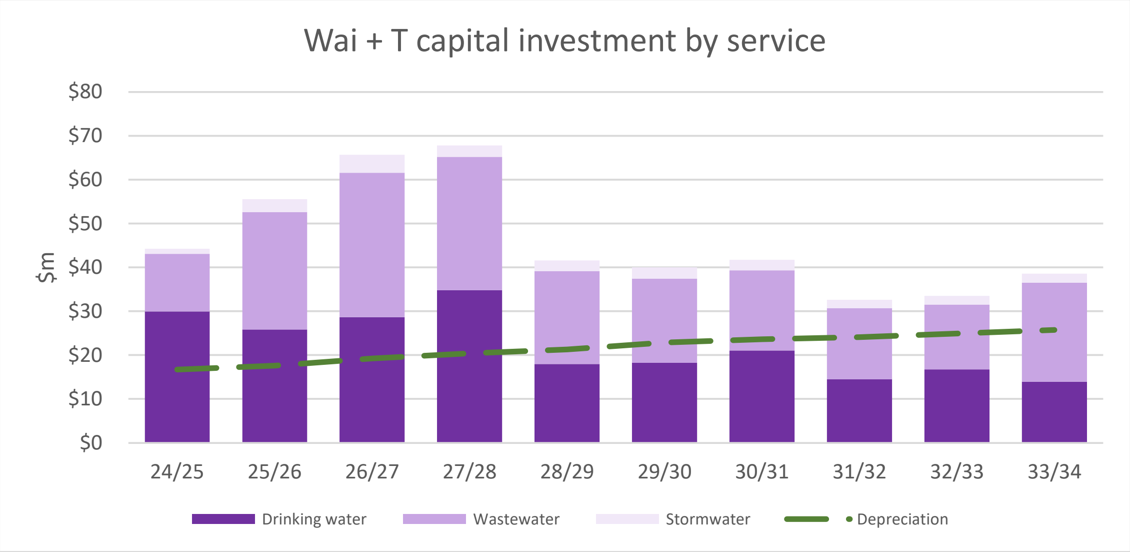
The combined capital programme is heavily weighted to the first four years, averaging $58 million per year from FY24/25 to FY27/28, with a peak of $68 million in FY27/28.

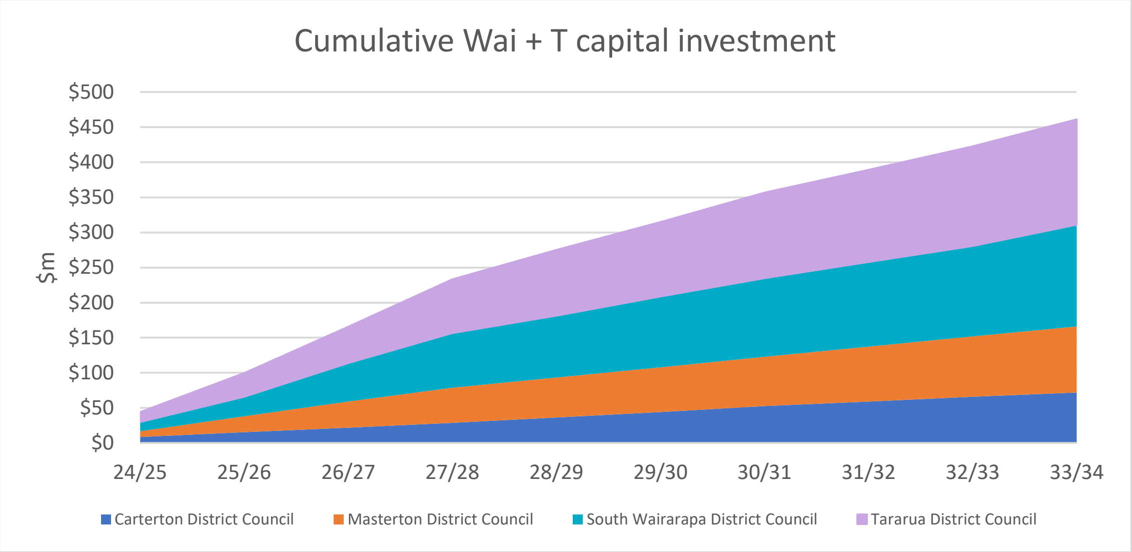
The combined capital programme then reduces to $30 - $40 million per year from FY28/29.

While this capital programme is fundable under a 'WAI + T' Water CCO, there would be merit in the Wairarapa and Tararua councils working together on a joint investment programme to determine the most efficient and deliverable phasing of investment, and to identify opportunities to reduce costs.

Masterton and Carterton councils have significant scope to increase or accelerate investment (against LTP) based on their current projected water revenues.







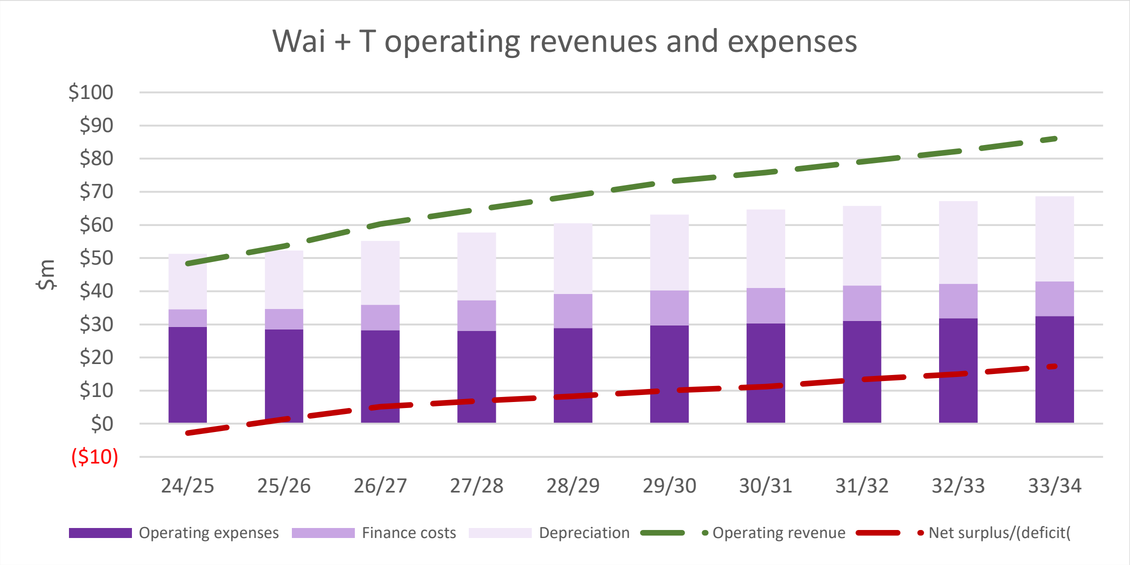
'WAI + T' combined revenues and debt financing

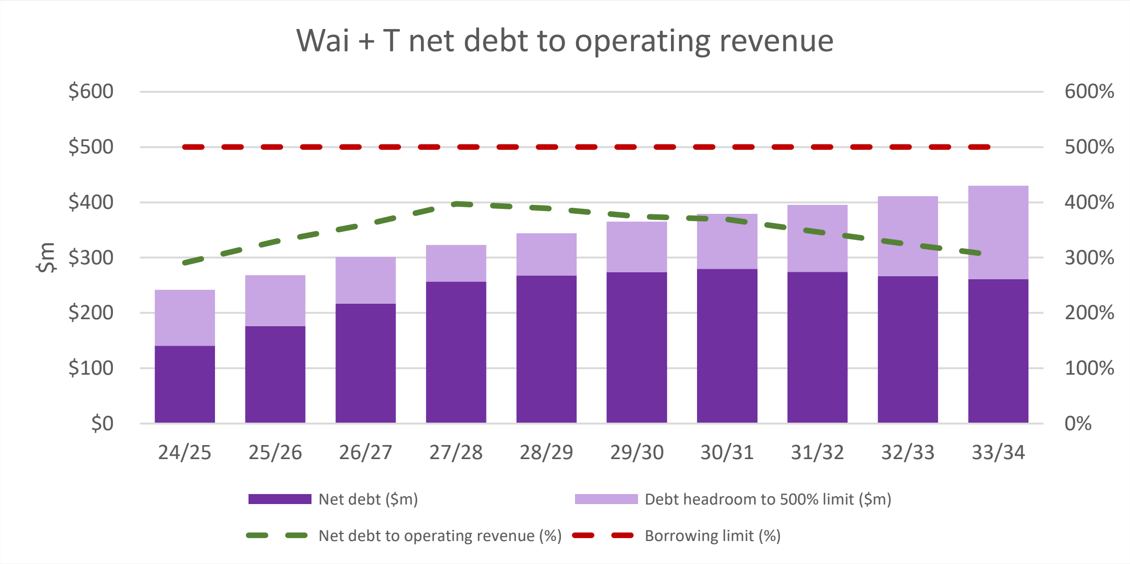
Overview of 'WAI + T' water services revenues and debt financing

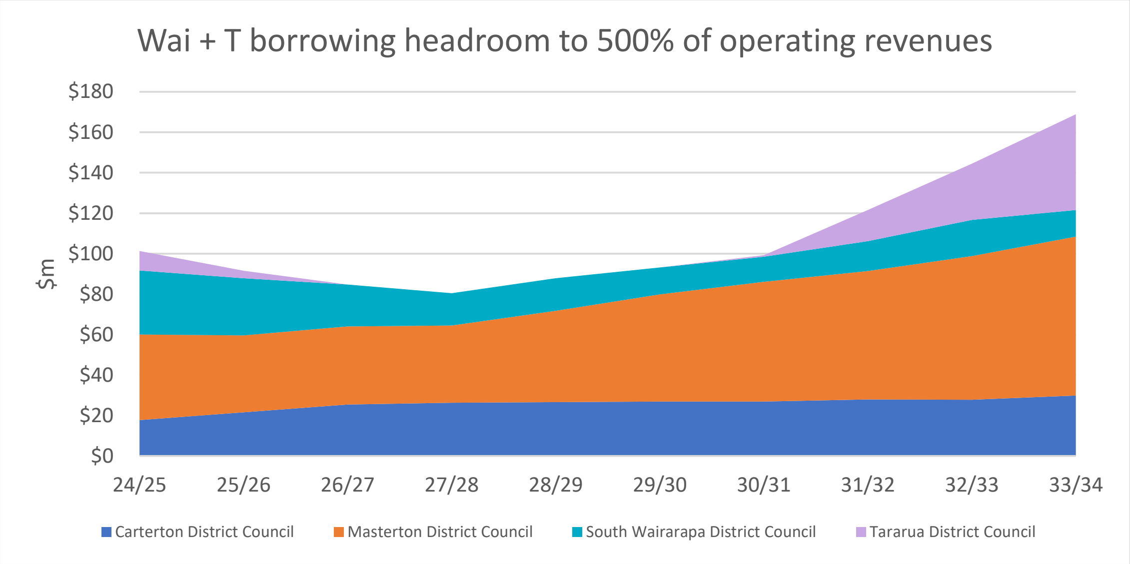
The projected levels of water services revenues are sufficient for the level of investment and expenditure proposed, and fully cover all operating costs including depreciation.

At a consolidated level, there is significant borrowing headroom against a 5x operating revenue debt limit. Based on projected levels of investment and revenues, a 'WAI + T' CCO would retain unutilised borrowing capacity across the entire LTP period, with this capacity increasing over the last five years due to projected revenue increases.

Each council has trade-off decisions to make between levels of revenue, investment and debt financing to strike an appropriate balance for consumers, as part of a 'WAI + T' Water CCO. **There is scope for 'WAI + T' councils to reevaluate the level of water services revenues required, for the level of investment proposed, to potentially pass on savings to consumers. Effectively utilising debt financing is the key to unlocking this.**







'WAI + T' Water CCO: 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	48,393	53,614	60,289	64,599	68,782	73,088	75,815	79,121	82,232	86,007
Other revenue	4,504	853	871	889	905	920	937	954	971	989
Total revenue	52,897	54,468	61,160	65,487	69,688	74,008	76,752	80,074	83,203	86,996
Operating expenses	22,085	21,170	20,656	20,473	20,986	21,517	22,099	22,539	23,063	23,627
Finance costs	5,337	6,164	7,715	9,179	10,327	10,600	10,657	10,622	10,452	10,414
Overheads and support costs	7,135	7,363	7,565	7,622	7,859	8,127	8,262	8,502	8,752	8,900
Depreciation & amortisation	16,688	17,611	19,220	20,424	21,310	22,849	23,644	24,089	24,949	25,736
Total expenses	51,245	52,308	55,156	57,698	60,483	63,092	64,662	65,751	67,217	68,678
Net surplus / (deficit)	1,652	2,160	6,004	7,789	9,205	10,916	12,090	14,323	15,986	18,318
Revaluation of infrastructure assets	13,837	43,118	4,941	22,792	32,074	15,682	13,529	42,532	5,403	24,328
Total comprehensive income	15,489	45,278	10,945	30,581	41,279	26,598	25,619	56,855	21,389	42,647
Cash surplus / (deficit) from operations (excl depreciation)	18,340	19,771	25,224	28,213	30,515	33,765	35,734	38,412	40,935	44,055

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	13.0%	15.6%	14.3%	7.3%	6.6%	6.4%	3.8%	4.4%	4.0%	4.7%
Operating revenue increase	14.7%	10.8%	12.4%	7.1%	6.5%	6.3%	3.7%	4.4%	3.9%	4.6%
Operating expenses increase	14.8%	-2.4%	-1.1%	-0.4%	2.7%	2.8%	2.4%	2.2%	2.5%	2.2%
Net debt to operating revenue	290.7%	329.2%	359.9%	397.2%	389.1%	374.7%	369.1%	346.4%	324.3%	303.7%
FFO to net debt	9.8%	10.7%	11.2%	10.6%	11.1%	12.0%	12.4%	13.7%	15.0%	16.5%

Commentary on water services revenue and expenses

- There was an average 14.7% increase in water services operating revenues in FY24/25 across 'WAI + T' councils, which is due to a 14.8% increase in operating expenses.
- Double digit average operating revenue increases are projected for FY25/26 and FY26/27, with subsequent increases more moderate over the remainder of the 2024-34 LTP period.
- **The projected levels of water services revenues are sufficient for the level of investment and expenditure proposed, and fully cover all operating costs including depreciation.**
- In years 5 – 10 of the LTP period, water services revenues generate cashflows which decrease the leverage of 'WAI + T'. Net debt to operating revenue peaks at 397% in FY27/28 before reducing to 304% in FY33/34.
- Water services are projected to provide funds from operations ('FFO', i.e., operating cashflows) of $14 million in FY24/25, which represents 9.8% of water services debt.
- Due to projected revenue increases, free funds from operations increase to $43 million in FY33/34, which represents 16.5% of projected FY33/34 water services debt.
- **A 'WAI + T' Water CCO that borrows through LGFA would be likely required to maintain a minimum FFO to debt ratio of 8 -10%.**
- **There is scope for 'WAI + T' councils to individually reevaluate the level of water services revenues required, for the level of investment proposed by each council.**
- **Establishing a water CCO that could borrow to 5x operating revenues could provide an opportunity to reduce revenue requirements for water services where projected FFO exceeds the minimum requirement.**

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)	968	1,104	1,213	1,273	1,364	1,388	1,424	1,527	1,545	1,589
Average wastewater bill (including GST)	1,065	1,227	1,425	1,530	1,593	1,702	1,766	1,775	1,837	1,893
Average stormwater bill (including GST)	167	182	201	208	216	248	232	231	249	276
Average charge per connection including GST	2,200	2,513	2,839	3,011	3,173	3,338	3,422	3,533	3,631	3,758
Projected increase	11.7%	14.2%	13.0%	6.1%	5.4%	5.2%	2.5%	3.2%	2.8%	3.5%

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

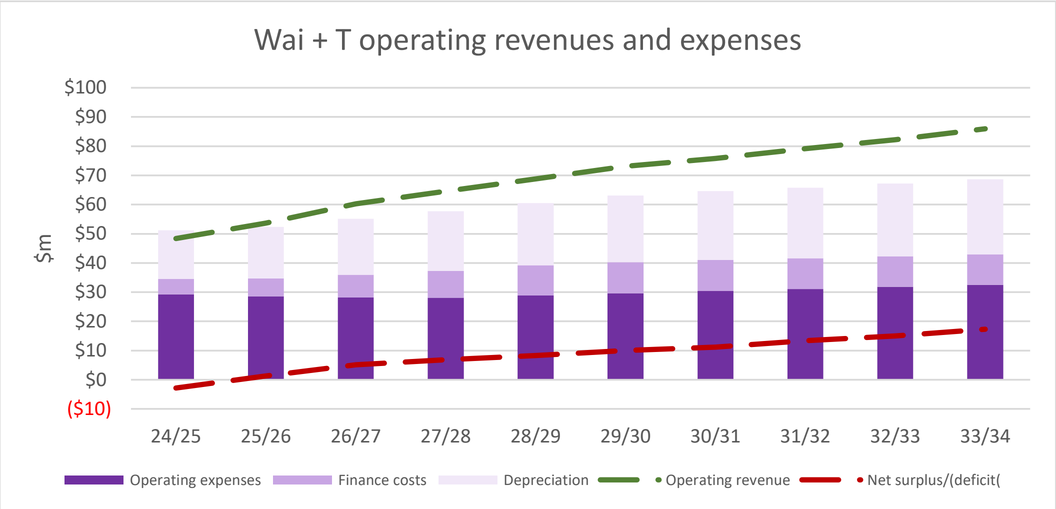
Operating surplus ratio	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34	Total
Operating surplus/(deficit) excluding capital revenues	(2,852)	1,306	5,133	6,901	8,299	9,996	11,153	13,369	15,015	17,330	85,651
Total operating revenue	48,393	53,614	60,289	64,599	68,782	73,088	75,815	79,121	82,232	86,007	691,940
Operating surplus ratio	(5.9%)	2.4%	8.5%	10.7%	12.1%	13.7%	14.7%	16.9%	18.3%	20.1%	12.4%

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	13,836	18,917	24,353	27,324	29,610	32,844	34,797	37,459	39,964	43,066	302,171
Total operating revenue	48,393	53,614	60,289	64,599	68,782	73,088	75,815	79,121	82,232	86,007	691,940
Operating cash ratio	28.6%	35.3%	40.4%	42.3%	43.0%	44.9%	45.9%	47.3%	48.6%	50.1%	43.7%

Commentary on revenue sufficiency for water services in 2024-34 LTP

- Projected operating revenues cover projected operating costs including depreciation.
- Funds from operations are higher than the minimum requirement for LGFA if a 'WAI + T' Water CCO is established.
- **Proposed revenues for water services would meet the 'revenue sufficiency' test.**
- **'WAI + T' councils could consider reducing projected revenues to pass on efficiency savings to consumers generated through establishing a 'WAI + T' Water CCO.**



'WAI + T' Water CCO: Investment sufficiency

Projected water services investment

Projected investment by water service ($000)	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34	Total
Drinking water											
Capital expenditure - to meet additional demand	532	2,354	556	2,022	609	1,690	634	1,760	93	95	10,345
Capital expenditure - to improve levels of services	9,192	5,670	10,209	10,580	4,773	3,042	3,245	730	843	758	49,042
Capital expenditure - to replace existing assets	20,228	17,828	17,906	22,203	12,619	13,536	17,146	11,990	15,829	13,051	162,337
Total projected investment in drinking water	29,952	25,852	28,671	34,805	18,001	18,268	21,025	14,480	16,765	13,904	221,724
Wastewater											
Capital expenditure - to meet additional demand	281	1,928	532	4,055	577	601	625	248	253	258	9,358
Capital expenditure - to improve levels of services	4,997	15,047	20,941	14,076	10,723	7,674	6,143	6,270	4,058	10,556	100,485
Capital expenditure - to replace existing assets	7,861	9,769	11,404	12,269	9,790	10,847	11,503	9,676	10,420	11,808	105,348
Total projected investment in wastewater	13,139	26,744	32,877	30,400	21,091	19,122	18,271	16,194	14,731	22,622	215,191
Stormwater											
Capital expenditure - to meet additional demand	257	697	268	0	0	0	0	0	0	0	1,222
Capital expenditure - to improve levels of services	0	1,088	1,115	626	470	482	493	0	0	0	4,274
Capital expenditure - to replace existing assets	944	1,200	2,763	1,987	2,003	2,127	1,944	1,952	2,014	2,065	18,998
Total projected investment in stormwater	1,201	2,985	4,146	2,613	2,473	2,609	2,437	1,952	2,014	2,065	24,494
Total projected investment in water services	44,292	55,581	65,694	67,817	41,565	39,999	41,733	32,626	33,511	38,592	461,409

Funding sources of projected investment

Projected investment by classification and 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	1,070	4,979	1,356	6,077	1,186	2,291	1,259	2,008	346	353	20,925
Capital expenditure - to improve levels of services	14,189	21,805	32,265	25,282	15,966	11,198	9,881	7,000	4,901	11,314	153,801
Capital expenditure - to replace existing assets	29,033	28,797	32,073	36,458	24,413	26,510	30,593	23,618	28,264	26,925	286,683
Total investment	44,292	55,581	65,694	67,817	41,565	39,999	41,733	32,626	33,511	38,592	461,409
Capital revenues	4,504	853	871	889	905	920	937	954	971	989	12,793
Increase/(decrease) in debt	12,787	27,625	34,409	29,668	10,158	5,288	3,411	(1,609)	(5,534)	1,307	117,510
Funds from operations	27,001	27,102	30,413	37,260	30,502	33,790	37,385	33,282	38,074	36,296	331,106
Total investment funding	44,292	55,581	65,694	67,817	41,565	39,999	41,733	32,626	33,511	38,592	461,409

Commentary on water services investment

- 'WAI + T' councils are projecting $461 million of capital investment into water services infrastructure over ten years.
- $287 million of this is for renewals, against ten-year depreciation charges of $217 million.
- $175 million investment is provided for improving levels of service and growth.
- Only $118 million of this total capital investment requirement is currently projected to be funded by new borrowings over ten years (25% of the total). Revenues are projected to fund $331 million of the total investment (72% of the total).
- **There is significant scope for 'WAI + T' councils to reevaluate the revenue versus debt financing split of projected investment, given the additional borrowing capability for a 'WAI + T' Water CCO that is funded by the LGFA.**
- **Should a 'WAI + T' Water CCO be pursued, Wairapara and Tararua councils should consider increasing the proportion of capital investment that is debt funded, which spreads the burden of this investment on ratepayers over a longer period.**
- **Increasing the proportion of capital investment that is debt funded would deliver a corresponding reduction in operating revenues required. This would mean that projected water charges could be reduced for consumers.**

Investment sufficiency performance 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	29,033	28,797	32,073	36,458	24,413	26,510	30,593	23,618	28,264	26,925	286,683
Depreciation	16,688	17,611	19,220	20,424	21,310	22,849	23,644	24,089	24,949	25,736	216,521
Asset sustainability ratio	74.0%	63.5%	66.9%	78.5%	14.6%	16.0%	29.4%	(2.0%)	13.3%	4.6%	32.4%

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

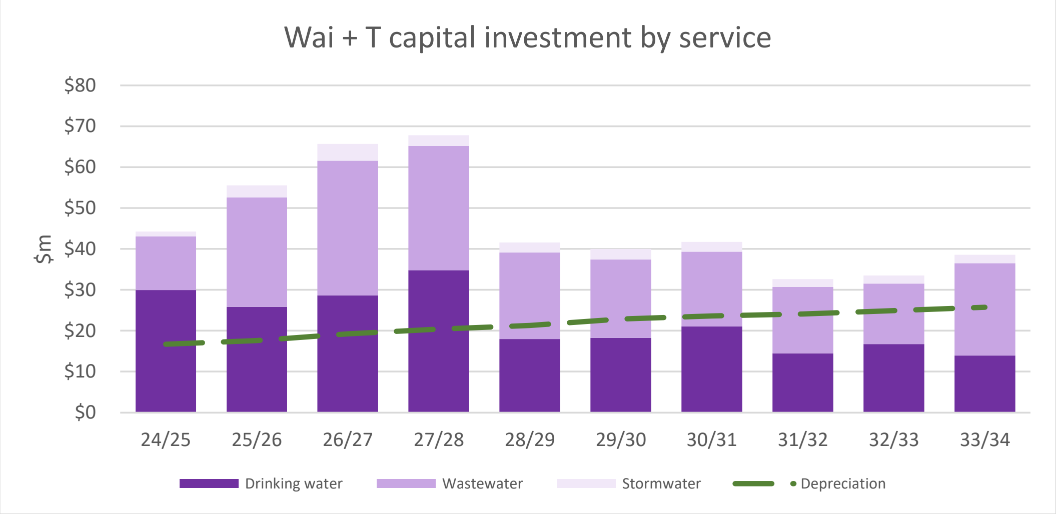
Asset investment ratio	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34	Total
Capital expenditure	44,292	55,581	65,694	67,817	41,565	39,999	41,733	32,626	33,511	38,592	461,409
Depreciation	16,688	17,611	19,220	20,424	21,310	22,849	23,644	24,089	24,949	25,736	216,521
Asset investment ratio	165.4%	215.6%	241.8%	232.1%	95.0%	75.1%	76.5%	35.4%	34.3%	49.9%	113.1%

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	655,674	736,762	788,177	858,362	910,691	943,523	975,141	1,026,210	1,040,174	1,077,358
Total estimated replacement value of infrastructure	1,068,942	1,171,142	1,245,713	1,340,307	1,418,032	1,477,720	1,537,165	1,616,523	1,659,598	1,726,862
Asset consumption ratio	61.3%	62.9%	63.3%	64.0%	64.2%	63.8%	63.4%	63.5%	62.7%	62.4%

Commentary on investment sufficiency for water services in 2024-34 LTP

- Wairarapa and Tararua councils are projecting $461 million of capital investment into water services infrastructure over ten years. This proposed level of investment is substantial – and is more than double projected depreciation charges over ten years.
- **The proposed level of investment for water services would meet the 'investment sufficiency' test.**



'WAI + T' Water CCO: Financing sufficiency

Financing sufficiency measures

Net debt to operating revenue ratio

Net debt to operating revenue	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Total net debt (gross debt less cash)	140,698	176,508	216,977	256,581	267,631	273,865	279,864	274,078	266,654	261,190
Operating revenue	48,393	53,614	60,289	64,599	68,782	73,088	75,815	79,121	82,232	86,007
Net debt to operating revenue	291%	329%	360%	397%	389%	375%	369%	346%	324%	304%

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

Borrowings headroom/(shortfall) against limit	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Operating revenue	48,393	53,614	60,289	64,599	68,782	73,088	75,815	79,121	82,232	86,007
Debt to revenue limit	500%	500%	500%	500%	500%	500%	500%	500%	500%	500%
Maximum allowable net debt	241,965	268,072	301,444	322,994	343,912	365,440	379,076	395,604	411,158	430,036
Total net debt	140,698	176,508	216,977	256,581	267,631	273,865	279,864	274,078	266,654	261,190
Borrowing headroom/ (shortfall) against limit	101,267	91,564	84,467	66,413	76,281	91,575	99,212	121,526	144,504	168,845

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

Free funds from operations (FFO) to debt ratio	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Total net debt	140,698	176,508	216,977	256,581	267,631	273,865	279,864	274,078	266,654	261,190
Funds from operations	13,836	18,917	24,353	27,324	29,610	32,844	34,797	37,459	39,964	43,066
FFO to debt ratio	9.8%	10.7%	11.2%	10.6%	11.1%	12.0%	12.4%	13.7%	15.0%	16.5%

Commentary on financing sufficiency for water services in 2024-34 LTP

- Net debt to revenue for water services peaks at 397% before reducing to 304% by FY33/34.
- The projected level of investment in the 2024-34 LTP is bankable, with the level of projected borrowings well within expected borrowing limits for a 'WAI + T' Water CCO.
- Projected water services revenues provide sufficient operating cashflow to support borrowing requirements.
- A 'WAI + T' Water CCO that could borrow to 5x operating revenues would provide significant borrowing headroom, and an opportunity to reduce revenue requirements for water services for the proposed level of investment.

Projected debt to revenue by water service

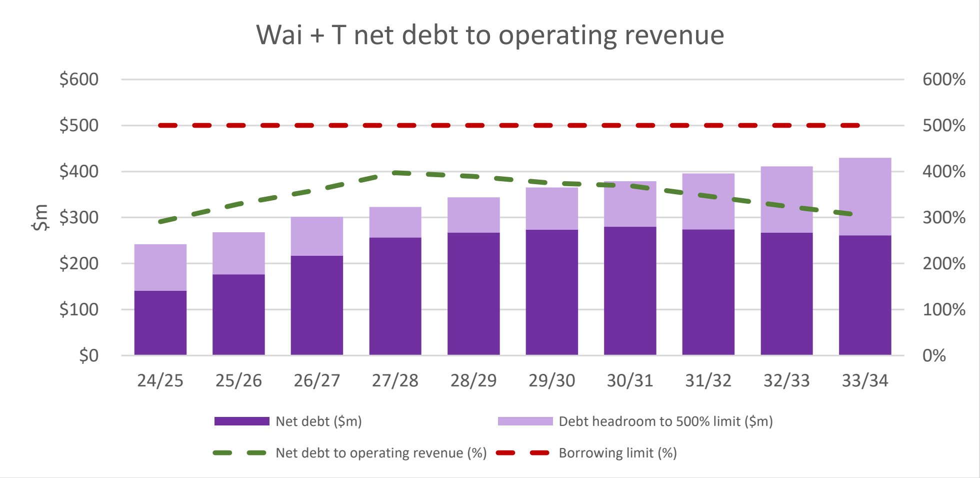
Debt to revenue by water service ($k)	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Drinking water - operating revenue	21,313	23,365	25,470	27,004	29,246	30,099	31,243	33,856	34,653	36,041
Drinking water - net debt	54,466	72,944	92,328	116,893	123,334	129,633	137,923	137,370	138,589	135,946
Drinking water - net debt to operating revenue %	256%	312%	363%	433%	422%	431%	441%	406%	400%	377%
Wastewater - operating revenue	23,903	26,742	30,909	33,502	35,237	37,991	39,851	40,512	42,383	44,156
Wastewater - net debt	85,368	101,230	120,045	134,502	138,835	139,011	136,827	132,180	124,455	123,085
Wastewater - net debt to operating revenue %	357%	379%	388%	401%	394%	366%	343%	326%	294%	279%
Stormwater - operating revenue	3,177	3,507	3,910	4,093	4,299	4,998	4,721	4,753	5,196	5,810
Stormwater - net debt	863	2,334	4,605	5,186	5,462	5,221	5,114	4,528	3,610	2,160
Stormwater - net debt to operating revenue %	27%	67%	118%	127%	127%	104%	108%	95%	69%	37%
Water services - net debt to operating revenue %	291%	329%	360%	397%	389%	375%	369%	346%	324%	304%

Funding source of 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 revenues	4,504	853	871	889	905	920	937	954	971	989	12,793
Increase/(decrease) in debt	12,787	27,625	34,409	29,668	10,158	5,288	3,411	(1,609)	(5,534)	1,307	117,510
Funds from operations	27,001	27,102	30,413	37,260	30,502	33,790	37,385	33,282	38,074	36,296	331,106
Total investment funding	44,292	55,581	65,694	67,817	41,565	39,999	41,733	32,626	33,511	38,592	461,409

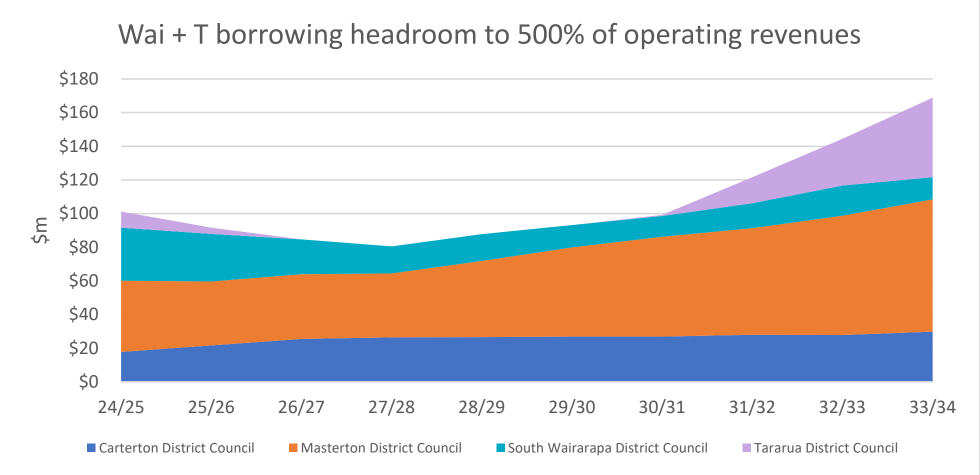
There is significant scope for 'WAI + T' councils to reevaluate the revenue versus debt financing split of projected investment, given the additional borrowing capability for a 'WAI + T' Water CCO that is funded by the LGFA.

Water services financing – 'WAI + T' consolidated



At a consolidated level, there is significant borrowing headroom against a 5x operating revenue debt limit. Based on projected levels of investment and revenues, a 'WAI + T' CCO would retain unutilised borrowing capacity across the entire LTP period, with this capacity increasing over the last five years due to projected revenue increases.

Remaining borrowing headroom to 5x operating revenues



Comparison of 'WAI + T' councils’ water services

ANNEX 3

Per connection comparison of 'WAI + T' councils (over five years)

'WAI + T' could operate as an aggregation of the four councils' individual water services requirements and maintain regional differences

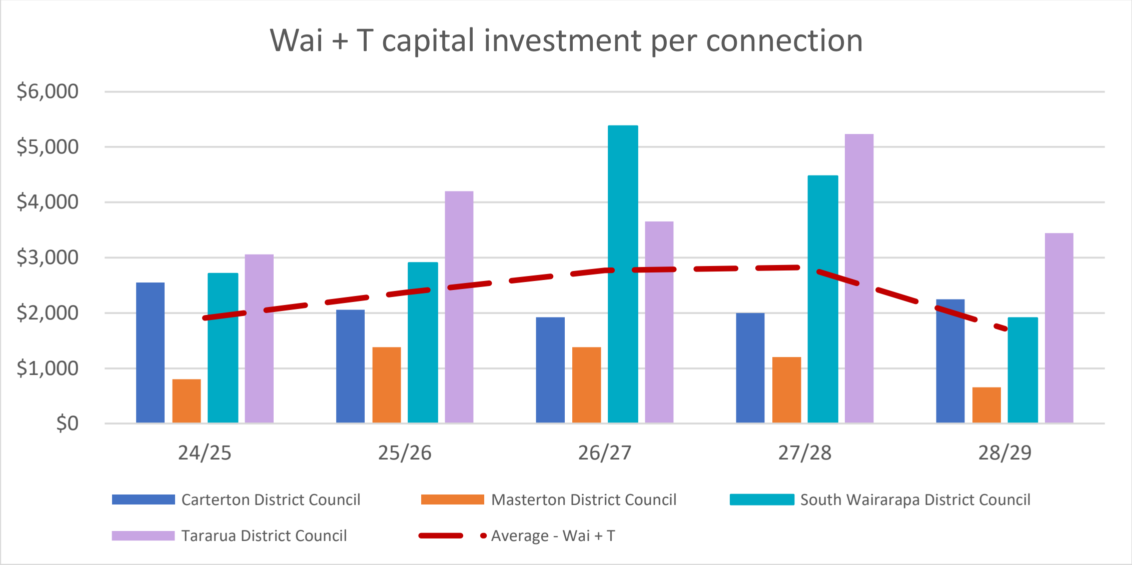
Under Local Water Done Well **there is no requirement to harmonise prices** across councils where a regional model is progressed.

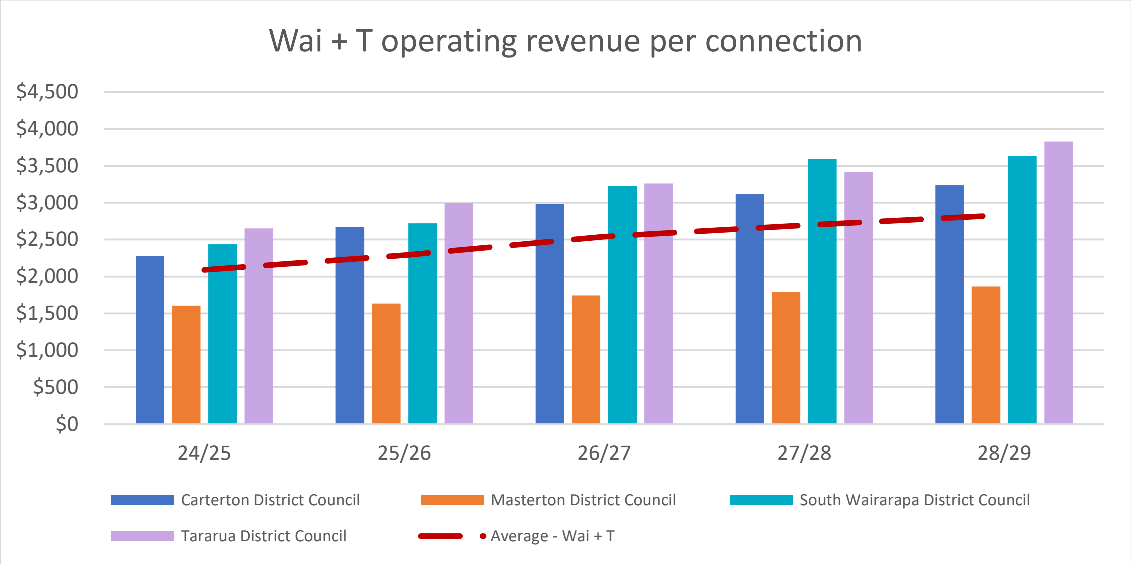
Each council's water services network, investment requirements and costs of service are unique and different to other 'WAI + T' councils.

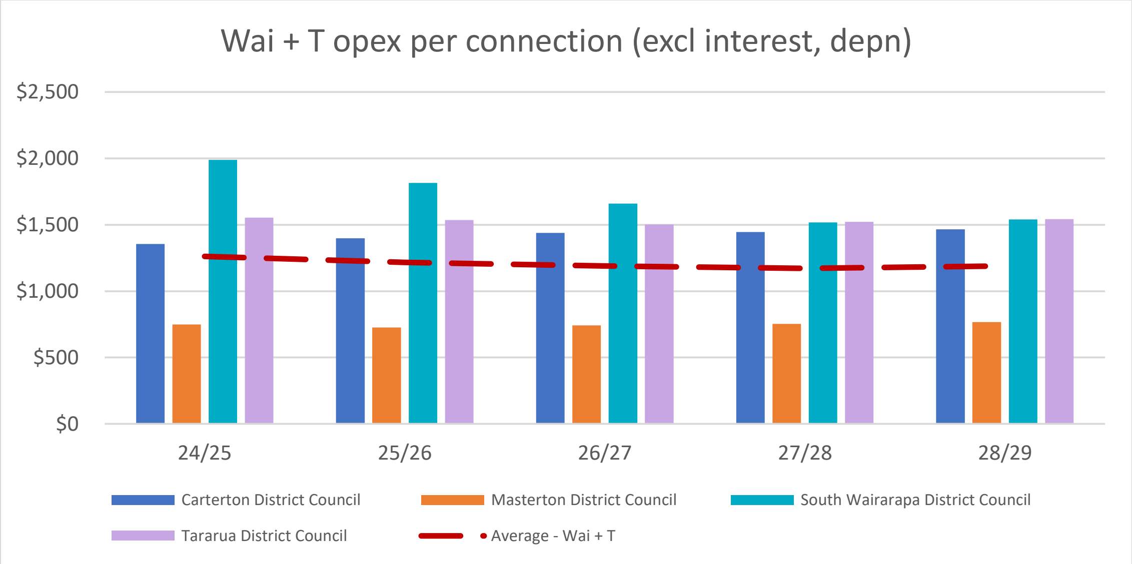
We recommend that Wairarapa and Tararua councils look to initially **maintain regional pricing differences that reflect regional differences in the costs of service**.

Operating revenues, costs and investment are shown to enable comparison across the 'WAI + T' councils. A weighted average across 'WAI + T' councils is shown indicatively.

Each council has trade-off decisions to make between levels of revenue, investment and debt financing to strike an appropriate balance for consumers, as part of a 'WAI + T' Water CCO.







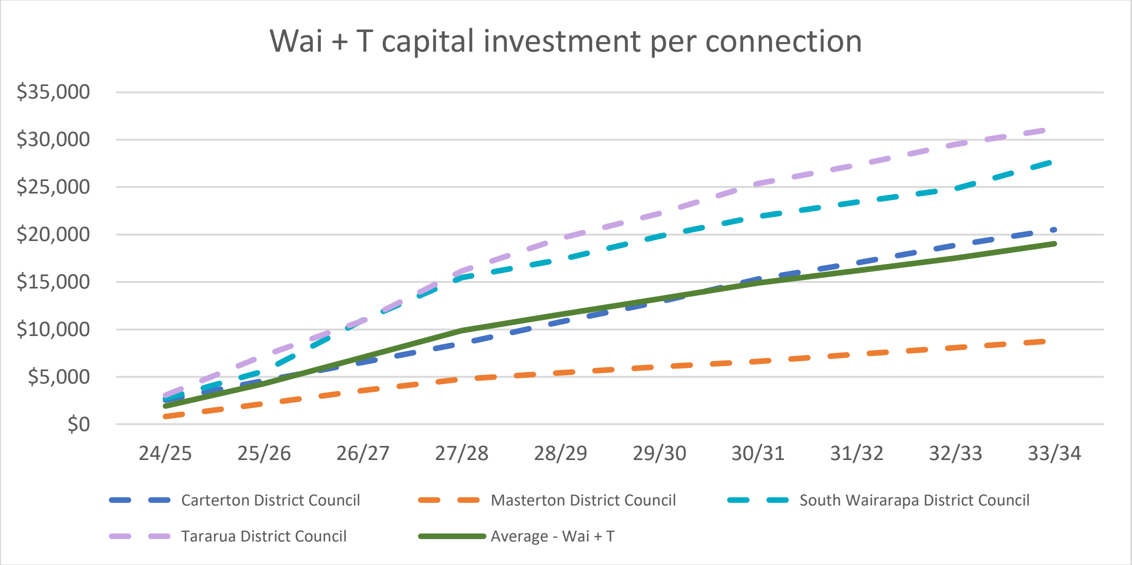
Further comparison of 'WAI + T' councils on a per connection basis

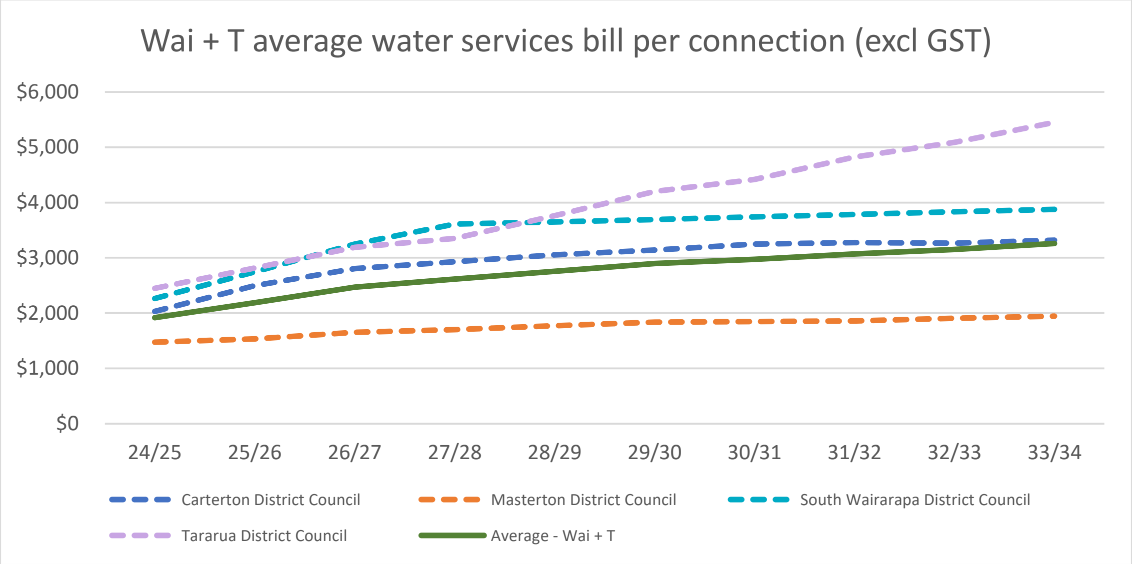
Household charges are a function of costs of service and levels of investment required

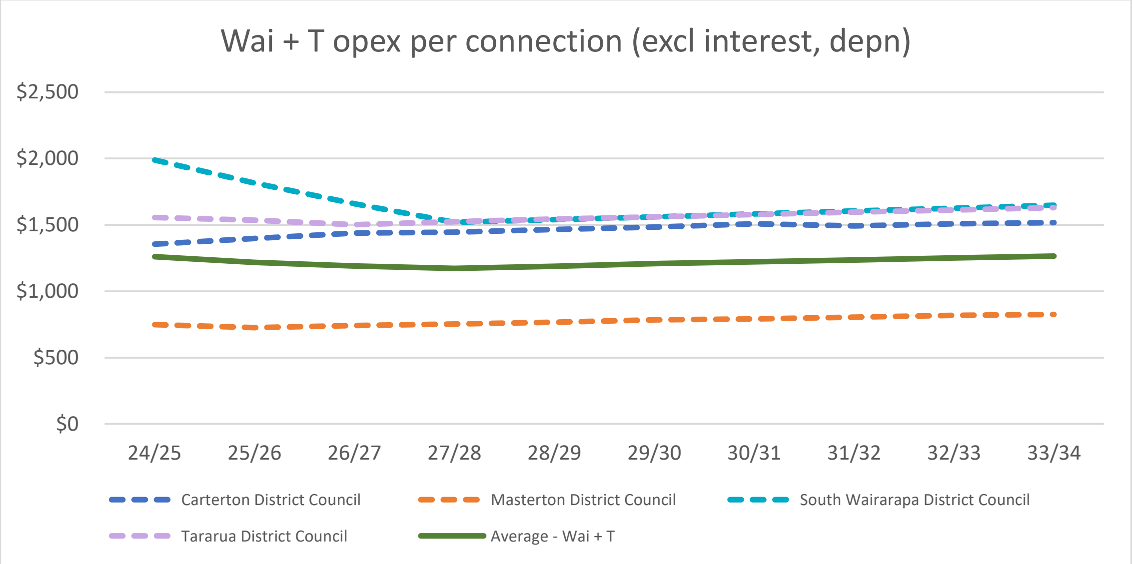
Average water charges are directly impacted by proposed levels of investment, operating expenses and the utilisation of debt financing versus revenue funding of investment. Each council is facing trade-off decisions on these factors to strike the right balance for their communities.

Each council should separately determine the financial projections that should be used for subsequent 'WAI + T' analysis, implementation planning and for Water Services Delivery Plans.

We have provided a separate pack for each council which summarises these trade-off decisions.







Comparing water services financing across 'WAI + T' councils

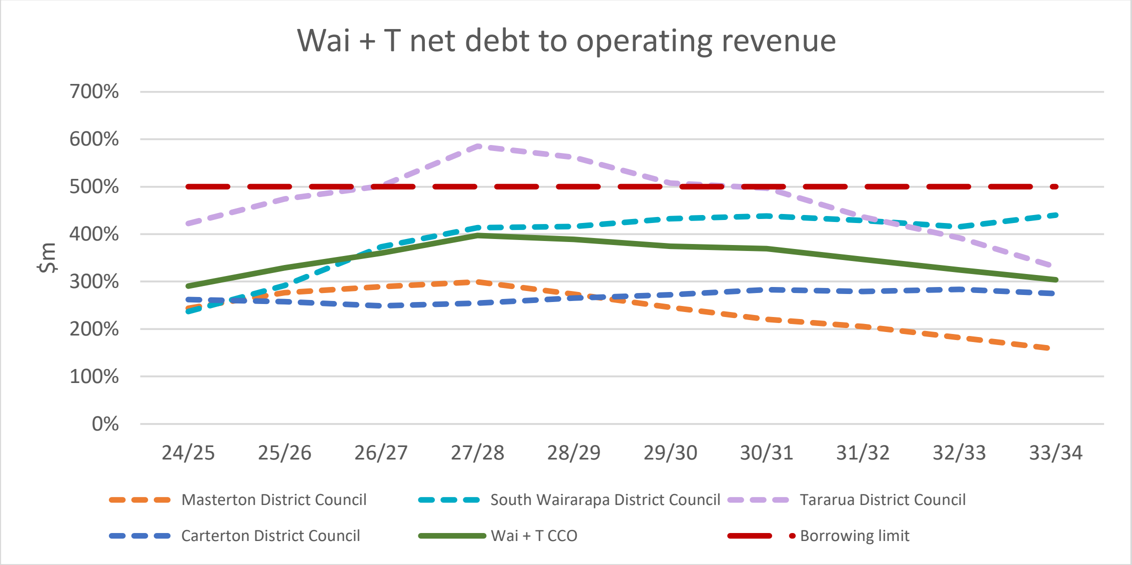
A 'WAI + T' Water CCO could access sufficient debt financing from LGFA; however, there are regional differences across 'WAI + T' councils

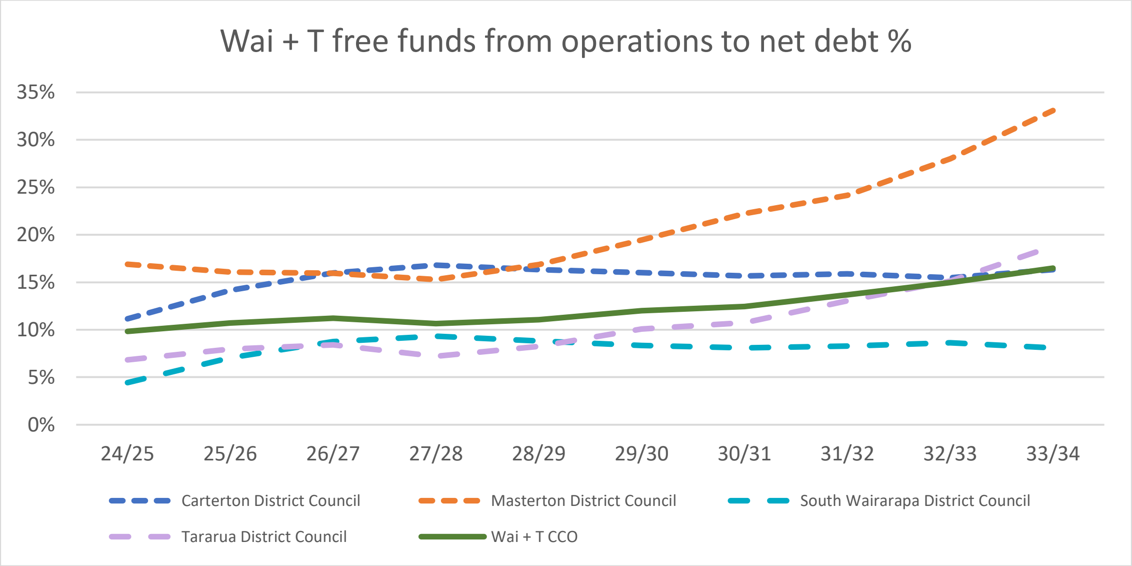
A consolidated 'WAI + T' Water CCO could comfortably access the necessary debt financing required to deliver the proposed levels of investment as set out in the financial projections included in this pack.

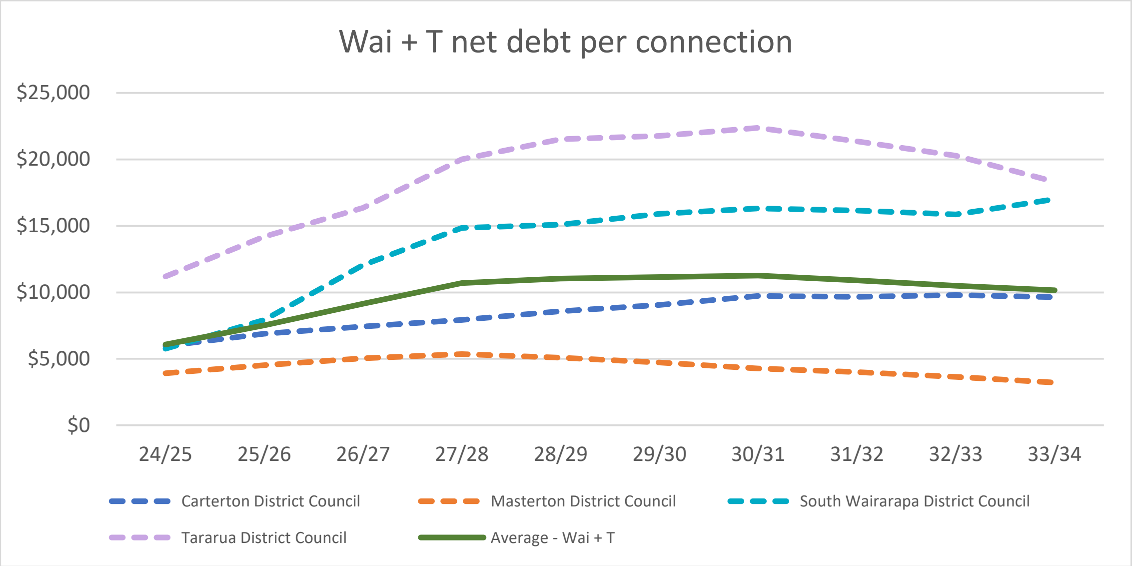
'WAI + T' councils may wish to consider trade-offs between levels of revenue and investment, and of debt financing versus revenue funding of investment.

When considering these trade-offs each council should aim to:

- Keep debt to revenue at or below 500% of revenues (where possible); and
- Ensure a minimum FFO to debt ratio of 8 -10% is maintained.







'WAI + T' Water CCO: projected consolidated water services financials

ANNEX 4

'WAI + T' financial projections: consolidated funding impact statement

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
Sources of operating funding											
General rates	810	857	985	1,056	1,125	1,190	1,255	1,232	1,242	1,274	11,026
Targeted rates	43,344	50,167	57,335	61,524	65,584	69,775	72,384	75,664	78,715	82,401	656,893
Subsidies and grants for operating purposes	1,911	541	0	0	0	0	0	0	0	0	2,452
Local authorities fuel tax, fines, infringement fees and other receipts	9	7	6	5	6	6	6	6	6	15	72
Fees and charges	2,319	2,042	1,963	2,014	2,068	2,117	2,170	2,218	2,269	2,317	21,497
Total operating funding	48,393	53,614	60,289	64,599	68,782	73,088	75,815	79,121	82,232	86,007	691,940
Applications of operating funding											
Payments to staff and suppliers	22,085	21,170	20,656	20,473	20,986	21,517	22,099	22,539	23,063	23,627	218,215
Finance costs	5,337	6,164	7,715	9,179	10,327	10,600	10,657	10,622	10,452	10,414	91,467
Internal charges and overheads applied	7,135	7,363	7,565	7,622	7,859	8,127	8,262	8,502	8,752	8,900	80,086
Total applications of operating funding	34,557	34,697	35,936	37,274	39,172	40,244	41,018	41,662	42,267	42,941	389,769
Surplus/(deficit) of operating funding	13,836	18,917	24,353	27,324	29,610	32,844	34,797	37,459	39,964	43,066	302,171
Sources of capital funding											
Subsidies and grants for capital expenditure	3,669	0	0	0	0	0	0	0	0	0	3,669
Development and financial contributions	835	853	871	889	905	920	937	954	971	989	9,124
Increase/(decrease) in debt	12,787	27,625	34,409	29,668	10,158	5,288	3,411	(1,609)	(5,534)	1,307	117,510
Total sources of capital funding	17,291	28,478	35,281	30,556	11,063	6,208	4,348	(656)	(4,563)	2,296	130,303
Applications of capital funding											
Capital expenditure - to meet additional demand	1,070	4,979	1,356	6,077	1,186	2,291	1,259	2,008	346	353	20,925
Capital expenditure - to improve levels of services	14,189	21,805	32,265	25,282	15,966	11,198	9,881	7,000	4,901	11,314	153,801
Capital expenditure - to replace existing assets	29,033	28,797	32,073	36,458	24,413	26,510	30,593	23,618	28,264	26,925	286,683
Increase/(decrease) in reserves	(5,561)	(8,185)	(6,064)	(9,933)	(891)	(945)	(2,593)	4,180	1,889	6,779	(21,324)
Increase/(decrease) in investments	(7,600)	0	0	0	0	0	0	0	0	0	(7,600)
Total applications of capital funding	31,131	47,396	59,630	57,884	40,674	39,054	39,140	36,806	35,400	45,371	432,485
Surplus/(deficit) of capital funding	(13,840)	(18,917)	(24,349)	(27,327)	(29,611)	(32,845)	(34,792)	(37,462)	(39,963)	(43,075)	(302,182)
Funding balance	(4)	0	4	(3)	(1)	(1)	5	(3)	1	(9)	(11)

'WAI + T' financial projections: consolidated P&L and cashflows

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	48,393	53,614	60,289	64,599	68,782	73,088	75,815	79,121	82,232	86,007
Other revenue	4,504	853	871	889	905	920	937	954	971	989
Total revenue	52,897	54,468	61,160	65,487	69,688	74,008	76,752	80,074	83,203	86,996
Operating expenses	22,085	21,170	20,656	20,473	20,986	21,517	22,099	22,539	23,063	23,627
Finance costs	5,337	6,164	7,715	9,179	10,327	10,600	10,657	10,622	10,452	10,414
Overheads and support costs	7,135	7,363	7,565	7,622	7,859	8,127	8,262	8,502	8,752	8,900
Depreciation & amortisation	16,688	17,611	19,220	20,424	21,310	22,849	23,644	24,089	24,949	25,736
Total expenses	51,245	52,308	55,156	57,698	60,483	63,092	64,662	65,751	67,217	68,678
Net surplus / (deficit)	1,652	2,160	6,004	7,789	9,205	10,916	12,090	14,323	15,986	18,318
Revaluation of infrastructure assets	13,837	43,118	4,941	22,792	32,074	15,682	13,529	42,532	5,403	24,328
Total comprehensive income	15,489	45,278	10,945	30,581	41,279	26,598	25,619	56,855	21,389	42,647
Cash surplus / (deficit) from operations (excl depreciation)	18,340	19,771	25,224	28,213	30,515	33,765	35,734	38,412	40,935	44,055

Statement of cashflows ($000)	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Cashflows from operating activities										
Cash surplus / (deficit) from operations	18,340	19,771	25,224	28,213	30,515	33,765	35,734	38,412	40,935	44,055
Net cashflows from operating activities	18,340	19,771	25,224	28,213	30,515	33,765	35,734	38,412	40,935	44,055
Cashflows from investment activities										
Capital expenditure	(44,292)	(55,581)	(65,694)	(67,817)	(41,565)	(39,999)	(41,733)	(32,626)	(33,511)	(38,592)
Net cashflows from investment activities	(44,292)	(55,581)	(65,694)	(67,817)	(41,565)	(39,999)	(41,733)	(32,626)	(33,511)	(38,592)
Cashflows from financing activities										
Movements in external debt	12,787	27,625	34,409	29,668	10,158	5,288	3,411	(1,609)	(5,534)	1,307
Movements in internal debt	0	0	0	0	0	0	0	0	0	0
Net cashflows from financing activities	12,787	27,625	34,409	29,668	10,158	5,288	3,411	(1,609)	(5,534)	1,307
Net increase/(decrease) in cash and cash equivalents	(13,165)	(8,185)	(6,060)	(9,936)	(892)	(946)	(2,588)	4,177	1,890	6,770
Cash and cash equivalents at beginning of year	(14,845)	(28,010)	(36,195)	(42,255)	(52,191)	(53,083)	(54,029)	(56,617)	(52,440)	(50,550)
Cash and cash equivalents at end of year	(28,010)	(36,195)	(42,255)	(52,191)	(53,083)	(54,029)	(56,617)	(52,440)	(50,550)	(43,780)

Negative projected cash balances occur due to internal borrowings arrangements and cash shortfalls set out in water services funding impact statements (through the movements in reserves line). These negative projected cash balances are included in 'net debt' analysis within this pack. 'WAI + T' councils should rebalance external borrowings, internal borrowings and cash, by adjusting projected capital movements to ensure that there is sufficient positive working capital included in a submitted Water Services Delivery Plan.

'WAI + T' financial projections: consolidated balance sheet

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
Assets										
Cash and cash equivalents	(28,010)	(36,195)	(42,255)	(52,191)	(53,083)	(54,029)	(56,617)	(52,440)	(50,550)	(43,780)
Infrastructure assets	655,674	736,762	788,177	858,362	910,691	943,523	975,141	1,026,210	1,040,174	1,077,358
Total assets	627,664	700,567	745,922	806,171	857,608	889,494	918,524	973,770	989,625	1,033,578
Liabilities										
External borrowings	112,688	140,313	174,722	204,390	214,548	219,836	223,247	221,638	216,104	217,411
Internal borrowings	0	0	0	0	0	0	0	0	0	0
Total liabilities	112,688	140,313	174,722	204,390	214,548	219,836	223,247	221,638	216,104	217,411
Net assets	514,976	560,254	571,199	601,781	643,060	669,658	695,277	752,132	773,521	816,168
Equity										
Revaluation reserve	379,679	422,797	427,738	450,530	482,604	498,286	511,815	554,348	559,751	584,079
Other reserves	135,297	137,457	143,461	151,250	160,455	171,371	183,461	197,784	213,770	232,088
Total equity	514,976	560,254	571,199	601,781	643,059	669,657	695,276	752,132	773,521	816,167

Negative projected cash balances occur due to internal borrowings arrangements and cash shortfalls set out in water services funding impact statements (through the movements in reserves line). These negative projected cash balances are included in ‘net debt’ analysis within this pack.

'WAI + T' councils should rebalance external borrowings, internal borrowings and cash, by adjusting projected capital movements to ensure that there is sufficient positive working capital included in a submitted Water Services Delivery Plan.