



APPENDICES

**Kaunihera | Council Meeting
Under Separate Cover**

Thursday, 28 November 2024

Table of Contents

8.1	Deputation From Local Government New Zealand	
	Appendix 1 LGNZ Four-Monthly Report for Member Councils July-October 2024	4
11.3	Economic Development Operating Model	
	Appendix 1 Briefing on the new Economic Development operating model, 17 October 2024.....	26
	Appendix 2 Proposed Trust Deed for the new Economic Development Trust.....	27
	Appendix 3 Proposed Relationship Framework Agreement for the Trust and Council .	54
	Appendix 4 Proposed Constitution for the new Economic Development Limited Liability Company	61
	Appendix 5 Proposed Relationship Framework Agreement for the Limited Liability Company and Council	72
11.4	Local Water Done Well - Future Direction for Kapiti Coast District Council	
	Appendix 1 Attachment 1 - DIA Water Service Delivery Models Guidance for Local Authorities Presentation.....	80
	Appendix 2 Attachment 2 - Wellington Regional Water Service Delivery Plan Approach.....	107
	Appendix 3 Attachment 3 - Wellington Regional Water Service Delivery Plan Approach Appendices.....	205
	Appendix 4 Attachment 4 - Elected Members LWDW Workshop 14th November 2024	225
	Appendix 5 Attachment 5 - Morrison Low LWDW Options Report	245



LGNZ four-monthly report for member councils

// July-October 2024





Ko Tātou LGNZ.

This report summarises LGNZ's work on behalf of member councils and is produced three times a year. It's structured around LGNZ's purpose: to serve local government by **championing**, **connecting** and **supporting** members.

Many councils have found it useful to put this report on the agenda for their next council meeting so that all councillors can review it and provide feedback. Sam and Susan are also happy to join council meetings online to discuss the report or any aspect of it, on request.

This report complements our regular communication channels, including *Keeping it Local* (our fortnightly e-newsletter), providing a more in-depth look at what we do.

Contents

Introduction	4
Champion	5
Local government funding and financing	5
Rates rise toolkit 3: Unfunded mandates	5
Tourism and cost recovery.....	5
Revenue capping and other measures	5
Forthcoming funding and financing toolkit	5
Regional deals	6
Government relations.....	6
Media	7
Electoral Reform Working Group.....	10
Remits	10
Māori wards	11
Water services reform	11
Resource management reform	12
Transport.....	12
Climate change.....	13
Localism	14
Other policy issues	14
Earthquake prone buildings.....	14
Emergency management system improvement.....	15
Connect	16



Member visits	16
SuperLocal24.....	16
Combined Sector meetings.....	16
2025 calendar	17
Te Maruata.....	17
YEM.....	17
Women’s lunch	18
CBEC.....	18
Metro Sector	18
Te Uru Kahika/Regional Sector	19
Support	20
Ākona	20
Roundtable zooms	20
Hūtia te Rito – LGNZ Māori Strategy.....	20
Governance guides/support	21
MTFJ	21
Moata Carbon Portal.....	21



Introduction

This busy four months included our SuperLocal conference in Wellington, which attracted more than 700 people and dominated the news agenda all week. This was partly thanks to headline-grabbing comments from the Prime Minister and Local Government Minister, but also because of the LGNZ team's proactive generation of many other topics in the media spotlight at our conference, from four-year terms and tourism levies to localism and regional deals.

Alongside preparing for and delivering SuperLocal, our small team managed a huge range of other work, which is covered in this report. Highlights include:

- Launching our third rates rise toolkit in July, including NZIER's research uncovering the costs of unfunded mandates for councils. Unfunded mandates are costs that local government ends up carrying as a result of central government legislation.
- In October, launching our Electoral Reform Working Group's issues paper exploring the current state of participation in local election and asking for feedback.
- Local Government Minister Simeon Brown announcing a framework for Regional Deals that aligns with many of the elements LGNZ called for in our May proposal.

As you'll see below, we've had many meetings with Ministers, the Prime Minister and other politicians across a wide range of topics. And we've engaged in a range of policy issues, with our work driven by the high-level advocacy priorities that members and National Council agreed earlier this year:

- Funding and financing
- Water
- Resource management reform
- Transport
- Climate change

Right now, we're preparing for the 21 November Combined Sector meeting, focused on the Government's local government reform programme. It features a strong range of speakers including the Local Government Minister, Regional Development Minister, Opposition Finance Spokesperson, Australian local government speakers on their rates capping experience, and a briefing from the Treasury on New Zealand's fiscal situation.

During the meeting, we'll also be launching a funding and financing toolkit, showcasing a range of tools that could be used (alongside rates) to boost local government's financial position and help councils deliver for ratepayers. Watch out for an email direct to your inbox on 21 November with all the details. We'll be advocating strongly for these tools – and sharing resources so you can too.

Ngā mihi
Sam and Susan



Champion

Local government funding and financing

Rates rise toolkit 3: Unfunded mandates

In July we released work we had commissioned from NZIER on the impacts of unfunded mandates on local government. NZIER's research highlighted:

- that many central government reforms have resulted in increased costs for ratepayers;
- that central government does not adequately estimate or address what its reforms cost councils;
- that constant policy changes lead to high sunk costs for councils with no tangible outcomes; and
- the true costs of government reform are hidden because councils absorb them by reducing other service delivery.

Our third rates rise toolkit packaged this research with slides and key messages that members could use. The release generated significant media interest and engagement from members.

Tourism and cost recovery

From 1 October, the Government raised the International Visitor Conservation and Tourism Levy (IVL) from \$35 to \$100 to ensure visitors contribute to the upkeep of the facilities, services and natural environment they use and enjoy during their stay. LGNZ is advocating for councils to have a greater say in how the additional funding is spent on tourism-related initiatives. We are also continuing to advocate for the Government to enable cost recovery tools (such as a local tourism bed night charge).

Revenue capping and other measures

At SuperLocal, the Government announced that they would investigate performance metrics, benchmarking, and revenue capping for councils modelled on New South Wales and Victoria. The policy team has been engaging with local government experts from New South Wales and Victoria to understand how these policies have worked for them and what the impact has been. We will provide insights from these discussions and research on these policies with members soon, including at the November Combined Sector meeting.

Forthcoming funding and financing toolkit

We are working on a toolkit for release at the November Combined Sector meeting that details a range of 24 funding and financing tools that would benefit councils (but potentially require enabling legislation). This toolkit will include:

- Basic information about each tool, how it can be used and what it might deliver
- Data to support our approach and inform members' conversations
- Messages local government can use



- A draft op ed and draft letter to an MP that can be customised

The toolkit launch will be supported by media and advocacy activity, in the same way that the rates rise toolkits were.

Regional deals

We were pleased that the Government made announcements around its Regional Deals framework at SuperLocal, and that our advocacy has been taken on board with the framework largely reflecting our position. This framework includes partnership, new funding tools and a commitment to long-term planning, and is modelled on LGNZ's proposal released earlier this year.

We know funding tools and regulatory relief will be made available in the regions that secure deals. We have been advocating for those benefits to be available for all of local government (where that makes sense).

Our focus now is on ensuring that the regional deals model has room to evolve and deepen – as it's become clearer that the first iteration will be limited in scope.

Government relations

We appeared before select committees in support of our submissions on the water services preliminary arrangements and fast-track bills.

We've also had productive meetings with Hon Chris Bishop and Hon Casey Costello.

The meeting with Minister Bishop included Hastings District Council Mayor Sandra Hazlehurst and chief executive Nigel Bickle. They were able to provide the Minister with their reflections on the recent Kāinga Ora review and some examples of what they were doing locally to promote better housing outcomes, as part of our effort to position local government as a key partner in resolving the housing crisis.

The meeting with Minister Costello was about what role councils may play in reform of vaping regulations, and resulted in an agreement that LGNZ would further engage with health officials on what a system in which councils have greater control over where vape retailers are located could look like.

In early July we hosted MPs who were former local government elected members or staff for a casual evening function at parliament. Six MPs joined Sam and the LGNZ team for some good conversations and bridge-building across party lines.

We have reached out to ACT leader and Minister of Regulation David Seymour to work with him and his party on streamlining the regulatory burden on councils, and on the ACT commitment in its coalition agreement with National to look at improving housing incentives on councils through GST sharing.

At our July meeting with Minister Brown, we raised concerns regarding NZTA's proposed changes to emergency works funding. We also discussed the Ratepayers' Assistance Scheme (RAS), which is an



innovative financing scheme that LGNZ has been developing with a group of Metro councils, the Local Government Funding Agency and Cameron Partners. The purpose of the RAS is to make local government policies and charges more affordable for ratepayers. RAS would provide ratepayers with:

- Flexibility to decide when to pay local government charges; and/or
- Very competitive finance terms (below standard mortgage rates).

The recess period gave us the opportunity to connect with staff in the Beehive. These conversations have provided insights into the Government's perception of local government and help myth-bust staffers' perceptions (where that's been required).

In late September, we met with the Prime Minister and Local Government Minister together, as part of our series of regular quarterly meetings. Talks took a practical approach to tackle the challenges facing local government. Before the meeting, we asked mayors and chairs for practical cost-cutting ideas to relieve pressure for ratepayers and help councils operate more efficiently. Here's a selection of the ideas you shared:

- Simplify audits with a tiered, risk-based system
- Review Long Term Plans less often
- Let councils set their own fees for things like parking and animal control
- Review District Plans and conduct Representation Reviews less frequently
- Encourage shared services between councils
- Better align local and central government decisions
- Create a "Fast Track" process for land rezoning
- Address the contributors to civil construction price increases.

The Prime Minister and Local Government Minister were interested to hear about possible changes.

In early October, we again met with the Minister for Local Government. The Minister was open to receiving further advice from us on how to cut costs for councils, including a proposal to change Schedule 10 of the Local Government Act to make it less cumbersome and more accessible for the community. The Minister was open to coming to our sector meetings in February and May next year.

The Government announced a raft of proposed changes to the building consents system in late October and we are meeting with Hon Chris Penk in early November.

Media

The June Infrastructure Symposium, including Infrastructure Minister Chris Bishop's speech at our networking function the night before, received very strong media coverage, with stories in The Post, BusinessDesk, NBR and RNZ focused on our support for more funding tools to pay for infrastructure. We also used the opportunity of the Infrastructure Symposium to further our advocacy against proposed changes by NZTA to emergency works, which was a lead story on 1News. Other media interactions in July focused on elected members' behaviour and Christchurch City Council's exit from LGNZ.



SuperLocal24 generated widespread national coverage, making it one of the top stories of the week. The Prime Minister's politically charged speech, rate increases, and large media attendance contributed to the event being so widely covered. The overall media result was the result of significant planning by LGNZ. We developed a range of proactive stories and pre-briefed media on issues important to members, which ensured balance in stories and coverage of our proactive angles.

Feedback from media about the conference experience was very positive.



6 press conferences



33 accredited media



400+ media items



9 proactive story topics

Earlier in August, LGNZ led out positively on the Government's Local Water Done Well announcement. LGNZ Vice President Campbell Barry spoke to [1News](#) and said while it was a welcome step, we need to temper expectations about the effect on rates short-term. LGNZ National Council members Tim Cadogan and Neil Holdom spoke to [Stuff and Three News](#) about the need for certainty from all sides so councils can get on with business. Concerns still playing out in the media centre around [credit ratings](#) of the LGFA and the new CCOs, which S&P put a statement out about. LGNZ engaged with S&P at the end of last week and will share updates in the coming months.

Confirmation of time-of-use or congestion charging was also announced in August, with LGNZ Transport Forum Chair Neil Holdom putting LGNZ's support [on the record](#) saying, "it's a prudent and pragmatic step that LGNZ has long advocated for".

Coverage of our unfunded mandates research launch included LGNZ Vice President Campbell Barry speaking to [The Post](#), [RNZ](#) and [Newsroom](#) about the report and joining [ZB's Early Edition](#) to highlight the cost of flip-flops on policies when the government changes. Then in [The Post](#), Ex-Chief Press Secretary for the National Party Janet Wilson reflected on our research, reiterating the impossible situation for councils as "rates as a share of GDP have hovered around 2% for 20 years" and "central government ... have all the power, with local councils forced to carry out its wishes."

Also in August, rates invoices began to hit letterboxes. LGNZ has consistently raised this as a national issue in the media and ensured there is good data to support these conversations with communities. Infometrics CE and economist Brad Olsen commented in [The Post](#), giving this perspective on rates rises – "if you look at the amount of money that people pay in their rates versus what they pay to central government, you're talking chalk and cheese."

In mid-July, in response to the Government's announcement it would not progress the Future for Local Government report, we issued a media statement saying "LGNZ developed our own response to the FFLG review, in collaboration with members, and that underpins all our advocacy. We won't give up advocating for these key changes."



Earlier in July, a disturbing story was front page in the [Herald on Sunday](#) with former Mayor of Nelson Rachel Reese telling her story after an intruder entered her home back in February. This targeting of former and current elected members is rising, and a poll at LGNZ's Combined Sector meeting in April showed 53% of elected members say it's worse than a year ago. LGNZ CE Susan Freeman-Greene spoke to NZ Herald about members' concerns and highlighted the work LGNZ has been doing to support members – including previously championing a removal of candidate addresses from election advertising, and our roundtable zooms with the likes of NZ Police and Netsafe.

Also in July, LGNZ President Sam Broughton joined the [On The Tiles](#) podcast to discuss our city and regional deals framework and what we could learn from the likes of Australia and the UK.

The Government's building consents reform was welcomed by LGNZ: Sam was interviewed on RNZ and Newstalk ZB. A few days later, when the International Visitor Levy went up, we proactively called for the Government to share the increase with councils to support tourism costs. This advocacy was picked up by the radio stations.

In October, LGNZ was in the media spotlight as we advocated for central government funding of emergency responses. This was part of [our response](#) to the Government's announcement following the North Island Severe Weather Events report. Our President Mayor Sam Broughton and National Council member Mayor Rehette Stoltz shared the workload, with Sam speaking to outlets like [Newsroom](#) and Radio NZ, while Rehette had interviews with TVNZ's Breakfast news and Newstalk ZB.

We marked one year until local body elections by [calling](#) for candidates to start thinking about getting prepared. LGNZ Deputy CE Scott Necklen chatted with Newstalk ZB and RNZ on the subject. During our YEM Hui in Christchurch last month we shone the [spotlight](#) on young leaders in local government, pointing to YEM numbers doubling over the past three elections. We used speakers at the YEM hui to tell a breadth of stories about the importance of this network.

With the Electoral Reform issues paper being released this week, we set up an interview with the Electoral Reform Working Group's Chair Mayor Nick Smith and Jack Tame on [Q & A](#). Securing an interview with one of the only longform political news programmes was a crucial part of our work to raise these issues in the political sphere – and to ensure the work helps inform the Government's decisions. Following our Electoral Reform [article](#) on Sunday, we also organised interviews with Mayor Rehette Stoltz (who is also part of the Working Group) on [Hosking Breakfast](#) and Radio NZ to discuss some of the issues.

LGNZ also [spoke out](#) about the Government's proposal for self-certification for building professionals, speaking to [Three News](#) and Newstalk ZB about the issue of long-term security over the indemnity insurance – to ensure that neither councils nor affected homeowners are saddled with costs if an issue occurs.

Amid public calls for tougher booze rules, Sam Broughton also spoke with both [The Press](#) and [Stuff](#) about how Local Alcohol Policies work.



Electoral Reform Working Group

The Electoral Reform Working Group, chaired by Mayor Nick Smith, developed an issues paper that was launched in late October. It sets out the current state of participation in elections. It explores:

- Understanding of local government and why it is important
- How easy it is to vote, especially with the decline of post
- Knowing candidates and what they stand for
- Administration and promotion of elections
- Four-year terms including their implementation and transition

From mid-October to 5 January, we will seek feedback on the paper from members, key stakeholders, and the wider public. This will include presentations at all zone meetings.

Engagement on the issues paper will inform a draft position paper, which will be engaged on from March-May, before a final paper is drafted. National Council will be asked to adopt that final position paper, which will be launched at SuperLocal25.

Remits

This year, to better prioritise resource allocation to remits, National Council adopted a two-step process for remits agreed at LGNZ's AGM. As part of this process, the AGM ranked remits in order of priority, with the following results:

1. Appropriate funding models for central government initiatives
2. GST revenue sharing with local government
3. Local government Māori wards and constituencies should not be subject to a referendum
4. Proactive lever to mitigate the deterioration of unoccupied buildings
5. Representation Reviews
6. Community Services Card
7. Graduated Licensing System

At its September meeting, National Council decided to take the maximum approach for the first four remits. This means commissioning advice or research, or in-depth policy or advocacy work. National Council decided to take a less resource-intensive approach to the remaining remits, which could involve writing a letter to the relevant minister or agency. However, remits may get additional resource if they align with other existing work programmes.

LGNZ's policy team will shortly be in touch with all councils who proposed successful remits to agree on next steps.



Māori wards

Forty-five councils established or resolved to establish Māori wards since the law change in 2021. The Coalition Government enacted legislation that required those 45 councils to make decisions to retain or disestablish their Māori wards by Friday 6 September. If councils chose to keep the wards, they have to fund a poll at next year's local elections.

Two councils decided to disestablish their Māori wards: Upper Hutt City Council and Kaipara District Council. The other 43 decided to retain their wards and a number of these decisions were unanimous, including: Far North, Porirua, South Taranaki, South Wairarapa, Hauraki, Stratford, Marlborough, Whakatāne, Rangitikei, and Ruapehu.

Some councils indicated they would investigate the implications of refusing to hold a binding referendum. Palmerston North City Council will present a report at an upcoming council meeting; Whakatāne District Council has sought legal advice; and Far North District Council has asked the chief executive "to investigate options of not conducting a binding poll at the next local body election in 2025".

LGNZ is supporting councillors affected by this legislation. Connected to this is our work around supporting Iwi Māori to stand for (re)election in 2025 and promoting voter participation.

Water services reform

The passing of the Local Government (Water Services Preliminary Arrangements) Act in August marked the second stage of the Government's *Local Water Done Well* reforms. This Act provides the framework and preliminary arrangements for the new water services system. There is a requirement for councils to develop and adopt Water Services Delivery Plans (WSDPs) by 3 September 2025. Successful elements of [our submission](#) include the expansion of streamlining provisions for water service entity creation, the scope and timeframe for WSDPs, and the Secretary for Local Government's role in making regulations. However, we were unsuccessful in securing a longer timeframe for WDSP development or greater support for councils in implementing this legislation, including funding.

The Government has announced the third stage of these reforms, which will shape the final bill, due to be introduced by the end of 2024. We released an [explainer](#) covering the key elements of this reform in *Keeping it Local*.

We're engaging with the Commerce Commission on how transitional and permanent economic regulation would work under Local Water Done Well. The Commission will be presenting at the November Metro and Rural & Provincial sector meetings to support members to develop a greater understanding of what economic regulation is and how it operates in other sectors.



Resource management reform

RMA Reform Minister Chris Bishop outlined the Government's plans for stage two of its resource management reform at SuperLocal. These will be progressed via a package on national direction and a second piece of legislation amending the RMA. There will be new national direction issued for infrastructure, housing, and natural hazards, as well as amendments to a wide range of existing national direction, with seven new national direction instruments and amendments to fourteen existing ones in total.

The changes cover four areas:

- infrastructure and energy,
- housing,
- farming and the primary sector, and
- emergencies and natural hazards.

Also included are measures to put into effect the Government's Going for Housing Growth and Electrify New Zealand reforms.

The expansion in national direction must be undertaken in close consultation with local government to be workable, and we will raise this with the Minister and officials. We have met with Simon Court to discuss the NPS-Infrastructure, which he is taking responsibility for developing. This was a positive meeting and further engagement with officials is likely to follow.

The Government has announced that two pieces of legislation would be passed to replace the Resource Management Act as part of stage three of their three-stage approach to resource management reform. One piece of legislation will deal with managing "environmental effects arising from activities", while the other one will "enable urban development and infrastructure".

Cabinet has agreed to 10 core design features for the new resource management system. These will guide the work of an Expert Advisory Group (EAG), which was also announced by the Minister. This group will report back to the Minister before the end of the year with a "blueprint" for new legislation.

Resource management lawyer and former Environmental Defence Society director Janette Campbell will chair the EAG, which also features local government experience in Christine Jones (General Manager – Strategy Growth & Governance at Tauranga City Council) and Gillian Crowcroft (former Auckland Council and Auckland Regional Council staffer).

We will be keeping a close eye on how development of the new RM "blueprint" unfolds between now and the end of the year, ahead of our final catch-up of the year with Minister Bishop in December.

Transport

In August, the Government announced that legislation to enable congestion charging schemes would be introduced by the end of the year. This is a significant and long-awaited announcement,



particularly for metro councils. We will submit on the legislation when it makes its way to Select Committee.

We submitted on the Commerce Commission's review of Auckland Airport's pricing decisions for the 2022-2027 period. We expressed concern about the flow-on effects that Auckland Airport's proposed increased charges to airlines could have for ticket prices, regional connectivity, and the competitiveness of New Zealand's aeronautical sector.

In August, Sam and Transport Forum chair Neil Holdom met with the NZTA board just ahead of an in-person meeting of the Transport Forum.

In September, the Government released its 2024-27 National Land Transport Programme, which is largely in line with the Government Policy Statement on Land Transport 2024. It includes significant funding increases for major roading projects and road maintenance, balanced by a decrease in funding for active and public transport initiatives.

Following the release of the National Land Transport Programme 24-27, we have been building a picture of the impact on members, including through a discussion at the in-person meeting of the Transport Forum. While funding decisions were largely as anticipated (based on the signals from the GPS Transport earlier this year), some members were surprised about the extent of funding cuts for safety improvements and public/active transport. The lack of alignment between the NLTP and LTP planning cycles has also created instances in which projects in LTPs no longer have expected co-funding from central government, meaning councils need to find alternative funding sources or scale the project back.

The impact of the reversal of speed limit reductions will be a focus over the coming month, particularly the fiscal impact given the need for new signage around schools. The new Government's speed limit rule includes:

- Reversing Labour's blanket speed limit reductions on local streets, arterial roads, and state highways by 1 July 2025.
- Requiring reduced variable speed limits outside schools during pick up and drop off times by 1 July 2026.
- Enable speed limits up to 120km/h on Roads of National Significance where it is safe.

We will be engaging with councils to get a picture of the overall fiscal impact of these changes.

Climate change

We submitted supporting the intent of the Government's draft Second Emissions Reduction Plan (2026–30). We also highlighted that most of the actions would require direct or indirect contributions from councils.

We sponsored the Aotearoa Climate Adaptation Network's (ACAN) annual hui again this year, which was held in the Bay of Plenty in October. ACAN is a network of council staff working in climate adaptation focused roles. We engage closely with ACAN on all our climate adaptation work.



The Finance and Expenditure Committee has completed its [inquiry into climate adaptation](#). The high-level objectives and principles it set out will inform the development of New Zealand's climate change adaptation policy framework. The report acknowledges the leading role councils will play in climate adaptation, and adopted much of what was proposed in [LGNZ's submission](#). The report does not resolve crucial questions relating to roles and responsibilities or how to decide who pays for adaptation and retreat.

The Department of Internal Affairs is consulting on an exposure draft of regulations for natural hazard information in Land Information Memoranda (LIMs). The regulations have been drafted to support local authorities in implementing changes to the Local Government Official Information and Meetings Act that are due to come into effect on 1 July 2025. LGNZ submitted on the amendment Bill in February 2023. We supported the Bill but said we would like to see a few changes, many of which have now been incorporated into the updated Bill and proposed regulations. These regulations, in conjunction with the legislative changes that are due to come into effect next year, will provide certainty for councils about sharing natural hazard information in LIMs and reduce their risk of legal liability.

Localism

At SuperLocal, Susan launched our Choose Localism guide and research showing public attitudes to councils and localism.

To produce this research, we worked with Curia to poll members of the public. [The data](#) looks at perceptions around the effectiveness of councils, how councils could improve their effectiveness, and who should deliver services.

[Localism: A Practical Guide](#) sets out a wide range of tools and approaches councils can use to make a localist future a reality and apply a localism lens across their day-to-day work. This is a high-quality, comprehensive piece of work featuring many council cases studies. When we launched the guide to members during SuperLocal, this email had a 65% open rate (which is incredibly high by direct-email standards). We will be posting a physical copy of this guide to all Mayors and Chairs later in November.

Other policy issues

Earthquake prone buildings

In August we submitted on the Building (Earthquake-prone Building Deadlines and Other Matters) Amendment Bill, which delivers on the Government's commitment to extend remediation deadlines for earthquake-prone buildings. We expressed strong support for the legislation and outlined local government's expectations for the upcoming wider review of earthquake prone buildings.

We have also engaged with MBIE to make sure there is suitable local government representation in the wider review's steering group, particularly individuals from the South Island and/or medium risk councils.



We understand that decisions on the MBIE steering group for the review of the earthquake strengthening regime are imminent. We put forward a number of names to represent local government on this group, and are following up with MBIE to determine if any of them were ultimately chosen.

Emergency management system improvement

We engaged on the Government's response to the North Island Severe Weather Event Inquiry's report and wider emergency management system improvement as a member of the steering group. We facilitated engagement between the project group and a group of Mayors, Chairs and CEs, to test the group's current proposals. A Cabinet paper will set out a new Emergency Management Bill (to be introduced next year) along with budget bids and other system changes.

The Government's response to the North Island Severe Weather Event Inquiry's report, and wider emergency management system improvement, has been released. We have been contributing to this work as a member of the Steering Group. This response will form the basis for the development of a new Emergency Management Bill to be introduced next year, along with budget bids and other system changes. The key recommendation is to retain the locally led, regionally coordinated approach – but with NEMA taking on a standard setting and assurance role. This could require increased investment by councils, but at this stage there are no additional funding mechanisms proposed.



Connect

Member visits

In June, Susan and Sam visited 14 councils. These visits are vital for connecting with members, helping them understand what LGNZ delivers, and hearing their feedback and ideas. Visits resumed in early September with visits to a range of Zone 2 councils. Susan visited the Chatham Islands in late September, with Susan and Sam's other member visits scheduled for October and November.

NC members and LT members have also appeared at several member council meetings via zoom to support their consideration of the LGNZ four-monthly report.

SuperLocal24

This year's conference was the "place to be" for local government, with the PM, many Ministers and the Leader of Opposition all speaking alongside impressive international and New Zealand keynote speakers. SuperLocal dominated media and public discourse that week.

We had nearly 800 people attend – and generated 394 media mentions across a huge range of topics (bed tax, PM speech, regional deals, localism, women in local government, four-year term, SuperLocal award winners, and much more).

We asked attendees to complete a feedback survey. While feedback was again positive, there were slightly more negative/neutral comments this year, partially driven by the political polarisation prompted by the PM's speech.

We are incorporating feedback into our planning for SuperLocal25, which will be held in Christchurch (supported by the councils in the region). In response to comments about this year's conference length and timing, we will be starting SuperLocal25 on the Wednesday morning (with the AGM prior) and wrapping up the conference by the end of Thursday, with the awards dinner on the Thursday night.

Combined Sector meetings

We received a huge amount of positive feedback on the programme and organisation of the Infrastructure Symposium on 14 June. Nearly 200 people attended, with Peter Nunns of the New Zealand Infrastructure Commission/Te Waihangā and Sir Bill English particularly popular speakers.

Our November Combined Sector meeting will take a deep dive into the Government's local government reform, including benchmarking, efficiencies and rates capping. Confirmed speakers include Local Government Minister Simeon Brown, Regional Development and Assoc Finance Minister Shane Jones, Labour Finance spokesperson Barbara Edmonds, Auckland Mayor Wayne



Brown (via zoom), and New South Wales and Victorian speakers on their experience of rates capping.

We are planning for the 2025 Combined Sector meetings, with the theme for February to be around accountability and demonstrating value, and May to be around delivering infrastructure for growth.

2025 calendar

We released our [calendar of events for 2025](#) in October. This will be updated with Zone 5/6 events shortly.

Te Maruata

Te Maruata Rōpū Whakahaere have met regularly, and also initiated a regular Teams drop-in session Piki te Ora that enables members to come in and kōrero, share thoughts and ideas on their mahi and what is happening in their rohe.

Te Maruata's pre-conference hui was attended by approximately 100 people. The hui is the annual face-to-face event for the wider membership but also welcomes non-members who have a strong connection to LG and Kaupapa Māori. The Rōpū welcomed Green MP Hūhana Lyndon, and MP Willie Jackson and MP Shanan Halbert were also in attendance. The programme included a workshop on sharing issues, ideas and solutions given the current climate, and a panel on "how to move the waka forward" with a particular focus on action on the ground, rangatahi participation and civics education.

YEM

Our Young Elected Members held a successful pre-SuperLocal hui in Wellington attended by around 40 YEM. It included a presentation from Dr Jess Berentson-Shaw on how to communicate effectively to achieve change, and a workshop on how to increase young people's participation in local government.

The annual YEM Hui took place in Christchurch regardless of Christchurch City Council's decision to withdraw from LGNZ. This is because the YEM Committee decided earlier this year to shift away from having a host council, with the Committee taking on full responsibility for hosting. We worked closely with Cr Deon Swiggs (Environment Canterbury and member of the YEM Committee) on planning for the event. Former Christchurch Mayor Lianne Dalziel delivered the keynote address, with the theme of the hui being "mā mua kite a muri, mā muri ka ora a mua" – driving change through community leadership. The programme was about councils empowering community leaders to make real change and equipping YEM with the key skills needed to make good decisions around council tables. Tikanga sessions were organised to support members to prepare for the whakatau at the commencement of their hui.



Women's lunch

Before SuperLocal, we hosted a lunch for women that was attended by more than 100 elected members including nearly every woman Mayor. Finance Minister Nicola Willis was a very effective speaker and the event was well covered by media, with [this local democracy reporter story](#) carried prominently by every major outlet. The lunch also included a workshop. We are now considering next steps for this work.

CBEC

Christchurch City Council's decision to withdraw from LGNZ means that Co-Chair of CBEC Simon Britten stepped down in July, with Sarah Lucas becoming the sole Chair.

CBEC has been focused on the Community Boards Conference which, for the first time, was held in conjunction with the LGNZ SuperLocal Conference. While organising the two conferences at the same time was challenging, the Community Boards Conference went well. At their September meeting CBEC resolved not to hold a community board conference in 2025. Instead, they are investigating the possibility of having a dedicated session at the 2025 Super/Local conference that would attract community board members. They are also looking at facilitating smaller zone or regional-based seminars for community boards.

CBEC is continuing to develop a work plan to implement recommendations around community board members' satisfaction and their relationships with their councils. A key part of the work plan is developing a guide to assist councils and community boards to build effective relationships. This will include a model agreement to enable councils and boards to set out mutual expectations.

Sarah Lucas has been actively assisting community boards going through representation reviews.

Work is progressing on the development of an approach to enable the Remuneration Authority to fairly recognise and compensate those community boards with additional responsibilities.

Metro Sector

The Metro Sector held a workshop in September to discuss metro-specific priorities and agree on actions that will complement and support LGNZ's broader advocacy work programme over the next year. Members agreed that the key priorities for metros are centred around enabling growth and economic prosperity, and achieving these priorities requires removing obstacles and improving things that currently slow us down. This is reflected in the following agreed areas of focus:

1. Improve alignment of central and local government investment cycles to reduce inefficiencies and encourage more bipartisan agreement on key infrastructure decisions.
2. A strategic approach to supporting economic development and growth.
3. Lift governance and accountability in order to improve LGNZ's impact in the Metro space.



Te Uru Kahika/Regional Sector

The online meeting of the Regional Sector in June covered a number of key issues for the sector, including emergency management system improvement, Taumata Arowai's work on wastewater performance standards, and work on the climate adaptation framework. Their October online meeting focused on the Finance and Expenditure Committee's Inquiry on Climate Adaptation, the Regional Sector's views on how Core Services should be defined in upcoming legislative changes, and NZTA's Public Transport programme's priorities.

The Regional Sector's ever-popular Regional Tour prior to SuperLocal explored a range of flood protection, recovery, and biosecurity and biodiversity initiatives across the Hawke's Bay and Wellington regions.



Support

Ākona

Ākona users continue to grow, with another 138 people logging in for the first time since July. We have started a monthly email that highlights new Ākona courses and content. Please let us know if you're not receiving it.

In July we launched a new course on the CE Relationship – featuring the insight of Mayor Sandra Hazelhurst, Nigel Bickle, Nigel Corry and Chair Daran Ponter. This course was developed after receiving multiple requests from members. In August we launched a course on Leading Complex Communities, which will eventually include at least two Ako hours with expert host Jo Cribb.

The Climate Change course (released two months ago) caught the attention of the Aotearoa Council Climate Network, who were impressed with the content and keen to encourage elected members to engage with the learning. To support that mahi, a cloned copy of the Climate Change course was made available to sustainability staff from all member councils two weeks ago.

Five Ako hours were run from June-August, including a session that was arranged in response to the change in Māori ward legislation. Another three Ako hours were scheduled during September/October. These sessions are becoming increasingly popular, whether through attending the live sessions or viewing the recordings later.

We are working to confirm logistics and continue development of materials for Induction 2025 before the end of 2024. A draft design was produced and tested with members across October along with a prototype for an upgraded Ākona platform and programme that delivers a more personalised learning experience. The response from testers was very positive and the tīma have now begun development, starting with the production of pre-elected materials ready for release in March 2025. Existing courses have been reviewed in preparation for the shift in format with their redevelopment due to begin in November.

Roundtable zooms

Our second zoom in this series on sovereign citizens was popular and provoked a lot of conversation and positive feedback. We then held a well-attended zoom for elected members on physical security in early August. Our next zoom on 24 September featured the Security Intelligence Service speaking about the new threat assessment for New Zealand, which contained specific commentary on the vulnerability of local government. The presentation provoked a lot of member questions.

These recordings and all other security-related resources can be found in a [special section of Ākona](#).

Hūtia te Rito – LGNZ Māori Strategy

Work continues on the development of this strategy. Related kaupapa include:



- **Toitū te Reo** – This annual symposium launched in Hastings at the start of August and is a partnership between Heretaunga District Council and Ngāti Kahungunu, with the support of many others. Three LGNZ team members attended.
- **Tangihanga of Kiingi Tuuheitia Pootatau te Wherowhero VII** – The Māori King passed away on 30 August and his tangi was held from 31 August-5 September at Tūrangawaewae. LGNZ acknowledged the King's passing on social media and issued a media release acknowledging the ascension of the King's daughter to the throne, to become Te Arikunui Kūini Ngā wai hono i te po Pootatau te Wherowhero VIII. The team will firm up a plan to connect with the Kiingitanga in the coming months, in support of the Kōtahitanga vision.

Governance guides/support

LGNZ has worked with the Taituarā Democracy and Participation Working Party to update the LGNZ standing orders template. The update will ensure legislative consistency and introduce plain English. A draft has been circulated for member feedback and the final draft is now being legally reviewed. The changes made to the template involve updating it to include legislative amendment from the past three years and introducing plain English where possible. The templates, which include a territorial/unitary council version, a regional council version, and a community board version, are expected to be ready in early 2025.

MTFJ

MTFJ members and networks gathered for the Annual Breakfast meeting at the SuperLocal conference. At this event, Social Development and Employment Minister Louise Upston confirmed \$9 million in funding for the next financial year. Justin Lester of Dot Loves Data launched a revamped youth employment data dashboard, which sets out a council's local landscape in terms of youth and NEETs.

We would like to acknowledge Mayor Max Baxter's service and mahi for MTFJ. Max stepped down from the role in early October. MTFJ held a thank-you and farewell afternoon tea in his honour to celebrate his contribution.

Mayor Alex Walker has been elected as the new MTFJ Chair.

Moata Carbon Portal

This month we've extended the Moata portal subscription for Queenstown Lakes District Council for another 12 months. We've also provided a demo of the portal and had conversations on carbon accounting with Horowhenua District Council.



Mott MacDonald, LGNZ and the Infrastructure Sustainability Council held the 2nd Aotearoa Carbon Crunch event in Auckland on 12 September, with approximately 100 industry players and council staff attending the breakfast event.

Council Briefing

Economic Development Operating Model

17 October 2024



Dated

2024

TRUST DEED FOR THE [KĀPITI NZ
TRUST]

BETWEEN

KĀPITI COAST DISTRICT COUNCIL
Settlor

AND

[NAMES OF TRUSTEES]
Trustees

CONTENTS

INTRODUCTION	1
1. INTERPRETATION	1
2. NAME OF TRUST	3
3. TRUST FUND AND DECLARATION	3
4. CHARITABLE PURPOSES	3
5. REGISTRATION AND STATUS	5
6. BOARD OF TRUSTEES	6
7. TRUSTEE DUTIES	6
8. TRUSTEES' GENERAL DUTY OF CARE	7
9. TRUSTEE POWERS AND DISCRETIONS	7
10. APPLICATION OF INCOME	8
11. APPLICATION OF CAPITAL	8
12. INVESTMENT OF THE TRUST FUND	8
13. EXECUTION OF DOCUMENTS	9
14. KEEPING RECORDS	9
15. LIMITATION OF LIABILITY AND INDEMNITY	10
16. NO PRIVATE PECUNIARY PROFIT	10
17. CONFLICT TRANSACTION	12
18. AMENDMENTS OF THE TRUST DEED	12
19. WINDING UP	12
20. GOVERNING LAW	13
SCHEDULE 1: TRUSTEE POWERS	15
SCHEDULE 2: BOARD OF TRUSTEES	19
SCHEDULE 3: TRUSTEE MEETINGS	23

TRUST DEED dated the _____ day of _____ 2024

PARTIES

- (1) **KĀPITI COAST DISTRICT COUNCIL (the Settlor)**
- (2) **NAME OF COUNCIL-APPOINTED TRUSTEE**, [Title], of [Location]
NAME OF MANA WHENUA TRUSTEE, [Title], of [Location]
NAME OF INDEPENDENT TRUSTEE, [Title], of [Location]
NAME OF INDEPENDENT TRUSTEE, [Title], of [Location]
NAME OF INDEPENDENT TRUSTEE, [Title], of [Location]
 (Original Trustees)

INTRODUCTION

- A. The Settlor wishes to establish a charitable trust to be known as the [Kāpiti NZ Trust] for the Charitable Purposes set out in this Trust Deed.
- B. The Settlor gifts \$10.00 (Initial Gift) to the Trustees to settle the Trust. It is anticipated that further money, property, and investments may, from time to time, be paid or transferred to the Trust.
- D. The Settlor and the Original Trustees have agreed to enter into this Trust Deed specifying the terms of the Trust.

1. INTERPRETATION

- 1.1 **Defined Terms:** In this Trust Deed, unless the context otherwise requires:

Act means the Trusts Act 2019;

Associated Person means a person who is an associated person of any Trustee for the purposes of the exemptions from income tax for a tax charity as set out in the Income Tax Act 2007;

Board means the board of Trustees of the Trust;

Board Appointments Panel means the panel of persons specified in clause 3.3 of Schedule 2;

Charitable Purposes means the purposes of the Trust as set out in clause 4.1;

Conflict Transaction has the meaning given in clause 17.1;

Council-Appointed Trustee means a Trustee that is appointed by the Settlor in accordance with clause 4.1(a) of Schedule 2;

Council-Controlled Organisation means an entity that is a "council-controlled organisation" pursuant to section 6 of the Local Government Act 2002;

Elected Council Member means a person elected by the Ōtaki, Waikanae, Paraparaumu or Paekākāriki–Raumati electoral wards as a councillor of the Settlor;

Financial Year means each 12-month period ending on 30 June;

Independent Trustee means a Trustee that is not associated with the Settlor (including as an Elected Council Member or employee of, or contractor to, the Settlor) and is appointed in accordance with clause 4.1(c) of Schedule 2;

Kāpiti Coast District means Paekākāriki-Raumati Ward, Paraparaumu Ward, Waikanae Ward and Ōtaki Ward;

Local Authority means “local authority” as defined in section 5 of the Local Government Act 2002;

Mana Whenua means all of the following:

- (a) Ngā Hapū o Ōtaki;
- (b) Ngāti Toa Rangatira; and
- (c) Te Ātiawa ki Whakarongotai;

Mana Whenua Trustee means a person who is appointed by the Te Whakaminenga o Kāpiti in accordance with clause 4.1(b) of Schedule 2;

Settlor Representatives means persons, who are not Trustees, that are chosen by the Settlor to attend Board meetings;

Special Majority means a majority of 75% of the votes of Trustees entitled to vote and voting on a decision of the Trust;

Te Whakaminenga o Kāpiti means a partnership between the Settlor and Mana Whenua as set out in a Memorandum of Partnership signed in 1994;

Trust means the trust evidenced by this Trust Deed;

Trust Deed means this Trust Deed and any deed of variation or replacement;

Trust Fund means the Initial Gift, all money, investments or other property paid or given to or acquired or agreed to be acquired by the Trustees, and additions and accretions to the Trust Fund and any part of the Trust Fund after this Trust Deed has been signed with the intention that it be held by the Trustees subject to the trusts and other provisions set out in this Trust Deed;

Trustee Skills and Experience means the following:

- (a) an understanding of the Charitable Purposes;
- (b) financial management experience and commercial and business acumen;
- (c) governance or legal experience in either not-for-profit or business organisations;
- (d) knowledge and understanding of Te Tiriti o Waitangi, Te ao Māori and tikanga Māori and Māori business enterprise;
- (e) financial literacy relevant to the financial and economic issues related to the Trust; and
- (f) any other attributes deemed necessary or desirable;

Trustees means the trustees for the time being of the Trust.

1.2 **Construction:** In this Trust Deed, unless the context otherwise requires:

- (a) the singular includes the plural and vice versa;

- (b) a reference to parties is a reference to the parties to this Trust Deed, including their successors, permitted assignees and permitted transferees;
- (c) a reference to persons includes a reference to human beings and any form of legal personality, incorporated or unincorporated;
- (d) whenever the words includes or including (or any similar expression) are used, they are deemed to be followed by the words "without limitation";
- (e) headings are included for the purpose of ease of reference only and are not to have any effect on construction and interpretation;
- (f) a clause is a reference to the clauses of this Trust Deed;
- (g) a schedule is a reference to a schedule of this Trust Deed;
- (h) a reference to documentation includes:
 - (i) a reference to that document as varied, supplemented, novated or substituted from time to time; and
 - (ii) a reference to that documentation in any form, whether paper based or in electronic form encoded on or as part of any form of media; and
- (i) legislation includes amendments to and re-enactments of that legislation.

2. NAME OF TRUST

2.1 The name of the Trust is the [Kāpiti NZ Trust].

2.2 The Trustees may by deed, and only with the consent of the Settlor, change the name of the Trust at any time.

3. TRUST FUND AND DECLARATION

- 3.1 The Settlor directs and the Trustees acknowledge and declare that they hold the Trust Fund upon trust for the Charitable Purposes and upon trusts the powers and discretions set forth in this Trust Deed.
- 3.2 The Trustees shall be at liberty to receive and accept from any source, gifts or grants of monies, investments or other property for the Charitable Purposes or for any specific purpose that falls within the Charitable Purposes. The receipt of the secretary, treasurer or other person or persons appearing to the Trustees to be authorised to give receipts on behalf of the recipient of any payment made under the terms of this Trust Deed, shall be a complete discharge to the Trustees for that payment.

4. CHARITABLE PURPOSES

4.1 The Trust is established to relieve poverty and benefit the people of the Kāpiti Coast District, which may include the Trustees carrying out (without limitation) any of the following activities:

- (a) advancing the education of young people in the Kāpiti Coast District by promoting post-secondary education and vocational skills training programmes;

- (b) providing, promoting and facilitating schemes or programmes which connect employers with young people and unemployed persons in the Kāpiti Coast District for the purposes of reducing unemployment in the Kāpiti Coast District;
- (c) providing schemes or activities that encourage or assist unemployed persons in the Kāpiti Coast District in securing employment or which promote pathways to jobs;
- (d) relieving poverty and unemployment in the Kāpiti Coast District through conducting commercial activities that have the sole purpose of:
 - (i) attracting and retaining businesses in the Kāpiti Coast District who commit to employing persons from the Kāpiti Coast District;
 - (ii) creating and facilitating sustainable job opportunities for the people of the Kāpiti Coast District;
 - (iii) promoting the Kāpiti Coast District as an attractive location for business to set up or relocate to, to support the creation of job opportunities in the Kāpiti Coast District;
 - (iv) retaining skilled employees who otherwise are unable to obtain work in the Kāpiti Coast District due to a lack of job opportunities;with all profits to be applied solely to the promotion of the Trust's charitable purposes;
- (e) providing, facilitating and promoting activities, including training and education, aimed at equipping unemployed persons with the skills, knowledge and confidence to attain employment so that they can better engage in sustainable employment opportunities;
- (f) providing and facilitating research that supports the Trust in the advancement of any one or more of its charitable purposes;
- (g) promoting and providing schemes or activities of community benefit within the Kāpiti Coast District that promote and support the social and economic well-being of the Kāpiti Coast District and its people, provided any benefits to individuals and business are incidental to any economic development benefit to the general public;
- (h) relieving the sick through providing and promoting affordable and accessible medical care and services to any and all persons in need in the Kāpiti Coast District;
- (i) advocating for issues that relate to or advance any one or more of the charitable purposes of the Trust;
- (j) providing funding to any charitable entity registered under the Charities Act 2005 which support and promote the welfare of the people of the Kāpiti Coast District;
- (k) providing funding to any community organisation which operates primarily in the Kāpiti Coast District provided that their purposes are charitable as defined by the Charities Act 2005;
- (l) joining or seeking affiliation and/or association with such other bodies/organisations which the Trustees may from time to time consider expedient to facilitate one or more of the foregoing charitable purposes;

- (m) supporting and joining with such other charitable organisations, and by such means, as the trustees may from time to time consider expedient to facilitate one or more of the foregoing charitable purposes; and
- (n) generally having all the powers of a natural person to do such things as are conducive to the attainment of any of the purposes and objects of this Trust provided that the purposes and objects of this Trust shall be so conducted as to remain within the definition of Charitable Purposes.

4.2 In carrying out the Charitable Purposes, the Trustees will, to the extent deemed appropriate:

- (a) have due regard to the following:
 - (i) te Tiriti o Waitangi;
 - (ii) Tikanga Māori;
 - (iii) Te ao Māori; and
 - (iv) principles, including (but not limited to):
 - (1) manaakitanga, inclusivity and collaboration with mana whenua;
 - (2) recognition and respect for sacred kinship networks that extend to our natural environment;
 - (3) balance during processes, engagements and interactions;
 - (4) honesty and transparency;
 - (5) solutions that bring success through aroha and kotahitanga; and
 - (6) humility and service to promote care and safety to others;
- (b) engage with local whānau and iwi, where appropriate, to ensure their needs are understood and recognised.

4.3 The Trustees may by deed, and only with the consent of the Settlor, change the purposes of the Trust.

5. REGISTRATION AND STATUS

5.1 As soon as reasonably practicable and as a matter of priority, following the date of execution of this Trust Deed, the Trustees will apply to be:

- (a) registered as a charitable entity under the Charities Act 2005;
- (b) incorporated as a board pursuant to the Charitable Trusts Act 1957; and
- (c) a donee organisation recorded on the Inland Revenue register of donee organisations.

5.2 The Trustees will do all things reasonably necessary, desirable and/or expedient to successfully make the applications referred to in clause 5.1 and to maintain each relevant status, including by complying with all requirements of all applicable legislation, regulations, eligibility criteria and performance standards, and shall not carry out any activity that would result in each relevant status being revoked or suspended.

5.3 The Trustees will endeavour to ensure that no action is carried out that would result in the Trust becoming a Council-Controlled Organisation or subsidiary of the Settlor or any other Local Authority.

6. BOARD OF TRUSTEES

- 6.1 The Board shall conduct the business and activities of the Trust so as to achieve the Charitable Purposes.
- 6.2 Schedule 2 sets out provisions in relation to the following:
- (a) the number of Trustees;
 - (b) the composition of the Board;
 - (c) the appointment and removal of Trustees;
 - (d) the appointment and composition of the Board Appointments Panel;
 - (e) the terms of appointment for Trustees; and
 - (f) the appointment of an Independent Chairperson,
- and will bind the Trustees both before and after their incorporation as a board under the Charitable Trusts Act 1957.
- 6.3 Subject to the terms of this Trust Deed, the Trustees may by deed, amend the provisions relating to the composition of the Board specified in Schedule 2 only with the consent of the Settlor.

7. TRUSTEE DUTIES

- 7.1 In addition to the mandatory and default duties specified below, the Trustees shall:
- (a) develop and maintain a working relationship with the Settlor, and with organisations and businesses in the Kāpiti Coast District; and
 - (b) consult with the Settlor on a regular basis to ensure that the Trustees are aware of the Settlor's views, policies and strategies relating to economic development within the Kāpiti Coast District, provided that the Trustees shall not be bound to promote any views, policies or strategies of the Settlor.
- 7.2 The Trustees must comply with the mandatory duties set out in sections 23 to 27 of the Act as follows:
- (a) know the terms of the Trust;
 - (b) act in accordance with the terms of the Trust;
 - (c) act honestly and in good faith;
 - (d) act to further the Charitable Purposes; and
 - (e) exercise their Trustee powers for a proper purpose.
- 7.3 The Trustees must comply with the default duties set out in sections 29-36 of the Act, save as to any modification contained in this deed.

- 7.4 The duties contained in sections 36 (duty of impartiality) and 38 (duty to act unanimously) of the Act are excluded and shall not apply to the Trustees.

8. TRUSTEES' GENERAL DUTY OF CARE

- 8.1 Notwithstanding section 29 of the Act, it is hereby declared that the care and skill to be exercised by the Trustees when administering the Trust shall, at all times, be the care and skill that is reasonable in the circumstances, without having regard to:

- (a) any special knowledge or experience that a Trustee has or holds themselves out as having; and
- (b) if a Trustee acts as a trustee in the course of a business or profession, any special knowledge or experience that is reasonable to expect of a person acting in the course of that kind of business or profession.

- 8.2 Clause 8.1 represents a modification of section 29 (general duty of care) of the Act.

9. TRUSTEE POWERS AND DISCRETIONS

- 9.1 In addition to all the powers, authorities and discretions vested in the Trustees by law, the Trustees shall have all the powers of an absolute owner of property and shall have the widest possible powers and discretions to achieve the Charitable Purposes, subject to the terms of this Trust Deed and any direction to the contrary in any instrument evidencing or conferring a gift accepted by the Trustees, provided that such direction is not inconsistent with the charitable nature of the Trust.
- 9.2 The Trustees may appoint, from time to time, any committee, sub-committee, focus group or adjunct as they may from time to time think expedient for carrying out the Charitable Purposes. The Trustees may appoint a member of any such committee, sub-committee, focus group or adjunct to exercise or perform, on behalf of the Trustees, specified powers or functions in relation to the Trust or to make specified decisions in relation to the Trust Fund subject always to the restrictions contained in section 67(2) of the Act.
- 9.3 The Trustees will ensure that, to the extent considered appropriate and practicable, any committee established under this clause 9 has appropriate representation from mana whenua.
- 9.4 Without prejudice to the generality of clause 9.1, or to any of the Trustees' express or implied powers, the Trustees shall also have the powers set out in Schedule 1 and may exercise them either alone or with any other person(s).
- 9.5 Subject to the provisions of this Trust Deed, including clause 9.6, all powers and discretions of the Trustees may be exercised by the Trustees in their absolute discretion on such terms as the Trustees think fit.
- 9.6 In the exercise of the Trustees' powers and discretions the Trustees shall:
- (a) observe the duties set out in clause 7; and
 - (b) not breach, and shall further, the Charitable Purposes.

10. APPLICATION OF INCOME

- 10.1 The Trustees may at any time pay, apply or appropriate, or decide to pay, apply or appropriate as much of the income arising from the Trust Fund in a Financial Year as they think fit towards one or more of the Charitable Purposes, provided that where there is more than one Charitable Purpose, the Trustees need not treat each Charitable Purpose equally.
- 10.2 The Trustees, by written resolution, may appropriate any investments for one or more of the Charitable Purposes of the Trust in anticipation of a payment or application under clause 11.1.
- 10.3 In any Income Year, the Trustees may appropriate all or part of the income derived or to be derived from the Trust Fund during that Income Year even though, at the time of appropriation, they have not received the income being appropriated.
- 10.4 If the Trustees appropriate any income for any purpose of the Trust the recipient of that income shall take an absolute and indefeasible interest in that income as from the date on which it is appropriated.
- 10.5 The Trustees need not distribute all of the income arising from the Trust Fund in an Income Year, but may retain or decide to retain all or part of that income to establish or augment any reserve fund, which may be used at any later time for any purpose for which income arising from the Trust Fund may be used.
- 10.6 Any payment or application pursuant to clause 10.1:
- (a) shall be after the payment or provision for costs or expenses arising or expected to arise out of the Trust's activities; and
 - (b) take account of any trust or obligation that may be impressed upon a part of the Trust Fund.

11. APPLICATION OF CAPITAL

- 11.1 At any time, the Trustees may, or may decide to pay, apply or appropriate as much of the capital of the Trust Fund as they think fit for or towards one or more of the Charitable Purposes provided that where there is more than one Charitable Purpose, the Trustees need not treat each Charitable Purpose equally. Any payment, application or appropriation of capital may be made either in addition to or in place of any payment, application or appropriation of income.

12. INVESTMENT OF THE TRUST FUND

- 12.1 The Trustees may invest the Trust Fund and the income from it in any form of investment, and vary any such investment from time to time. Where, for the time being, there is more than one person acting as a trustee of the Trust Fund, and one or more, but not all, of them is or are engaged in a profession, employment or business which is or includes acting as a trustee or investing money on behalf of others, then in exercising any power of investment, that trustee or those trustees (as the case may be) shall not be required to exercise the care, diligence and skill that a prudent person engaged in that profession, employment or business would exercise in managing the affairs of others. Rather, that trustee or those trustees (as the case may be) shall be required only to exercise the care, diligence and skill that a prudent person of business would exercise in managing

the affairs of others. This clause represents a modification of sections 29 (general duty of care) and 30 (duty to invest prudently) of the Act.

- 12.2 The Trustees may retain any investments coming into the Trustees' hands as part of the Trust Fund for as long as the Trustees think proper, even if they are not investments which could be properly made by a trustee. This clause represents a modification of sections 29 (general duty of care) and 30 (duty to invest prudently) of the Act.
- 12.3 The Trustees may hold any part of the Trust Fund uninvested and in any currency for as long as the Trustees think fit without being liable for any loss due to devaluation or any foreign exchange or other governmental restriction except in circumstances where that loss was sustained as a result of the Trustees' dishonesty, wilful misconduct or gross negligence. This clause represents a modification of sections 29 (general duty of care) and 30 (duty to invest prudently) of the Act.
- 12.4 The Trustees may have regard to the factors set out in section 59 of the Act when exercising the power to invest.

13. EXECUTION OF DOCUMENTS

- 13.1 If the Trustees become incorporated as a board under the Charitable Trusts Act 1957, they shall have custody of the common seal, and from time to time by resolution they may adopt any seal they think fit. The common seal must not be affixed to any document unless the Trustees have already authorised its use on that document. When a document is to be sealed on the prior authority of the Trustees the seal must be affixed to the document in the presence of two Trustees who must sign the document.
- 13.2 Contracts may be made on behalf of the Board as follows:
- (a) a contract which, if made by private persons, would be by law required to be by deed may be made on behalf of the Board in writing under the common seal, attested to by at least 2 of the Trustees; and
 - (b) a contract which, if made between private persons, would be by law required to be in writing, signed by the parties to be charged therewith, may be made on behalf of the Board in writing signed by a Trustee acting under its express authority.

14. KEEPING RECORDS

- 14.1 The Trustees shall maintain full and accurate records of the activities of the Trust and comply with the requirements of sections 45-48 of the Act. The records may be in hard copy or electronic format.
- 14.2 The Trustees shall ensure that adequate arrangements are in place for the continuous retention of documents and records relating to the Trust such as:
- (a) the Trust Deed and deeds effecting Trustee changes;
 - (b) correspondence and records on implementation of the Charitable Purposes;
 - (c) minutes of Trustee meetings; and

- (d) records of title, accounting, payroll and investment records, contracts in writing and other records created in the course of conduct of the activities of the Trust.

14.3 The Trustees may arrange for the retention of the records in electronic format.

14.4 Each Trustee:

- (a) shall retain a copy of the Trust Deed; and
- (b) in the event of ceasing to be a Trustee, hand over to a continuing Trustee all documents and records relating to the Trust.

14.5 The Trustees shall appoint an auditor to audit the activities of the Trust. The appointed auditor will continue as the auditor until removed by resolution of the Trustees.

15. LIMITATION OF LIABILITY AND INDEMNITY

15.1 Subject to clause 15.4 the Trustees are fully indemnified by and out of the Trust Fund for any loss or liability incurred in the exercise or attempted exercise of any trust, power, authority or discretion vested in the Trustees of the Trust, to the extent the Trust has sufficient funds. The indemnity includes, in particular, any liability to satisfy all costs and expenses arising out of conduct of the activities of the Trust. The Trustees shall have a lien on and may use monies forming part of the Trust Fund in pursuance of the indemnity contained in this clause 15.1.

15.2 The Board may effect insurance for a Trustee or employees of the Trust in respect of any liability referred to in clause 15.1 and will meet all costs associated with such insurance.

15.3 The indemnity conferred by clause 15.1 may extend to any loss or liability arising after a person has ceased to be a Trustee.

15.4 The indemnity conferred by clause 15.1 does not extend to a loss or liability that is attributable to a Trustee's dishonesty, wilful misconduct or gross negligence.

15.5 The Trustees are not liable to account to the Trust in its own right for:

- (a) the consequence of any act or omission or for any loss; and
- (b) any loss or cost caused by a special trust adviser or an attorney, delegate, manager, agent or employee engaged by the Trustees, despite any rule of law or equity to the contrary.

15.6 The exclusion from liability set out in clause 15.5 does not apply where the consequence or loss is attributable to a Trustee's dishonesty, wilful misconduct or gross negligence.

15.7 If there is more than one Trustee, no Trustee is bound to take any proceeding against a co-Trustee for any alleged breach of trust by the co-Trustee.

16. NO PRIVATE PECUNIARY PROFIT

16.1 Despite any other provision in this Trust Deed but subject to clauses 4 and 16.5, neither the Trustees nor an Associated Person shall receive any form of private pecuniary profit from the Trust.

16.2 In the conduct of the activities of the Trust:

- (a) any income, benefit or advantage shall be applied to promote the Charitable Purposes;

- (b) the Trustees and an Associated Person shall not receive any form of private income, benefit or advantage from the activities of the Trust, nor influence receipt of the same; and
- (c) any payment to a Trustee or an Associated Person for goods or services that help promote the Charitable Purposes must be reasonable and commensurate with payments that would be made between unrelated parties.

16.3 The effects of this clause 16 must be retained in any other Trust Deed evidencing or continuing the Trust.

16.4 Notwithstanding this clause 16, the Trustees may allow a Trustee or committee member appointed by the Trustees to be paid:

- (a) reasonable and proper remuneration for services actually provided to the Trust and/or for carrying out their role as Trustee or committee member;
- (b) for 'out of pocket' expenses properly incurred in carrying out the duties and responsibilities of a Trustee or committee member;
- (c) any Trustee is to be paid all usual professional, business or trade charges for services rendered, time expended and all acts done by that Trustee or by any firm or entity of which that Trustee is a member, employee or associate in connection with the affairs of the Trust; and
- (d) any Trustee may retain any remuneration properly payable to that Trustee by any company or undertaking with which the Trust may be in any way concerned or involved for which that Trustee has acted in any capacity whatsoever, notwithstanding that that Trustee's connection with that company or undertaking is in any way attributable to that Trustee's connection with the Trust.

The provisions of this clause 16.4 represent a modification of the duties contained in sections 31 (duty not to exercise power for own benefit), 34 (duty to avoid conflict of interest), 36 (duty not to profit) and 37 (duty to act for no reward) of the Act.

16.5 Any such payment made under clause 16.4 shall:

- (a) be reasonable having regard to the nature and extent of the services provided or expenses incurred; and
- (b) be an amount that is at a market rate (consistent with an appropriate fee framework(s) for not-for-profit boards) and not more than the Trust would have paid a third party for a similar service or expense.

16.6 The amount of any payment referred to in clause 16.4 shall be decided by the Trustees in accordance with clause 16.5 above and the restrictions imposed by this clause 1716.

16.7 The Trustees shall not fix any Trustee remuneration for time spent as Trustee more than once annually.

16.8 No person with control over any business carried on for the benefit of the Trust shall be permitted to direct or divert an amount derived from such business in a manner that would breach section CW 42(1)(c) of the Income Tax Act 2007. For the purposes of the preceding sentence, the terms "control over a business" and "carrying on a business" shall be interpreted having regard to the

ordinary meanings of those terms and sections CW 42(3) and CW 42(5) of the Income Tax Act 2007.

- 16.9 For the avoidance of doubt, a person who is in the course of and as part of the carrying on, of their business of a professional public practice, shall not, by reason only of them rendering professional services to the Trust or to any company or person by which any business of the Trust is carried on, be in breach of clause 16.8.

17. CONFLICT TRANSACTION

17.1 A **Conflict Transaction** exists for a Trustee where the Trustee:

- (a) is a party to, or will derive or may derive a material financial benefit from that transaction;
- (b) has a material financial interest in another party to the transaction;
- (c) is a director, officer or trustee of another party to, or person who will or may derive a material financial benefit from the transaction, not being a party that is wholly owned by the Trust;
- (d) is the parent, child or spouse, civil union partner, or de facto partner of another party to, or person who will or may, derive a material financial benefit from the transaction; or
- (e) is otherwise directly or indirectly materially interested in the transaction.

- 17.2 The procedure for dealing with a Conflict Transaction is set out in clause 6 of Schedule 3.

18. AMENDMENTS OF THE TRUST DEED

18.1 Subject to any relevant legislation, clause 18.2 and other provisions of this Trust Deed in relation to amendments to specific terms of this Trust Deed, the Trustees may by unanimous decision only, by deed, vary the terms of the Trust by way of amendments, deletions or additions to the Trust Deed.

18.2 The Trustees shall not vary the terms of the Trust if such variations would result in:

- (a) the Trust being permitted to operate in a manner other than to advance the Charitable Purposes, or operate for the private pecuniary profit of any individual; or
- (b) any status obtained by the Trust as referred to in clauses 5.1 being revoked, suspended, altered or being unable to be renewed.

19. WINDING UP

19.1 The Trustees may at any time, by unanimous decision only, wind up the Trust if:

- (a) in their opinion, it becomes impossible, impracticable or inexpedient to carry out the Charitable Purposes; and
- (b) they decide not to exercise their power under clause 11.1 to pay, apply or appropriate the whole of the capital of the Trust Fund for the Charitable Purposes.

- 19.2 In the event the Trustees unanimously vote to wind up the Trust and after all liabilities of the Trust have been discharged, the Trustees shall, subject to clause 19.3, apply the surplus assets of the Trust Fund to some other charitable organisation or body registered under the Charities Act 2005 and having similar objects to the Trust.
- 19.3 In complying with their obligations under clause 19.2, and subject to the Trustees being unanimously satisfied (acting reasonably) that a transfer would further the Charitable Purposes (or similar charitable purposes as defined in section 5(1) of the Charities Act 2005), the Trustees must offer the Settlor the first right to accept the transfer of the land owned by the Trust that was provided to the Trust by Kāpiti Coast District Council or purchased by the Trust using a financial contribution from Kāpiti Coast District Council, under a written protocol.
- 19.4 If the Trustees cannot determine the application of the Trust Fund in accordance with the requirements of this clause 19, the Trust Fund will be applied to such charitable purposes within New Zealand as directed by a Judge of the High Court of New Zealand.

20. GOVERNING LAW

- 20.1 This Trust Deed will be governed by and construed in accordance with the laws of New Zealand.

EXECUTION

SIGNED on behalf of **KĀPITI COAST**)
DISTRICT COUNCIL)
as Settlor by its authorised officers in the)
presence of:)

 Authorised Officer

 Authorised Officer

 Print Name

 Witness to both signatures

 Print Name

 Address

 Occupation

SIGNED by [x])
as a **Trustee** in the presence of)

Signature

Witness signature

Occupation

Address

SIGNED by [x])
as a **Trustee** in the presence of)

Signature

Witness signature

Occupation

Address

SIGNED by [x])
as a **Trustee** in the presence of)

Signature

Witness signature

Occupation

Address

SIGNED by [x])
as a **Trustee** in the presence of)

Signature

Witness signature

Occupation

Address

SCHEDULE 1: TRUSTEE POWERS**1. POWERS**

1.1 Subject to the provisions of this Deed, the Trustees have the power to undertake the following activities:

- (a) to sell any real or personal property forming part of the Trust Fund in the manner and on the terms and conditions the Trustees think fit, including (without limitation) power to allow such part of the purchase price as the Trustees think fit to remain on loan with or without security or to be payable by instalments;
- (b) to postpone the sale of any real or personal property forming part of the Trust Fund for as long as the Trustees think fit without being liable for any resultant loss to the Trust Fund;
- (c) to let any real and personal property at such rent (including on a rent free basis) and on such terms and conditions (including an option to purchase) as the Trustees think fit and to accept surrenders of any leases and tenancies. This clause represents a modification of the duties contained in sections 29 (general duty of care) and 30 (duty to invest prudently) of the Act;
- (d) to borrow any money at whatever rate of interest and upon whatever other terms and conditions the Trustees may think fit. For this purpose, the Trustees may give security for repayment over the entire Trust Fund or any part of it, whether or not any part over which the security is given benefits from the borrowing;
- (e) undertake fundraising activities to help with promotion of the Charitable Purposes;
- (f) adopt procedures for inviting and processing applications for assistance from the Trust in ways which would promote the Charitable Purposes;
- (g) seek and receive any conveyance, transfer, gift, devise, donation or bequest to help the Trustees promote the Charitable Purposes;
- (h) maintain a bank account and set authorisations on operating the account and the payment of creditors;
- (i) pay all costs and expenses incurred in the course of the Trustees carrying out or exercising any of the Trustees' powers and discretions;
- (j) create a provision for possible liabilities;
- (k) make any loans or advances (with or without security) for any of the Charitable Purposes in such manner and on such terms and conditions as the Trustees think fit (this clause represents a modification of the duties contained in sections 29 (general duty of care) and 30 (duty to invest prudently) of the Act);
- (l) for any part of the Trust Fund, the Trustees may:
 - (i) apply it to make an investment in a debt security and/or an equity security;
 - (ii) apply it towards the purchase of property or any interest in property which the Trustees consider with benefit the Trust Fund and in exercising this power, the Trustees shall not be taken to be exercising a power of investment;

- (iii) retain it even if it is of a wasting, speculative or reversionary nature, may not produce income, or might be decreasing or not increasing in value;
- (iv) pay all insurance premiums, rates, taxes, rents, repairs and other outgoings;
- (v) improve, develop or subdivide it;
- (vi) do anything that may increase value including, for example, adding to any buildings or structures, and entering into leases, tenancy agreements, party wall agreements, easements or profits à prendre;
- (vii) grant a lease or licence;
- (viii) waive debts, breaches, accept surrenders and terminate tenancies and licences either absolutely or on such terms as the Trustees think expedient except in circumstances where that loss was sustained as a result of the Trustee's own dishonesty, wilful misconduct or gross negligence;
- (ix) deposit all or part of the Trust Fund in any currency in a savings or other interest or non-interest bearing account with any bank, trust, company or other financial or investment institution in any jurisdiction in the world and in making any deposit the Trustees shall not be liable for any loss due to devaluation or any foreign exchange or other governmental restriction except in circumstances where that loss was sustained as a result of a Trustee's dishonesty, wilful misconduct or gross negligence;
- (x) convert it into money;
- (xi) grant security over it;
- (xii) deal generally and manage the Trust Fund as if the Trustees were the absolute owners of it; and
- (xiii) carry on any business or venture and establish any company, partnership or joint venture to conduct the same and the Trustees may use any part of the Trust Fund as capital in the business, and may also employ in the business such managers, agents, employees and other persons (including any Trustee other than a person who for the time being is the sole Trustee of the Trust Fund) as they think fit provided that each Trustee shall be absolutely indemnified out of the Trust Fund for any losses which they may sustain in so carrying on any such business except in circumstances where that loss was sustained as a result of a Trustee's dishonesty, wilful misconduct or gross negligence;
- (m) enter into and perform swap, hedging or other financial transactions;
- (n) enter into and perform a contract of indemnity and act as surety with any guarantee and security in support (this clause represents a modification of the duty contained in section 29 (general duty of care) of the Act);
- (o) in relation to any company or other legal body:
 - (i) exercise any voting, decision-making rights or other powers;

- (ii) appoint directors, officers or employees or trustees of it; and
 - (iii) provide further share or loan capital;
- (p) engage any person including volunteers as:
 - (i) a special trust adviser;
 - (ii) an expert to assist the Trustees;
 - (iii) an attorney or delegate for the Trustees;
 - (iv) a manager or agent for the Trustees;
 - (v) a secretary of the Trustees;
 - (vi) an employee of the Trustees in any matter relating to the Trust; or
 - (vii) a nominee or custodian pursuant to section 67 of the Act (and in accordance with section 68 of the Act, keep the arrangements under review and consider whether to exercise any power to intervene);
- (q) engage a chartered accountant to prepare annual accounts or to perform an audit of accounts;
- (r) effect policies of insurance or assurance for such amounts and on such terms as the Trustees in their absolute discretion think fit, including trustee liability insurance, and to transfer, assign, surrender or mortgage any interest in any such policies and to hold, accept and deal with any interest in any policy of insurance or assurance or its proceeds, but no Trustee will be liable for any loss due to lack of insurance or inadequate insurance not attributable to their own dishonesty, wilful misconduct or gross negligence (this clause represents a modification of sections 29 (general duty of care) and 30 (duty to invest prudently) of the Act);
- (s) act upon any expert or professional opinion or advice;
- (t) accumulate the income of the Trust Fund;
- (u) treat as capital of the Trust Fund the income of a Financial Year not determined by the end of the Financial Year to be applied for the Charitable Purposes;
- (v) set apart any part of the Trust Fund under a distinguishing name:
 - (i) as a sub-trust;
 - (ii) as a special endowment; or
 - (iii) for a special purpose,and the costs of administration of any such discrete fund shall be met either out of such fund or out of the Trust Fund or any income derived from the Trust Fund as the Trustees may in their absolute discretion determine;
- (w) adopt procedures for the execution of documents;
- (x) decide all questions arising in the course of the management, administration, investment, realisation, distribution, liquidation, partition, resettlement or winding up of the Trust;

- (y) in respect of any company or other entity in which the Trust Fund holds or is the beneficial owner of shares, notes, stock or debentures:
 - (i) to act as a director of the company and to receive and retain fees or other remuneration for so acting without having to account to the Trust Fund unless the Trustees otherwise require;
 - (ii) to provide out of the Trust Fund on such terms as the Trustees think fit further capital for the company either by way of advances, loans, deposits or otherwise (with or without security) or by taking further shares in the company, but only insofar as the Trustees are satisfied on reasonable grounds that the provision of such further capital will contribute to the ability of the Trustees to fulfil the Purposes;
 - (iii) to concur in the winding up, reconstruction or amalgamation of the company or in the modification of its regulations, on whatever terms the Trustees think fit; and
 - (iv) generally to act in relation to the company in whatever manner the Trustees consider to be in the best interests of the Trust Fund,

(and this subclause represents a modification of the duties contained in sections 31 (duty not to exercise power for own benefit), 34 (duty to avoid conflict of interest), 36 (duty not to profit) and 37 (duty to act for no reward) of the Act);
- (z) generally do all other lawful acts and things that may promote the Charitable Purposes; and
- (aa) enter into any arrangement with any part of the government or Local Authority to obtain any rights, privileges or concessions that the Trustees may think desirable to obtain and carry out, and exercise and comply with any such arrangements.

SCHEDULE 2: BOARD OF TRUSTEES**1. Number of Trustees**

- 1.1 Subject to the provisions in the Schedule, there must be no fewer than five Trustees, and no more than six Trustees.

2. Appointment of Original Trustees

- 2.1 The Original Trustees are the signatories to this Trust Deed.

- 2.2 For the purpose of:

- (a) clause 4.1(a) of this Schedule, [name] is appointed as a Council-Appointed Trustee;
- (b) clause 4.1(b) of this Schedule, [name] is appointed as a Mana Whenua Trustee;
- (c) clause 4.1(c) of this Schedule, [name] is deemed to be appointed as an Independent Trustee;
- (d) clause 4.1(c) of this Schedule, [name] is deemed to be appointed as an Independent Trustee;
- (e) clause 4.1(c) of this Schedule, [name] is deemed to be appointed as an Independent Trustee.

- 2.3 As soon as practicable following the establishment of the Trust:

- (a) the Board Appointments Panel will be constituted in accordance with clause 3.3 of this Schedule; and
- (b) once the Board Appointments Panel has been constituted, the Board Appointments Panel will appoint further Independent Trustees so that there are three Independent Trustees, or any higher number determined by the Trust Board in accordance clause 4.1(b) of this Schedule.

3. Board Appointments Panel

- 3.1 The Board Appointments Panel will:

- (a) identify and appoint suitable candidates to fill any Board vacancy that arises for an Independent Trustee from time to time;
- (b) when making any appointment have regard to any guidance it receives from the Board of Trustees regarding particular skills or experience referred to in clause 4.3 of this Schedule that the Board of Trustees considers are desirable in relation to the vacancy; and
- (c) carry out its function as soon as practicable and use best endeavours to appoint an Independent Trustee within 60 calendar days of the relevant vacancy arising.

- 3.2 The Board Appointments Panel shall notify the Trust in writing of any appointment of an Independent Trustee made by the Board Appointments Panel as soon as such appointment has been made.

- 3.3 The Board Appointments Panel will be constituted as follows:

- (a) the Council-Appointed Trustee;
- (b) the Mana Whenua Trustee; and
- (c) one Independent Trustee, appointed separately by a majority resolution passed by the Trustees.

- 3.4 At any time the Trustees may, by simple majority, vote to remove an Independent Trustee as a Board Appointments Panel Member, and appoint another Independent Trustee as a Board Appointments Panel Member.
- 3.5 Unless a person is removed from the Board Appointments Panel in accordance with clause 3.4 of this Schedule 2, each person appointed to the Board Appointments Panel shall:
- (a) be appointed for a term of three years and may be reappointed under clause 3.4 for subsequent periods of up to two years;
 - (b) cease to be a member of the Board Appointments Panel if, before their term ends, they cease to be a Trustee.
- 3.6 In performing its duties and undertaking its functions under this Trust Deed, the Board Appointments Panel shall not be liable to the Trust or any Trustee for any losses for damages incurred as a result of any act or omission of the Board Appointments Panel, provided that the Board Appointments Panel has acted honestly and has not wilfully committed any act known to be in breach of this Trust Deed.
- 3.7 The Board Appointments Panel shall not delegate its powers under this Trust Deed.

4. Composition of Board and appointment of Trustees

- 4.1 Each of the following persons (including their delegates) shall have the power, exercisable by deed, to appoint trustees and to remove any trustees appointed by them, without assigning any reason, as follows:
- (a) the Settlor shall appoint one (1) Council-Appointed Trustee;
 - (b) Te Whakaminenga o Kāpiti shall appoint one (1) Mana Whenua Trustee; and
 - (c) the Board Appointments Panel shall appoint the number of Independent Trustees determined by the Board of Trustees (being not less than three (3) or more than four (4) Independent Trustees).
- 4.2 Subject to clause 4.3, each of the appointors referred to in clause 4.1 of this Schedule shall be entitled to determine and follow their own appointment process.
- 4.3 In making the appointments of Trustees pursuant to clause 4.1 of this Schedule 2, the relevant appointing party must be reasonably satisfied that the relevant candidate possesses skills and experience that align with the Trustee Skills and Experience.
- 4.4 A Trustee who has ceased to be a Trustee must carry out all acts and deeds and sign all documents necessary or desirable for the proper vesting of the Trust Fund in the continuing and new Trustees or otherwise as the case may require, which acts and deeds and signings shall be done and executed at the expense of the Trust Fund.
- 4.5 A person disqualified by the Charities Act 2005 from being an officer of a charitable entity may not be a Trustee.

5. Chairperson

- 5.1 The appointment of a Trustee as the chairperson of the Board will be made by majority resolution of the Trustees.

- 5.2 The appointment of the chairperson will be made at the first meeting of the Original Trustees.
- 5.3 The Board will decide on the period for which the chairperson will hold office.
- 5.4 In the absence of the chairperson at a meeting, another Trustee may be elected by Trustees present to be the chairperson for the meeting.
- 5.5 The chairperson shall take the chair at all meetings of the Trustees but shall not have a casting vote.
- 5.6 The chairperson may be removed from that position by a majority resolution passed by the other Trustees.

6. Term of Appointment

- 6.1 Subject to clause 6.3 of this Schedule 2, any Trustee that is appointed to the Board shall have a term of appointment of three years (unless they cease to be a Trustee under clause 6 of this Schedule 2).
- 6.2 Any Trustee may be reappointed for a maximum of two subsequent terms of three years each. The maximum consecutive term to be served by any Trustee shall be nine years, unless the Trustees by Special Majority decision resolve otherwise that a Trustee may serve for a longer period in order to further the Charitable Purposes. The power of reappointment shall be vested in the parties referred to in clause 4.1 of this Schedule 2.
- 6.3 One third of the Trustees shall retire two years after the date of execution of this Trust Deed, one third of the Trustees who have not yet retired shall retire three years after the date of execution of this Trust Deed, and the remaining Trustees who have not yet retired shall retire four years after the date of execution of this Trust Deed. Unless agreed by the Trustees, the Trustees that will retire at the end of those specified periods shall be determined by lot.

7. Cessation and Removal

- 7.1 A person shall cease to be a Trustee if:
 - (a) the Trustee's term of appointment as provided for in clause 6 of this Schedule 2 comes to an end;
 - (b) the Trustee resigns by notice in writing to the chairperson of the Board;
 - (c) the Trustee becomes a person whom clause 4.5 of this Schedule 2 does not permit to be a Trustee;
 - (d) the Trustee can no longer adequately fulfil the office of Trustee due to physical or mental incapacity, as determined by the remaining Trustees (acting reasonably);
 - (e) the Trustee dies;
 - (f) the Trustee refuses to act as a Trustee;
 - (g) the Trustee fails to attend three consecutive Trustee meetings in the absence of reasons acceptable to the chairperson of the Board;
 - (h) the relevant appointing party in clause 4 of this Schedule 2 removes its appointed Trustee;
 - (i) the Trustee ceases to qualify as an officer of a charitable entity under section 16 of the Charities Act 2005; or

- (j) the Trustee has been deemed by unanimous resolution of the other Trustees to have failed to fulfil their duties as a Trustee.

7.2 The Trustees able to continue to act as Trustees shall resolve any question of whether a Trustee has ceased to be a Trustee pursuant to clause 7.1 of this Schedule 2. The decision of the continuing Trustees shall be final.

8. Minute book

8.1 Upon every appointment, retirement, re-appointment or termination of office of any Trustee the Trustees will ensure that:

- (a) an entry is made in the minute book of the Trust to that effect;
- (b) any statutory requirements as to the vesting of the Trust Fund in the Trustees and the notification of the appointment are satisfied; and
- (c) if the Trust is registered under the Charities Act 2005, the Charities Commission is notified in accordance with the requirements of that Act.

9. Validity of proceedings

9.1 Where, for any reason, a Trustee is not properly appointed, re-appointed or is disqualified from holding office, anything done by that Trustee (or by a meeting at which that Trustee was present as a Trustee or committee member) before discovery of the irregularity, shall be as valid as if that Trustee had been duly appointed, re-appointed or had not been disqualified (as the case may be).

9.2 If at any time the Trustees number less than the minimum number of Trustees required by the Trust Deed then anything done by the continuing Trustees in accordance with the provisions of the Trust Deed pending the appointment of a new Trustee or Trustees shall be as valid as if the requirement for the minimum number of Trustees had been met during that period.

SCHEDULE 3: TRUSTEE MEETINGS**1. Meetings**

- 1.1 The Trustees have the discretion to decide when and where ordinary meetings of the Board shall be held to ensure the efficient and proper conduct of the affairs of the Trust, but in any event the Board shall meet at least twice in each Financial Year.
- 1.2 A Trustee may at any time summon a special meeting, subject to clause 2 of this Schedule 3.

2. Notice of meeting and attendees

- 2.1 Seven days' notice of any Board meeting shall be communicated by the chairperson to each of the other Trustees. However, all of the Trustees may unanimously agree to shorten or waive the period of notice.
- 2.2 No notice is necessary for the resumption of an adjourned meeting. However, a Trustee who was not present at the meeting adjourned must be notified of the time and place of the reconvened meeting.
- 2.3 One Settlor Representative is entitled to attend Board meetings, and for that purpose will be provided with each notice of meeting specified in clauses 2.1 and 2.2 of this Schedule 3. The Trustees will ensure that the Settlor Representative is also provided with the relevant materials for consideration prior to meetings, and well as any minutes taken. The Settlor Representative does not have any rights to participate in any vote of the Trustees of the Trust.

3. Quorum

- 3.1 Subject to clause 3.2 of this Schedule 3, a quorum for meetings of Trustees shall be:
- (a) one more than half the current number of Trustees if there is an even number of Trustees; and
 - (b) a majority of the current number of Trustees if there is an odd number of Trustees (so that, by way of example only, if the current number of Trustees is nine, a majority of Trustees will be five).
- 3.2 Where this Trust Deed requires a unanimous or Special Majority decision, a quorum will not be present unless the meeting of Trustees present comprises at least 75% of the total number of Trustees.
- 3.3 A Trustee suffering from any temporary physical incapacity, who is mentally incapable, or for whom a Conflict Transaction exists, shall not be treated as a Trustee for the purposes of clause 3.1 or 3.2 of this Schedule 3.

4. Adjournment

- 4.1 If a quorum is not present within thirty minutes after the time appointed for a Board meeting, the Board meeting may be adjourned.
- 4.2 A Board meeting in session may be adjourned if the Trustees present so resolve.

5. Holding a meeting and attendance

5.1 A Board meeting may be held:

- (a) in person by the number of Trustees who constitute a quorum, being assembled together at the place, date and time of the meeting; or
- (b) by means of audio or electronic communication by which all Trustees participating and constituting a quorum can simultaneously hear or communicate with each other throughout the meeting (with electronic messages treated as the equivalent of views expressed in person).

6. Conflict Transaction

6.1 A Trustee for whom a Conflict Transaction may exist:

- (a) shall disclose as soon the Trustee becomes aware that a Conflict Transaction may exist to the Board meeting all relevant details concerning the Conflict Transaction and, if the monetary value of the Trustee's interest is able to be quantified, the nature and monetary value of that interest;
- (b) must not be involved in deliberations, vote, or attend meetings in relation to any Conflict Transaction;
- (c) may, subject to the provisions above being complied with, sign any written resolution or any other document relating to the Conflict Transaction on behalf of the Trust, be counted towards the quorum required for a Board meeting and do anything else as a Trustee in relation to the Conflict Transaction, as if he or she were not interested in the Conflict Transaction, unless the Board determines otherwise.

6.2 Clause 6.1 of this Schedule 3 represents a modification of the duties contained in sections 31 (duty not to exercise power for own benefit), 34 (duty to avoid conflict of interest), 36 (duty not to profit) and 37 (duty to act for no reward) of the Act.

7. Decisions and voting rules

- 7.1 Unless this Trust Deed requires a unanimous decision or Special Majority decision for a matter, the Trustees present at a meeting must reach agreement by a majority vote to pass an effective resolution or decide a matter.
- 7.2 Each Trustee shall be entitled to one vote.
- 7.3 The method of voting on motions and Trustee resolutions shall be decided by the Trustees. Different methods may be adopted for different motions.
- 7.4 A resolution may be prepared and signed in counterparts including signature in electronic format.
- 7.5 A resolution of the Trustees may be rescinded or varied by the Trustees in the same manner as it was passed.
- 7.6 A written resolution signed by at least a majority of the Trustees for the time being, excluding any Trustee for whom any matter dealt with by the resolution is a Conflict Transaction, will be as effective as a resolution compliant with clause 7.1 of this Schedule 3 in a duly convened meeting of the Trustees.

8. Minutes

- 8.1 The Trustees shall maintain a minute book recording minutes of their Board meetings and their decisions.
- 8.2 The minute book may be in hard copy or electronic format.
- 8.3 Unless there is evidence to the contrary, matters referred to in a meeting minute shall be treated as approved where the chairperson of the meeting, or the chairperson of the next meeting:
 - (a) records the minute in an electronic message; or
 - (b) signs the minute.
- 8.4 Decisions recorded in the minutes shall be read in conjunction with this Deed and are binding on all persons interested in the Trust.

9. Financial reporting, record-keeping and audit

- 9.1 The Trustees must ensure that any and all financial reporting or record-keeping requirements to which the Trust may from time to time be subject under the Charities Act 2005 or any other enactment are complied with. In addition, and without limiting the obligations of the Trustees as set out in the preceding sentence, the Trustees may from time to time resolve to prepare or to procure the preparation of such financial and other reports dealing with the affairs of the Trust as they may deem appropriate.

DATED

2024

**RELATIONSHIP FRAMEWORK
AGREEMENT**

between

KĀPITI COAST DISTRICT COUNCIL

and

[KĀPITI NZ TRUST]

CONTENTS

1. INTERPRETATION	1
2. RELATIONSHIP PRINCIPLES AND OBJECTIVES	2
3. TRUST ROLE AND INDEPENDENCE	2
4. SERVICES PROVIDED BY THE TRUST TO KCDC	3
5. SUPPORT SERVICES PROVIDED BY KCDC TO THE TRUST	3
6. LIMITS ON USE OF CONTRIBUTIONS	3
7. REPORTING AND MONITORING	3
8. TERM AND REVIEW OF AGREEMENT	4
9. TERMINATION	4
10. GENERAL	4

RELATIONSHIP FRAMEWORK AGREEMENT BETWEEN KĀPITI COAST DISTRICT COUNCIL AND [KĀPITI NZ TRUST]

PARTIES

- (1) KĀPITI COAST DISTRICT COUNCIL (KCDC)
- (2) KAPITI NZ TRUST (Trust)

(each a "party", together "the parties").

BACKGROUND

- A. KCDC has established the [Kāpiti NZ Trust] to [achieve its charitable purposes, and, as part of that, enhance economic development capability in Kāpiti Coast District, and operationalise economic development initiatives].
- B. The Trust will:
 - (a) operate at arms-length from KCDC; and
 - (b) be a charitable trust board, and apply to register as a charity under the Charities Act 2005.
- C. The purpose of this Relationship Framework Agreement (**Agreement**) is to describe how KCDC and the Trust will work together. In particular, this Agreement formalises:
 - (a) the ongoing relationship principles and shared objectives of KCDC and the Trust;
 - (b) the rights and responsibilities of each party; and
 - (c) the key monitoring and reporting arrangements between KCDC and the Trust.

1. INTERPRETATION

- 1.1 In this Agreement, unless the context requires otherwise:
 - (a) **Commencement Date** means the date that this agreement is executed;
 - (b) **Company** means Kāpiti Enterprises Kotahitanga Limited.
 - (c) **Contribution** means a gift, transfer of land (including by way of long-term lease), or funding from:
 - (i) KCDC to the Trust; or
 - (ii) a third party to the Trust if KCDC requires the third party to make that gift, transfer of land, or funding to the Trust;
 - (d) **KCDC** includes its successors and permitted assigns;
 - (e) **Kāpiti Coast District** means the Paekākāriki-Raumati Ward, Paraparaumu Ward, Waikanae Ward and Ōtaki Ward;
 - (f) **Trust** includes its successors, administrators and permitted assigns; and

- (g) **Trust Deed** means the [Kāpiti NZ Trust] trust deed dated [date] between the settlor and the trustees named in the Trust Deed.

2. RELATIONSHIP PRINCIPLES AND OBJECTIVES

2.1 Both parties agree:

- (a) to act with integrity and in a manner that promotes mutual trust and confidence;
- (b) to work together with openness, promptness, consistency and fairness in all dealings and communications;
- (c) that they share a common objective [in relation to the charitable purposes and to see ongoing progress and growth in the key economic indicators identified in KCDC's economic development strategies and will work together to achieve that objective];
- (d) not to do anything that could reasonably be expected to have an adverse effect on the reputation, good standing or good will of the other party;
- (e) to use their best efforts to perform their obligations in a manner consistent with Te Tiriti o Waitangi, Te ao Māori and tikanga Māori; and
- (f) that the Trust is an independent entity that has the responsibility of governing and managing its operations.

2.2 Both parties acknowledge that the Trust:

- (a) has been established, and has the objective of operating in partnership with iwi and other partners;
- (b) will operate with independence and will seek to ensure that it has access to necessary specialist skills and experience;
- (c) will operate with financial sustainability over the long term; and
- (d) will reinvest any returns for the charitable purposes set out in the Trust Deed.

3. TRUST ROLE AND INDEPENDENCE

3.1 The parties agree and acknowledge that:

- (a) the primary object and charitable purposes of the Trust are recorded in the Trust Deed. The Trust will carry out its activities in accordance with the Trust Deed, and accepted principles of good governance for similar community organisations;
- (b) the Trust has established the Company to enhance economic development capability in Kāpiti Coast District, and operationalise economic development initiatives, and to use dividends from such activities towards achieving the charitable purposes; and
- (c) as set out in the Trust Deed, the Trustees will endeavour to ensure that no action is carried out that would result in the Trust becoming a Council-Controlled Organisation or subsidiary of KCDC.

4. SERVICES PROVIDED BY THE TRUST TO KCDC

- 4.1 The Trust will provide KCDC with information regarding the progress and growth in the achievement of its purposes, including in relation to the activities and performance of the Company.

5. SUPPORT SERVICES PROVIDED BY KCDC TO THE TRUST

- 5.1 Subject to clause 5.2, KCDC will provide the following support services to the Trust on the terms agreed between the parties:

- (a) IT services, in that KCDC hosts, as agent or for the sole purpose of safe custody, on its server the Trust's information;
- (b) administrative services;
- (c) an annual operating grant, which will cover costs relating to the Trustee fees and meeting costs;
- (d) funding for the establishment of the Company, and the ongoing costs in relation to the Trust's responsibilities in respect of the Company; and
- (e) other such support services as may be mutually agreed by the parties from time to time.

- 5.2 The parties will:

- (a) review the appropriateness of the support services described in clause 5.1 no later than 2 years after the Commencement Date; and
- (b) over time, work together to reduce the support services that KCDC provides to the Trust.

6. LIMITS ON USE OF CONTRIBUTIONS

- 6.1 Any Contribution must be used exclusively by the Trust for its charitable purposes.

7. REPORTING AND MONITORING

- 7.1 The Trust acknowledges that the reporting obligations specified in this Agreement are necessary to provide KCDC with information to determine whether the intended outcomes of the Trust are being achieved.

[Reporting obligations to be inserted here].

- 7.2 The Trust will report to KCDC in accordance with any requirements and milestones agreed between the parties.

- 7.3 In addition to the above, KCDC may, from time to time, reasonably request the Trust to provide information. If the Trust receives such a request, it will provide that information within a reasonable time of the request as advised by KCDC.

- 7.4 It is intended that KCDC and the Trust will agree how to securely manage the flow of information between each party.

8. TERM AND REVIEW OF AGREEMENT

8.1 The parties acknowledge that the relationship governed by this Agreement is intended to be a long-term relationship. Therefore, the Agreement:

- (a) commences on the Commencement Date; and
- (b) will continue in effect unless it is terminated in accordance with clause 11.

8.2 The parties will conduct periodic reviews of the operation of the Agreement from time to time on an agreed timeframe. The purpose of each review is to assess whether the Agreement remains fit for purpose (ie., the Agreement continues to enable a positive and effective working relationship between the parties).

8.3 The first review shall take place within 3 years of the Commencement Date.

8.4 The parties agree that they are able to vary the Agreement at any time by mutual written agreement.

9. TERMINATION

9.1 Either party may serve notice that it wishes to terminate this Agreement. However, this Agreement may only be terminated on terms:

- (a) agreed by the parties, following good faith discussions; and
- (b) that ensure that, to KCDC's satisfaction, any property transferred to the Trust under the Agreement will continue to be used for the purpose for which it was transferred.

10. GENERAL

10.1 The parties acknowledge that they may each publicly discuss the activities that they are undertaking or providing in the Kāpiti Coast District relating to the Trust's purposes.

10.2 However, each party acknowledges and agrees that:

- (a) they will not comment publicly on the activities provided by the other party unless the parties have jointly agreed to the comment;
- (b) they will not publicly criticise or undermine the position of the other party; and
- (c) any challenges, problems, or criticisms of such matters may be directed to either KCDC or the Trust.

10.3 The parties intend to keep the information that they hold and obtain on matters relevant to both parties confidential. However, the Trust recognises that KCDC is a statutory body and may be required to disclose such information to other parties or to the wider public if requested.

10.4 If either party is required by law to disclose any information that has been obtained by them under this Agreement, they will immediately notify the other party.

10.5 Both parties to this Agreement will, at all times, act in accordance with the Privacy Act 2020 and any relevant codes of practice.

- 10.6 The parties acknowledge that KCDC is the local authority for the Kāpiti Coast District, and that, in terms of its regulatory functions as a local authority, KCDC must act as an independent local authority and not as a party to this Agreement. No act of KCDC under this Agreement will be construed as consent or approval or bind it in its regulatory capacity.

SIGNED for and on behalf of)
KAPITI COAST DISTRICT COUNCIL by)
[name]) Signature _____

[Print Name]) Position _____

SIGNED for and on behalf of)
[KĀPITI NZ TRUST] by)
[name]) Signature _____

[Print Name]) Position _____

**CONSTITUTION OF
KĀPITI ENTERPRISE
KOTAHITANGA LIMITED**

This document is the Constitution of Kāpiti
Enterprise Kotahitanga Limited, certified as such
on _____ by _____, the
authorised person for the Company.

Certified as the Constitution of the Company.

.....
[name]
[position]

CONTENTS

1. PRELIMINARY	1
2. PURPOSES	2
3. SHARES	2
4. APPOINTMENT AND REMOVAL OF DIRECTORS	3
5. REMUNERATION OF DIRECTORS	5
6. TE TIRITI O WAITANGI	5
7. MEETING OF SHAREHOLDERS	5
8. DIRECTORS' MEETINGS	6
9. BUSINESS PLAN	6
10. CONTENTS OF ANNUAL REPORT	6
11. INDEMNITY AND INSURANCE	6
12. CONTRACTING BY THE COMPANY	6
13. LIQUIDATION	7
SCHEDULE 1	8

CONSTITUTION OF KĀPITI ENTERPRISE KOTAHITANGA LIMITED

1. PRELIMINARY

1.1 Definitions

In this Constitution, unless the context otherwise requires:

Act means the Companies Act 1993.

Alternate Director means a person appointed as an alternate of a Director in accordance with clause 4.6.

Board means the Directors who number not less than the required quorum acting together as a board of Directors, or, if the Company has only one Director, that Director.

Company means Kāpiti Enterprise Kotahitanga Limited.

Council means the Kāpiti Coast District Council.

Director means a person appointed as a director of the Company in accordance with this Constitution.

Holding Company has the meaning given to that term in the Act, and at the date on which this Constitution is adopted includes the [Kāpiti NZ Trust], a charitable trust board registered under the Charitable Trusts Act 1957.

Kāpiti Coast District means the Paekākāriki-Raumatī Ward, Paraparaumu Ward, Waikanae Ward and Ōtaki Ward.

Ngā Hapū o Ōtaki means of the five Mana Whenua hapu of the iwi Ngāti Raukawa ki te Tonga in the Kapiti rohe, and for the purposes of clause 4.5 means the person or persons who the Holding Company believes (acting reasonably and in good faith) represent Ngāti Raukawa ki te Tonga.

Ngāti Toa means the iwi Ngāti Toa Rangatira, and for the purposes of clause 4.5 means the person or persons who the Holding Company believes (acting reasonably and in good faith) represent Ngāti Toa Rangatira.

Te Ātiawa ki Whakarongotai means the iwi Te Ātiawa ki Whakarongotai, and for the purposes of clause 4.5 means the person or persons who the Holding Company believes (acting reasonably and in good faith) represent Te Ātiawa ki Whakarongotai.

Share means a share in the Company.

Shareholder means a shareholder in the Company.

1.2 Interpretation

In this Constitution, unless the context requires otherwise:

- (a) **capitalised words or expressions** that are not defined in clause 1.1 have the same meaning as in the Act;

- (b) references to **clauses** are to clauses of this Constitution;
- (c) **derivations** of any defined word or term shall have a corresponding meaning;
- (d) the **headings** to clauses are inserted for convenience only and shall be ignored in interpreting this Constitution;
- (e) the word **including** and other similar words do not imply any limitation;
- (f) the **plural** includes the **singular** and vice versa; and
- (g) a reference to a **statute** includes all regulations and other subordinate legislation made under that statute. A reference to a statute, regulation or other subordinate legislation includes that statute, regulation or subordinate legislation as amended or replaced from time to time.

2. PURPOSES

2.1 The purpose of the Company shall be to:

- (a) develop the Kapiti Coast District's economy in a way that is environmentally sustainable and future focussed;
- (b) provide residents and communities of the Kapiti Coast District benefits from local education and career opportunities; and
- (c) ensure that the Kapiti Coast District is recognised as a great and easy place to invest and do business.

3. SHARES

3.1 Issue of Shares

- (a) Any further Shares may be issued at any time, to any person, and in any number authorised in writing by the Holding Company.
- (b) Shares may be issued (including different classes of Shares), which:
 - (i) rank equally with, or in priority to, existing Shares; and/or
 - (ii) have deferred, preferred or other special rights or restrictions, whether as to voting rights or distributions or otherwise.
- (c) Section 45 of the Act shall not apply.
- (d) Any reissue of Shares or transfer of Shares held by the Company in itself pursuant to section 67C of the Act must be authorised in writing by the Holding Company in accordance with clause 3.1(a).

3.2 **Redeemable Shares:** The Company may issue Shares that are redeemable within the meaning of section 68 of the Act.

3.3 **Acquisition of own Shares:** The Company may purchase or otherwise acquire its own Shares in accordance with the Act including by making an offer to all Shareholders or to one or more Shareholders to acquire shares.

3.4 **Treasury stock:** The Company may hold its own Shares in accordance with the Act.

3.5 **Form and execution of transfer:** Subject to the restrictions in this Constitution, Shares may be transferred by:

- (a) any usual or common form of transfer; or
- (b) any other form approved by the Board,

provided that a Shareholder shall only be entitled to transfer all, and not only some, of that Shareholder's Shares.

3.6 **Instrument:** the instrument of transfer of any Share must be executed by or on behalf of the transferor and, if required by the Act or the Board, by the transferee.

4. APPOINTMENT AND REMOVAL OF DIRECTORS

4.1 **Number of Directors:** The Company shall have no less than five and no more than seven Directors.

4.2 **Board composition:** The Board shall be comprised of:

- (a) one Director nominated by Ngā Hapū o Ōtaki in accordance with clause 4.5(a) and appointed by the Holding Company in accordance with clause 4.4;
- (b) one Director nominated by Ngāti Toa in accordance with clause 4.5(a) and appointed by the Holding Company in accordance with clause 4.4;
- (c) one Director nominated by Te Ātiawa ki Whakarongotai in accordance with clause 4.5(a) and appointed by the Holding Company in accordance with clause 4.4; and
- (d) other Directors appointed by the Holding Company from time to time in accordance with clause 4.4.

4.3 **Director skills:** When exercising their appointment and nomination rights the Holding Company, Ngā Hapū o Ōtaki, Ngāti Toa and Te Ātiawa ki Whakarongotai shall have regard to any specific skills matrix established by the Holding Company from time to time for the purposes of ensuring that the Board has the relevant skill sets.

4.4 Appointment and removal of Directors

- (a) Subject to clause 4.4(d), the Directors are the persons appointed from time to time as Directors by a notice in writing signed by the Holding Company and who have not been removed under this Constitution or resigned or disqualified from office.
- (b) A Director may be removed from office at any time by a notice in writing signed by the Holding Company.
- (c) Notices given under clauses 4.4(a) and 4.4(b) take effect upon receipt at the registered office of the Company (including the receipt of an email copy) unless the notice specifies a later time at which the notice will take effect.
- (d) The initial Directors shall be the persons named as Directors in the application for registration of the Company.

4.5 Mana Whenua Directors

- (a) Each of Ngā Hapū o Ōtaki, Ngāti Toa and Te Ātiawa ki Whakarongotai may, by notice to the Holding Company from time to time, nominate a person for appointment as a Director. The Holding Company shall promptly appoint such nominee to the Board, unless:
 - (i) In consultation with relevant mana whenua leadership, and in the event that in the Holding Company's reasonable opinion the nominee does not meet the required skill matrix established under clause 4.3;
 - (ii) Ngā Hapū o Ōtaki, Ngāti Toa or Te Ātiawa ki Whakarongotai (as the case may be) has already nominated a Director who is a current Director on the Board; or
 - (iii) the Holding Company has other reasonable grounds to object to such nominee.
- (b) Each of Ngā Hapū o Ōtaki, Ngāti Toa and Te Ātiawa ki Whakarongotai may, by notice to the Holding Company from time to time, request the Holding Company to remove the person they have nominated to the Board, and the Holding Company shall promptly remove such person unless, in the Holding Company's reasonable opinion, doing so would adversely affect the Company.

4.6 Alternate Directors

- (a) Any Director may, by written notice to the Company, appoint another person (who is either a Director or has been approved for that purpose by a majority of the Directors or the Holding Company) to be an Alternate Director.
- (b) An Alternate Director is entitled to:
 - (i) notice of all meetings of the Board;
 - (ii) any minutes or Documents sent to Directors; and
 - (iii) attend and vote at meetings of the Board in place of the Director for whom they are an Alternate Director.
- (c) An Alternate Director is not entitled to remuneration otherwise than out of the remuneration of the appointing Director.
- (d) An appointment as Alternate Director may be revoked at any time by:
 - (i) the appointing Director giving written notice to the Company;
 - (ii) a resolution passed by a majority of the Directors; or
 - (iii) the Holding Company giving written notice to the Company.
- (e) If a Director ceases to be a Director any Alternate Director appointed by him or her ceases to hold office.

4.7 Chairperson

- (a) The initial chairperson of the Board shall be appointed by the Holding Company on the recommendation of the Council, and shall hold office for a period of 18 months or until the date on which that person is removed, replaced or resigns, if earlier.

- (b) Subject to clause 4.7(a), the Directors may elect one of their number as chairperson of the Board to hold office for such term as the Directors may decide. The Director elected as chairperson shall hold office for such term or until they are removed, replaced or resign, if earlier.
- (c) If no chairperson is elected, or if at a meeting of the Board the chairperson is not present within 15 minutes after the time appointed for the commencement of the meeting, the Directors present may choose one of their number to be chairperson of the meeting.

5. REMUNERATION OF DIRECTORS

5.1 Any matters affecting the remuneration of Directors will be determined from time to time by the Holding Company.

6. TE TIRITI O WAITANGI

- 6.1 A Director (when exercising powers or performing duties as a Director) will, to the extent deemed appropriate:
- (a) have due regard to the following:
 - (i) te Tiriti o Waitangi;
 - (ii) Tikanga Māori;
 - (iii) Te ao Māori; and
 - (iv) principles, including (but not limited to):
 - (1) manaakitanga, inclusivity and collaboration with mana whenua;
 - (2) recognition and respect for sacred kinship networks that extend to our natural environment;
 - (3) balance during processes, engagements and interactions;
 - (4) honesty and transparency;
 - (5) solutions that bring success through aroha and kotahitanga; and
 - (6) humility and service to promote care and safety to others; and
 - (b) engage with local whānau and iwi, where appropriate, to ensure their needs are understood and recognised.

7. MEETING OF SHAREHOLDERS

- 7.1 **Annual general meetings:** If required under section 120 of the Act, an annual general meeting of Shareholders must be held not later than:
- (a) 6 months after the balance date of the Company; and
 - (b) 15 months after the previous annual meeting, or in respect of the first annual meeting, not later than 18 months after the date of the Company's incorporation.

- 7.2 **Resolution in lieu of annual general meeting:** It is not necessary for the Company to hold an annual general meeting of Shareholders required under section 120 of the Act if everything required to be done at that meeting (by resolution or otherwise) is done by resolution in accordance with clause 7.4.
- 7.3 **Special meetings:** A special meeting of Shareholders may be called at any time by the Board and must be called by the Board if requested by the Holding Company.
- 7.4 **Resolution in lieu of meeting:** A resolution in writing signed in accordance with section 122 of the Act is as valid as if it had been passed at a meeting of Shareholders.
- 7.5 **Procedure at meetings:** The First Schedule to the Act governs proceedings at all meetings of Shareholders.

8. DIRECTORS' MEETINGS

- 8.1 The Third Schedule to the Act relating to the proceedings of a Board does not apply to the Company. Schedule 1 of this Constitution governs those proceedings.

9. BUSINESS PLAN

- 9.1 **Initial Business Plan:** The Board shall prepare an initial Business Plan for approval by the Holding Company as soon as possible after the date of registration.
- 9.2 **Subsequent Business Plans:** The Board will review the Business Plan annually to assess whether it remains relevant to the current needs of the Company and present this review, along with an updated Business Plan if applicable, to the Holding Company by 31 May each year for approval at the Company's annual general meeting.

10. CONTENTS OF ANNUAL REPORT

- 10.1 For so long as the Holding Company is the sole shareholder, the annual report of the Company need not comply with the requirements of section 211(1)(a) and (e) to (j) and section 211(2) of the Act. This constitutes an agreement by the sole shareholder from time to time pursuant to section 211(3) of the Act.

11. INDEMNITY AND INSURANCE

- 11.1 The Company may effect all or any of such indemnities and insurances as are referred to in subsections 162(3), (4) and (5) of the Act to the full extent referred to in those subsections.

12. CONTRACTING BY THE COMPANY

- 12.1 In addition to the methods of contracting set out in section 180 of the Act, an obligation which, if entered into by a natural person, would, by law, be required to be by deed, may be entered into on behalf of the Company in writing signed under the name of the Company by a single Director, or by any other person or class of persons authorised by the Board for that purpose whose signature or signatures must be witnessed.

13. LIQUIDATION

- 13.1 **Surplus Assets:** Subject to the terms of issue of any Shares, upon the liquidation of the Company the Surplus Assets of the Company (if any) must be distributed among the Shareholders in proportion to the shareholding.
- 13.2 **Distribution in specie:** With the approval of the Holding Company, the liquidator of the Company may divide the whole or any part of the assets of the Company among the Shareholders in kind (whether or not they are of the same kind) and for that purpose the liquidator may:
- (a) attribute such values to assets as the liquidator considers appropriate; and
 - (b) determine how the division will be carried out as between the Shareholders or different Classes of Shareholders.
- 13.3 **Vesting in trust:** With the approval of the Holding Company, the liquidator of the Company may vest the whole or any part of any Surplus Assets of the Company in trustees upon trust for the benefit of the Shareholders. The liquidator may determine the terms of the trust.

SCHEDULE 1**PROCEEDINGS OF BOARD MEETINGS****1. NOTICES**

1.1 Power to convene meeting: A Director or, if requested by a Director to do so, an employee of the Company, may convene a meeting of the Board by giving notice in accordance with paragraph 1.2.

1.2 Notice of meetings: The following provisions apply in relation to meetings of the Board:

- (a) The notice of meeting must be a written notice delivered by hand to the Director, or sent to the address, or email address which the Director provides to the Company for that purpose, or if an address or email address is not provided, then a written notice to his or her last place of employment or residence known to the Company.
- (b) At least two days' notice of a meeting of the Board must be given unless the chairperson (or, in the chairperson's absence from New Zealand, any other Director) believes it is necessary to convene a meeting of the Board as a matter of urgency, in which case shorter notice of the meeting of the Board may be given, so long as at least two business hours' notice is given.
- (c) It is not necessary to give notice of a meeting to an Alternate Director, unless the Director for whom the Alternate Director is alternate is known to be either outside of New Zealand or otherwise unavailable to attend meetings.
- (d) A notice of meeting must specify the date, time and place of the meeting and, in the case of a meeting by means of audio, or audio and visual communication, the manner in which each Director may participate in the proceedings of the meeting.

1.3 Irregularity in notice: An irregularity in the notice of a meeting or a failure to give notice is waived if all Directors entitled to receive notice of the meeting attend the meeting without protest as to the irregularity or if all Directors agree to the waiver.

2. MEETING PROCEDURE

2.1 Frequency: The Board shall convene a meeting at least once per month, or as determined by the Board.

2.2 Methods of holding meetings: A meeting of the Board may be held by any of the following means:

- (a) by a number of the Directors who constitute a quorum, being assembled together at the place, date and time appointed for the meeting; or
- (b) by means of audio, or audio and visual, communications by which all Directors participating and constituting a quorum can simultaneously hear each other during the meeting.

2.3 Quorum: A quorum for a meeting of the Board, other than an adjourned meeting, is:

- (a) two Directors appointed under clause 4.2(d), that are entitled to vote at that meeting; and
- (b) one Director appointed under clause 4.2(a), (b) or (c), that is entitled to vote at that meeting.

2.4 No business if no quorum: No business may be transacted at a meeting of the Board if a quorum is not present.

- 2.5 **Adjournment:** If a quorum is not present within 20 minutes after the time appointed for a meeting of the Board, the meeting is adjourned automatically by two working days at the same time of day and place (or a later time as the Directors present at the meeting may determine) and notice of the time and place of the adjourned meeting must be given to all Directors. If at the adjourned meeting a quorum is not present within 20 minutes after the time appointed for the meeting, the Directors present will constitute a quorum.
- 2.6 **Voting:** Every Director has one vote. An Alternate Director may not vote at a meeting if the person for whom they are an Alternate Director also attends.
- 2.7 **[Casting vote:** The chairperson has a casting vote.]
- 2.8 **Resolutions:** A resolution of the Board is passed if a majority of the votes cast on it is in favour of it.
- 2.9 **Voting presumption:** A Director present at a meeting of the Board will be presumed to have voted in favour of a resolution of the Board unless they:
- (a) expressly abstain from voting; or
 - (b) dissent from or vote against the resolution.
- 2.10 **Minutes:** The Board must ensure that minutes are kept of all proceedings at meetings of the Board. Minutes which have been signed correct by the chairperson of the meeting are evidence of the proceedings at the meeting unless they are shown to be inaccurate.
- 3. RESOLUTIONS**
- 3.1 **Written resolution:** A resolution in writing, signed or assented to in written form by all the Directors entitled to vote on the resolution (including Alternate Directors when the Director for whom they are appointed is unable to act), is as valid as if it had been passed at a meeting of the Board duly convened and held.
- 3.2 **Counterparts:** A resolution under paragraph 3.1 may consist of several documents (including a copy sent by email) in like form each signed or assented to by one or more Directors.
- 3.3 **Administration:** A copy of any written resolution must be entered in the minute book of Board proceedings.
- 4. COMMITTEES**
- 4.1 A committee of Directors must, in the exercise of the powers delegated to it, comply with any procedural or other requirements imposed on it by the Board. Subject to any such requirements, the provisions of this Constitution relating to proceedings of Directors apply to meetings of a committee of Directors.
- 5. VALIDITY OF ACTIONS**
- 5.1 The acts of a person as a Director are valid even though the person's appointment was defective or the person is not qualified for appointment.
- 6. OTHER PROCEEDINGS**
- 6.1 Except as provided in this Constitution, the Board may regulate its own procedure.

DATED

2024

**RELATIONSHIP FRAMEWORK
AGREEMENT**

between

KĀPITI COAST DISTRICT COUNCIL

and

**KĀPITI ENTERPRISES
KOTAHITANGA LIMITED**

CONTENTS

1. INTERPRETATION	1
2. RELATIONSHIP PRINCIPLES AND OBJECTIVES	2
3. COMPANY'S ROLE AND INDEPENDENCE	2
4. SERVICES PROVIDED BY THE COMPANY TO KCDC	3
5. SUPPORT SERVICES PROVIDED BY KCDC TO THE COMPANY	3
6. ADDITIONAL SUPPORT FROM KCDC	3
7. LIMITS ON USE OF CONTRIBUTIONS	3
8. REPORTING AND MONITORING	4
9. DISPUTE RESOLUTION	5
10. TERM AND REVIEW OF AGREEMENT	5
11. TERMINATION	5
12. GENERAL	5

RELATIONSHIP FRAMEWORK AGREEMENT BETWEEN KĀPITI COAST DISTRICT COUNCIL AND KĀPITI ENTERPRISE LIMITED

PARTIES

- (1) **KĀPITI COAST DISTRICT COUNCIL (KCDC)**
- (2) **KĀPITI ENTERPRISES KOTAHITANGA LIMITED (KEKL)**

(each a "party", together "the parties").

BACKGROUND

- A. The [Kāpiti NZ Trust] (**Trust**) has established KEKL to:
 - (a) supporting the development of the economy of the Kāpiti Coast District, in line with the priorities set by the Kāpiti District Economic Development Strategy, so that:
 - (i) the economy is environmentally sustainable and future focussed;
 - (ii) the economy benefits residents and communities through providing local education and career opportunities; and
 - (iii) the Kāpiti Coast District is recognised as a great and easy place in which to invest and do business; and
 - (b) provide dividends to the Trust to enable the Trust to meet its charitable purpose.
- B. The purpose of this Relationship Framework Agreement (**Agreement**) is to describe how KCDC and KEKL will work together. In particular, this Agreement formalises:
 - (a) the ongoing relationship principles and shared objectives of KCDC and KEKL;
 - (b) the rights and responsibilities of each party; and
 - (c) the key monitoring and reporting arrangements between KCDC and KEKL.

1. INTERPRETATION

- 1.1 In this Agreement, unless the context requires otherwise:
 - (a) **Commencement Date** means the date that this agreement is executed;
 - (b) **Contribution** means a gift, transfer of land (including by way of long-term lease), or funding from:
 - (i) KCDC to KEKL; or
 - (ii) a third party to KEKL if KCDC requires the third party to make that gift, transfer of land, or funding to KEKL;
 - (c) **KCDC** includes its successors and permitted assigns;
 - (d) **Kāpiti Coast District** means the Paekākāriki-Raumati Ward, Paraparaumu Ward, Waikanae Ward and Ōtaki Ward;

- (e) **Trust** means the [Kāpiti NZ Trust] and includes its successors, administrators and permitted assigns.

2. RELATIONSHIP PRINCIPLES AND OBJECTIVES

2.1 Both parties agree:

- (a) to act with integrity and in a manner that promotes mutual trust and confidence;
- (b) to work together with openness, promptness, consistency and fairness in all dealings and communications;
- (c) that they share a common objective to see ongoing progress and growth in the key economic indicators identified in KCDC economic development strategies and will work together to achieve that objective;
- (d) not to do anything that could reasonably be expected to have an adverse effect on the reputation, good standing or good will of the other party;
- (e) to use their best efforts to perform their obligations in a manner consistent with Te Tiriti o Waitangi, Te ao Māori and tikanga Māori; and
- (f) that KEKL is an independent entity that has the responsibility of governing and managing its operations.

2.2 Both parties acknowledge that KEKL:

- (a) has been established, and has the objective of operating in partnership with iwi and other partners;
- (b) should seek to qualify for government funding and support from a range of Government, public, private and philanthropic investors;
- (c) will operate with independence and will seek to ensure that it has access to necessary specialist skills and experience;
- (d) will operate with financial sustainability over the long term;
- (e) will provide returns to the Trust to enable the Trust to carry out its charitable purposes; and
- (f) may establish subsidiary Special Purpose Vehicles (**SPVs**) to operationalise key projects to further the economic development of key sectors in the Kāpiti Coast District.

3. KEKL'S ROLE AND INDEPENDENCE

3.1 The parties agree and acknowledge that:

- (a) KEKL will carry out its activities in accordance with its constitution, and accepted principles of good governance for similar community organisations; and
- (b) the directors of KEKL will endeavour to ensure that no action is carried out that would result in KEKL becoming a Council-Controlled Organisation or subsidiary of KCDC.

4. SERVICES PROVIDED BY KEKL TO KCDC

4.1 KEKL will:

- (a) provide KCDC with reports and briefings regarding the progress and growth in the achievement of its purposes;
- (b) prepare business cases for KCDC's consideration as a potential investor in SPVs; and
- (c) prepare, for KCDC's consideration, proposals or initiatives to further economic development in the Kāpiti Coast District.

5. SUPPORT SERVICES PROVIDED BY KCDC TO KEKL

5.1 Subject to clause 5.2, KCDC will provide the following support services to KEKL on the terms agreed between the parties:

- (a) IT services, in that KCDC hosts, as agent or for the sole purpose of safe custody, on its server KEKL's information;
- (b) administrative services;
- (c) an annual operating grant, which will cover costs relating to the director fees and meeting costs; and
- (d) economic development business support, funded through the existing business rate, which may include the direct support via the KCDC Economic Development Business unit: business support and facilitation; business attraction; cluster development and implementation; destination marketing and promotion; funding for major events; workforce and skills development; districtwide economic infrastructure projects and initiatives; and research and insight.

5.2 The parties will:

- (a) review the appropriateness of the support services described in clause 5.1 no later than 3 years after the Commencement Date; and
- (b) over time, work together to reduce the support services that KCDC funds, through the existing business rate, and/or provides to KEKL.

6. ADDITIONAL SUPPORT FROM KCDC

6.1 KCDC acknowledges that KEKL may wish to request further support from KCDC in order to better promote or progress economic development opportunities within the Kāpiti Coast District, for example, through the establishment of a SPV. KEKL may request further financial or non-financial support from KCDC by providing KCDC with a well-considered proposal.

6.2 If KCDC agrees to provide further Contributions to KEKL, the parties agree that the Contribution, and any conditions attaching to that Contribution must be in writing and agreed by the parties.

7. LIMITS ON USE OF CONTRIBUTIONS

7.1 Any Contribution must be used by KEKL for the purposes agreed by the parties.

- 7.2 KCDC expects that any land that it provides to KEKL will be used by KEKL for the purposes agreed by the parties, and that it will be retained by KEKL notwithstanding any changes in the relationship between KEKL and KCDC or any internal or external restructuring or other changes to either KEKL or KCDC. KEKL agrees that it will not sell, transfer or otherwise alienate such land without the written consent of KCDC.
- 7.3 At KCDC's election, land will be subject to an encumbrance, covenant or other appropriate charge in favour of KCDC in order to preserve the purposes for which the land is transferred and on terms to be agreed by the parties if:
- (a) the land was transferred to KEKL by way of a Contribution from KCDC; or
 - (b) the land was acquired or developed by KEKL using funding procured or provided by KCDC by way of a Contribution.

8. REPORTING AND MONITORING

- 8.1 KEKL acknowledges that the reporting obligations specified in this Agreement are important to enable KCDC to understand economic development opportunities and the impact of initiatives undertaken by KEKL.
- 8.2 KEKL will:
- (a) keep, store and maintain records in accordance with proper business, accounting practice and all applicable laws;
 - (b) provide a report to KCDC every [6 months] that:
 - (i) outlines the activities undertaken by KEKL in the preceding [6-month period] to deliver on its purpose as set out in A) in the Background of this document; and
 - (ii) includes any other information reasonably requested by KCDC, such as metrics relating to innovative clusters, education and training, and the effectiveness of KCDC's economic development business processes;
 - (c) make those [6 monthly] reports publicly available (however KEKL may withhold any information that could be withheld under the Local Government Official Information and Meetings Act 1987 as if that Act applied to KEKL); and
 - (d) report to KCDC in accordance with any other requirements and milestones agreed between the parties.
- 8.3 In addition to the above, KCDC may, from time to time, reasonably request KEKL to provide information. If KEKL receives such a request, it will provide that information within a reasonable time of the request as advised by KCDC.
- 8.4 It is intended that KCDC and KEKL will agree:
- (a) how to securely manage the flow of information between each party; and
 - (b) to hold regular meetings.

9. DISPUTE RESOLUTION

- 9.1 If any dispute arises under this Agreement or any agreement relating to a Contribution (**Dispute**), the parties will use their best endeavours to resolve the dispute within [15 Business Days] through good faith discussions.
- 9.2 If the parties fail to resolve the Dispute through good faith discussions under clause 9.1, the parties will refer the Dispute to a mediator or an independent expert, that is acceptable to both parties on terms that are acceptable to both parties.
- 9.3 If the parties fail to resolve the Dispute through mediation or an independent expert (as applicable, depending on the matter), within [3 calendar months] from the Dispute arising, either party may submit the Dispute for resolution by arbitration.
- 9.4 Nothing precludes the parties from applying to a court for urgent interim injunctive or declaratory relief.

10. TERM AND REVIEW OF AGREEMENT

- 10.1 The parties acknowledge that the relationship governed by this Agreement is intended to be a long-term relationship. Therefore, the Agreement:
- (a) commences on the Commencement Date; and
 - (b) will continue in effect unless it is terminated in accordance with clause 11.
- 10.2 The parties will conduct periodic reviews of the operation of this Agreement and of any funding agreements from time to time on an agreed timeframe. The purpose of each review is to assess whether this Agreement and other agreements remains fit for purpose (ie., the Agreement continues to enable a positive and effective working relationship between the parties).
- 10.3 The first review shall take place within 3 years of the Commencement Date.
- 10.4 The parties agree that they are able to vary the Agreement at any time by mutual written agreement.

11. TERMINATION

- 11.1 Either party may serve notice that it wishes to terminate this Agreement. However, this Agreement may only be terminated on terms:
- (a) agreed by the parties, following good faith discussions; and
 - (b) that ensure that, to KCDC's satisfaction, any property transferred to KEKL under the Agreement will continue to be used for the purpose for which it was transferred.

12. GENERAL

- 12.1 The parties acknowledge that they may each publicly discuss the activities that they are undertaking or providing in the Kāpiti Coast District in relation to economic development.
- 12.2 However, each party acknowledges and agrees that:

- (a) they will not comment publicly on the activities provided by the other party unless the parties have jointly agreed to the comment;
- (b) they will not publicly criticise or undermine the position of the other party; and
- (c) any challenges, problems, or criticisms of such matters may be directed to either KCDC or KEKL.

- 12.3 The parties intend to keep the information that they hold and obtain on matters relevant to both parties confidential. However, KEKL recognises that KCDC is a statutory body and may be required to disclose such information to other parties or to the wider public if requested.
- 12.4 If either party is required by law to disclose any information that has been obtained by them under this Agreement, they will immediately notify the other party.
- 12.5 Both parties to this Agreement will, at all times, act in accordance with the Privacy Act 2020 and any relevant codes of practice.
- 12.6 The parties acknowledge that KCDC is the local authority for the Kāpiti Coast District, and that, in terms of its regulatory functions as a local authority, KCDC must act as an independent local authority and not as a party to this Agreement. No act of KCDC under this Agreement will be construed as consent or approval or bind it in its regulatory capacity.

SIGNED for and on behalf of)
KĀPITI COAST DISTRICT COUNCIL by)
[name]) Signature

_____) Position
[Print Name]

SIGNED for and on behalf of)
[KĀPITI KOTAHITANGA LIMITED] by)
[name]) Signature

_____) Position
[Print Name]

Water services delivery models: Guidance for local authorities

LOCAL WATER DONE WELL

August 2024

Te Kāwanatanga o Aotearoa
New Zealand Government



Te Tari Taiwhenua
Internal Affairs

Introduction

Background

A key feature of Local Water Done Well is providing councils with the flexibility to determine the optimal structure and delivery method for their water services. To support this, the Government is progressing legislation to expand the range of local government water service providers by enabling the establishment of new, financially separate water organisations.

These new water organisations are intended to enable enhanced access to long-term borrowing for water infrastructure – supporting infrastructure development, while managing costs for consumers.

Councils will continue to be able to deliver water services directly (such as through inhouse business units), however they will also be able to establish new water organisations that are more financially and operationally independent of councils.

These models also make it easier for councils who wish to enter joint arrangements to achieve cost savings, improve efficiency and affordability.

Councils will be able to design their own alternative delivery arrangements, as long as these arrangements meet the minimum requirements set out in legislation.

Councils will also have choices about which water services are provided through different service delivery arrangements. For example, they may wish to provide drinking water and wastewater services through a water organisation but retain stormwater services in-house.

This guidance document

This guidance document focuses on the service delivery models and arrangements that will be available to local authorities to deliver water services. It provides further detail on proposals to expand the range of service delivery models available to councils, including by providing for new, financially separate water organisations that councils (and consumer trusts) can own.

In this guidance, the term '**water services provider**' means all forms of local government provider, and including councils that continue with direct (in-house) delivery as well as new water organisations. The term '**water organisation**' refers only to separate organisations that councils may establish to provide water services and does not include councils with direct (in-house) delivery.

This guidance document has five sections:

- Section 1: Minimum requirements of all water services providers and requirements for specific delivery models
- Section 2: Service delivery models available to councils
- Section 3: Governance and accountability arrangements
- Section 4: Financing and credit rating implications
- Section 5: Other powers and authorities available to water organisations.

This guidance document aims to help inform local authorities on service delivery models. It should be read alongside other Local Water Done Well information. The guidance is informed by policy decisions that were announced by the Minister of Local Government in August 2024, and therefore are still subject to change through the Parliamentary process when the Local Government Water Services Bill is introduced to Parliament in December 2024.

More detailed information can also be found in the associated Cabinet papers that have been proactively released on the Department of Internal Affairs' website.

For further information about Local Water Done Well, visit www.dia.govt.nz/Water-Services-Policy-and-Legislation

Questions? Contact waterservices@dia.govt.nz

01 Minimum requirements

Minimum requirements for all service delivery models

The legislation will look to establish a framework for water services delivery that includes:

- a set of minimum requirements that apply to water service providers
- additional legislative requirements that apply to water organisations, focusing on the ownership, governance and structural arrangements for these organisations, and
- further provisions that would apply only to consumer trust-owned (and mixed council/trust owned) water organisations.

Regardless of the model chosen, all water service providers must meet minimum requirements set out in the legislation.

These minimum requirements are designed to promote efficiency, improve the governance and management of financially sustainable water services, and ensure accountability within the sector.

The requirements will likely include that all water services providers:



Will be subject to economic, environmental and water quality regulation – further information on economic, environmental and water quality regulation is available in the related factsheets: Economic regulation of water services (refer to the economic regulation factsheet for more information), Drinking water quality regulation, and Standards to help reduce water infrastructure costs.



Will be subject to a new planning and accountability framework for water services, including the need to produce stand-alone financial statements for water supply, wastewater, and stormwater – further information outlined in the factsheet: Planning and accountability for local government water services.



Must be financially sustainable – legislation will include an enduring objective for water service providers to be financially sustainable, including a requirement for the ringfencing of water services, an expectation of revenue sufficiency, and accommodating for maintenance, renewals and growth.



Must act consistently with statutory objectives – legislation will set out a list of statutory objectives that will apply to all water service providers. There will also be several additional statutory objectives that apply to water organisations.



Will be subject to restrictions against privatisation – legislation will include prohibitions on losing control, selling or disposing of significant infrastructure. Further, water services assets cannot be used as security.

Additional requirements for water organisations

In addition to the minimum requirements that apply to all water services providers, the legislation will also look to include additional requirements that apply to water organisations – affecting their ownership, governance, and structural arrangements.

These requirements will apply to all water organisations, including any existing council-controlled organisations and council-controlled trading organisations that deliver water services.

These features are not relevant where councils continue with direct service delivery.

The following additional requirements apply to water organisations:



Current council staff and elected members cannot be appointed to boards.



Water organisations **must be companies**.



Activities of water organisations will be **limited to the provision of water services** and directly-related activities.



Only councils or consumer trusts can be shareholders of a water organisation.



Board appointments must be competency-based and have the appropriate mix of skills, knowledge, and experience.



There will be a range of protections against privatisation.








Requirements for trust-owned water organisations

Water organisations that involve consumer trusts as owners will require additional provisions to ensure that ownership interests cannot be transferred.

This option requires significant controls on the consumer trust as it would have the effective control of water services and assets.

Legislation will set out bespoke requirements that apply to consumer trust-owned (and mixed council/trust-owned) water organisations, to ensure alignment with requirements that apply to councils through other legislation.

For water organisations that involve consumer trusts:

	Consumer trusts must represent consumers and their interests.
	Consumer trusts will be responsible for appointing and removing Boards and overseeing their performance.
	Trust deeds must include restrictions on transfer of shares.
	Trustees must be elected by consumers. Trustees are responsible for appointing, monitoring, and removing Board members (subject to competency and independence requirements), as well as approving or issuing a statement of expectations (depending on mixed or full ownership).
	Consumer trusts will have to comply with all requirements in legislation or general law relating to trusts, such as having a trust deed.
	Consumer trusts may be a minority or majority shareholder of a water organisation with territorial authorities, or it may own 100% of the shares.
	Trusts will be restricted from modifying the objects in its trust deed or selling its shareholding, except to another territorial authority or consumer trust shareholder of another water organisation.

Protections against privatisation

Under Local Water Done Well, the Government has committed that water services will remain in public ownership.

Councils and water organisations will not be able to privatise water services.

Legislation will likely include the following statutory protections:

- Only local authorities and/or consumer trusts will be permitted to own shares in a water organisation.
- Provisions that prevent:
 - water infrastructure assets from being used as security for any purpose
 - divestment of ownership or other interest in a water service except to another local government organisation or water organisation, and
 - loss of lose control of, sale, or other form of disposal of the significant infrastructure necessary for providing water services in its region or district, unless, in doing so, the local authority or water organisation retains its capacity to meet its obligations
- Shares in water organisations cannot give any right, title or interest in the assets, security, debts, or liabilities of the entity, and would not be able to be sold or transferred.
- Water organisations that involve consumer trusts will require additional provisions to ensure ownership interests cannot be transferred.

Exemptions from certain requirements

Exemptions can be considered on a case-by-case basis

The Government has agreed to enable exemptions from certain requirements. This will provide councils with the flexibility to identify and establish the delivery arrangements that work best for them. The exemptions framework acknowledges that there may be certain circumstances where there may be justification in waiving certain requirements.

Legislation will include a process where councils can apply for exemptions to the following requirements, on a case-by-case basis:

- water organisations must be companies
- activities of water organisations will be limited to the provision of water services, and directly-related activities, and
- only councils or consumer trusts can be shareholders of a water organisation, while noting that the legislation will look to ensure that no form of privatisation is permitted.

Councils who wish to apply for exemptions from the above requirements will be required to submit applications to the Secretary for Local Government, who will assess the application and provide advice to the Minister of Local Government. Exemption approvals would be granted through an Order in Council, on the recommendation of the Minister of Local Government.

Applications for exemptions must meet certain conditions

Exemptions will only be granted where the council's proposal for water services:

- meets the legislative objectives of Local Water Done Well
- maintains the core requirements that are non-negotiable bottom lines for all water organisations, including that the proposal does not involve any form of privatisation
- will provide water services that are financially sustainable, and
- satisfy the Minister of Local Government that the financial sustainability of water services would be put at greater risk if the exemption was not granted.

02 Service delivery models

Councils can choose from a range of service delivery models

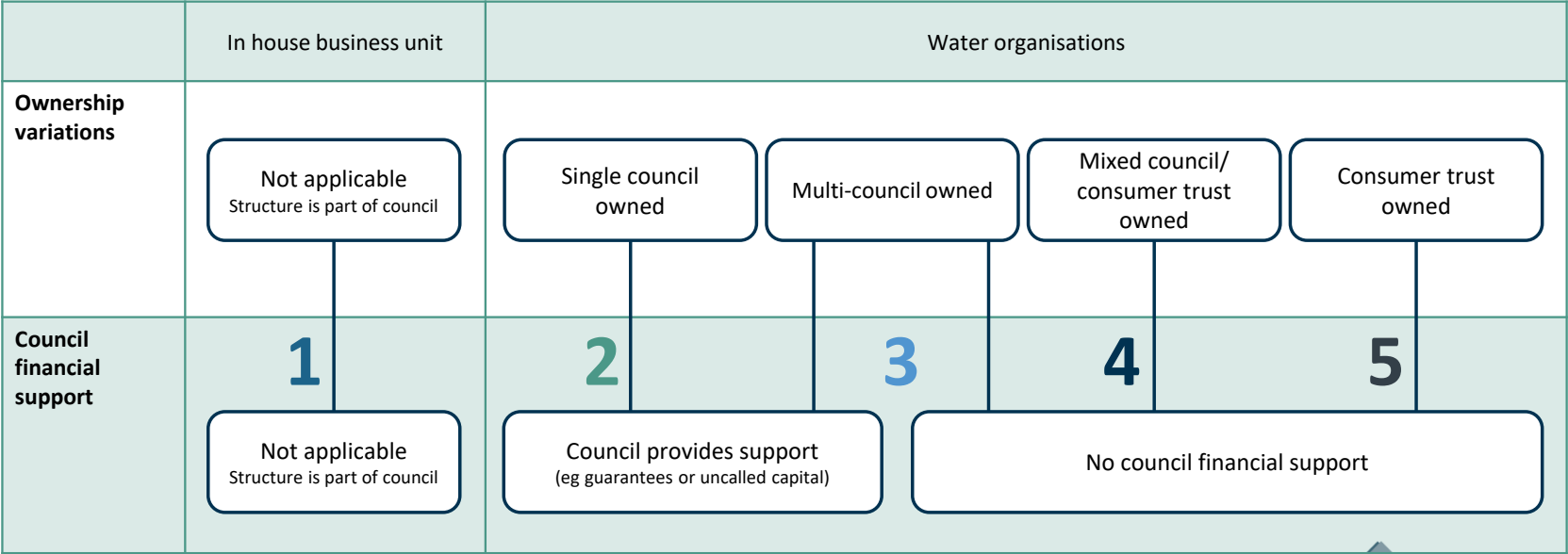
The choices available to councils include:

- whether to deliver water services in-house or establish a water organisation
- whether to deliver services on a stand-alone basis or establish a joint arrangement with other councils
- how to structure ownership and governance arrangements for any water organisation, and
- how to set up water organisations to facilitate access to long-term borrowing for water infrastructure

Councils that already deliver water services via a council-controlled organisation or council-controlled trading organisation will be able to continue to use these arrangements. However, the council-controlled organisation or council-controlled trading organisation will be subject to all of the new statutory requirements that will apply to water organisations and changes are likely to be required to meet these requirements. Councils will be able to design their own alternative delivery arrangements, as long as these arrangements meet the requirements for water service providers.

This guidance provides further detail on the following illustrative examples outlined below. Other delivery models are permissible provided they meet certain minimum requirements or if a council obtains an exemption.

Illustrative examples of service delivery models



Overview of service delivery models

1	Internal business unit or division	<ul style="list-style-type: none"> • Status quo for many councils • Minimum requirements for water service providers will apply • New financial sustainability, ringfencing rules, and economic regulation will apply
2	Single council-owned water organisation	<ul style="list-style-type: none"> • New company established, 100% owned by the council • Financial sustainability rules will apply, but retains a financial link to the council • Councils with existing water council-controlled organisations will be required to meet minimum requirements
3	Multi-council owned water organisation	<ul style="list-style-type: none"> • New company established with multi-council ownership • Appointment of a Board through shareholder council (or similar body) is advisable but not a statutory requirement • Option to access Local Government Funding Agency finance with the provision of parent support or to create a more financially independent organisation
4	Mixed council/consumer trust owned	<ul style="list-style-type: none"> • Consumer trust established to own majority of shares • Mixed ownership, with one or more councils owning minority of shares • Structure enables financially independent organisation to be established while retaining minority council ownership
5	Consumer Trust owned	<ul style="list-style-type: none"> • Council transfers assets to consumer trust owned organisation • Consumers elect trustees to represent their interests in the organisation • Most financially independent of the available models

1. Internal business unit or division

Under this option, water services would be delivered directly by the council 'inhouse' through an internal business unit or division, with planning and budgeting integrated into council planning and budgeting processes. This option will be subject to new ring-fencing and financial sustainability requirements, and economic regulation.

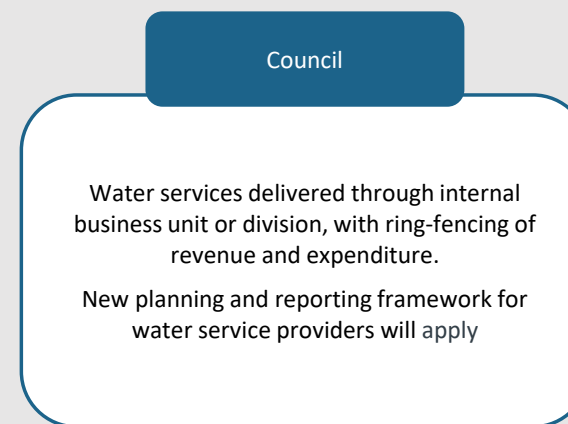
This option represents a continuation of the existing inhouse service delivery model used by many councils.

Revenue continues to be generated through a combination of general and targeted rates and financial/development contributions.

Water service delivery is fully integrated into council strategy, planning, and service delivery.

	Key features
Ownership	<ul style="list-style-type: none"> 100% council owned as a business unit or division within the organisation No new organisation is established
Governance	<ul style="list-style-type: none"> Internal business unit or division responsible to the elected council members, with other usual council governance oversight
Strategy	<ul style="list-style-type: none"> Councils will need to prepare a Water Services Strategy
Accountability	<ul style="list-style-type: none"> Water division reports to council per established internal processes Water service delivery will be accountable to the public through usual local democracy practices Water-focused annual report and stand-alone financial statements on water will be completed to enhance current requirements
Borrowing	<ul style="list-style-type: none"> Borrowing undertaken by council with water activity groups meeting their share of financing costs (on internal and any external borrowing)

Illustrative example



2. Single council-owned water organisation

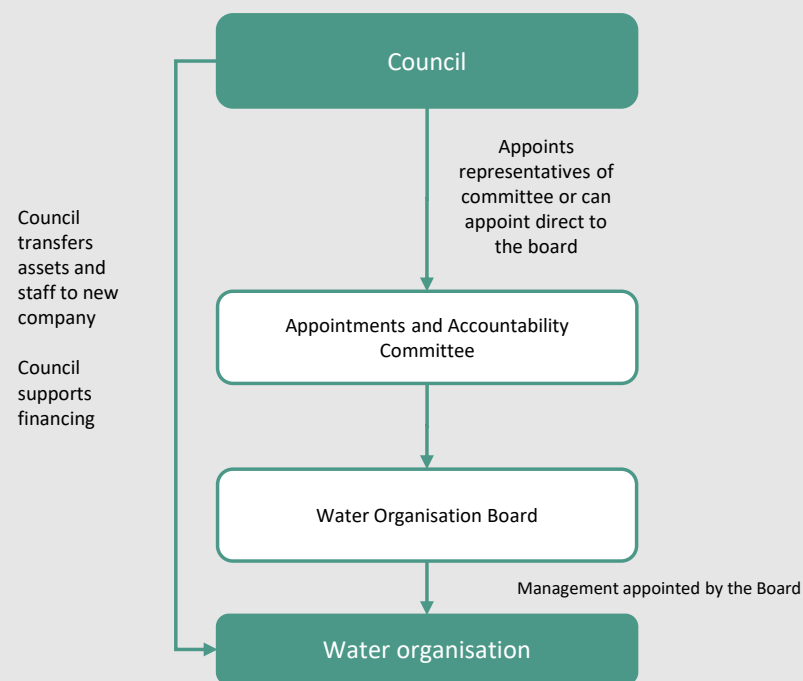
New company established to deliver water services, with ownership by a single council. Council can transfer or retain ownership of assets, subject to transfer of asset use rights.

The council has flexibility to design governance and appointment arrangements, including to consider whether and how they involve mana whenua, consumers or community representatives (for example via an appointments and accountability body). The council can also choose to appoint board members directly without roles for other groups.

The council would provide financing to the water organisation or provide financial support to enable it to borrow from Local Government Funding Agency

Key features	
Ownership	<ul style="list-style-type: none"> Limited liability company, 100% owned by the council Ownership rights spelled out in a constitution, subject to compliance with legislation
Governance	<ul style="list-style-type: none"> Appointments made directly or via an Appointments and Accountability Committee (or similar body) Board comprised of independent and professional directors
Strategy	<ul style="list-style-type: none"> Shareholding council issues Statement of Expectations Water organisation prepares Water Services Strategy and consults the council
Accountability	<ul style="list-style-type: none"> Water organisation reports regularly to shareholding council on performance (for example quarterly) Water organisation prepares annual report containing audited financial statements, including reporting on actual performance, and other matters outlined in the water services strategy. Water organisation required to act consistently with statutory objectives
Borrowing	<ul style="list-style-type: none"> Borrowing via council or from Local Government Funding Agency directly supported by council guarantee or uncalled capital

Illustrative example



3. Multi-council-owned water organisation

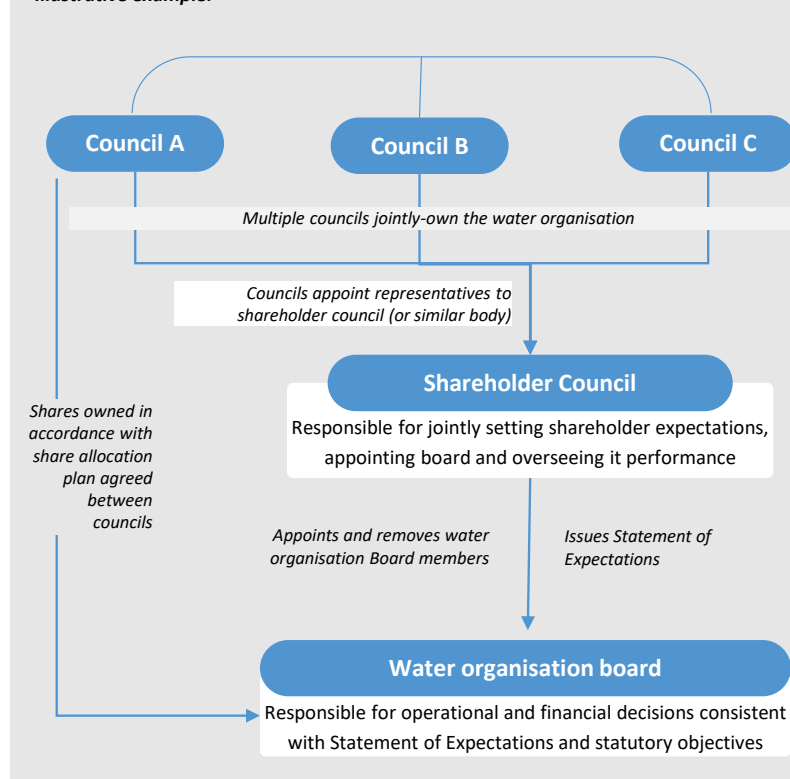
Under this option, two or more councils would establish a jointly-owned water organisation.

Councils will have flexibility to establish shareholder rights and interests through a company constitution and/or shareholder agreement, subject to compliance with the legislation.

Financing options and credit rating impacts will be dependent on whether shareholding councils choose to provide financial support or not.

Key features	
Ownership	<ul style="list-style-type: none"> Limited liability company owned by two or more councils Ownership arrangements and rights set out in a constitution and/or shareholder agreement, subject to compliance with the legislation
Governance	<ul style="list-style-type: none"> Councils agree how to appoint and remove directors, for example through a shareholder council or similar Board comprised of independent and professional directors
Strategy	<ul style="list-style-type: none"> Shareholding councils agree the process for issuing a combined Statement of Expectations Water organisation prepares Water Services Strategy and consults shareholding councils
Accountability	<ul style="list-style-type: none"> Water organisation reports regularly to shareholding councils on performance (for example quarterly) Water organisation prepares annual report containing audited financial statements, including reporting on actual performance and other matters outlined in the Water Services Strategy. Water organisation required to act consistently with statutory objectives
Borrowing	<ul style="list-style-type: none"> Borrowing arrangements and credit rating implications dependent on whether shareholding councils provide financial support

Illustrative example:



4. Mixed council/consumer trust owned water organisation

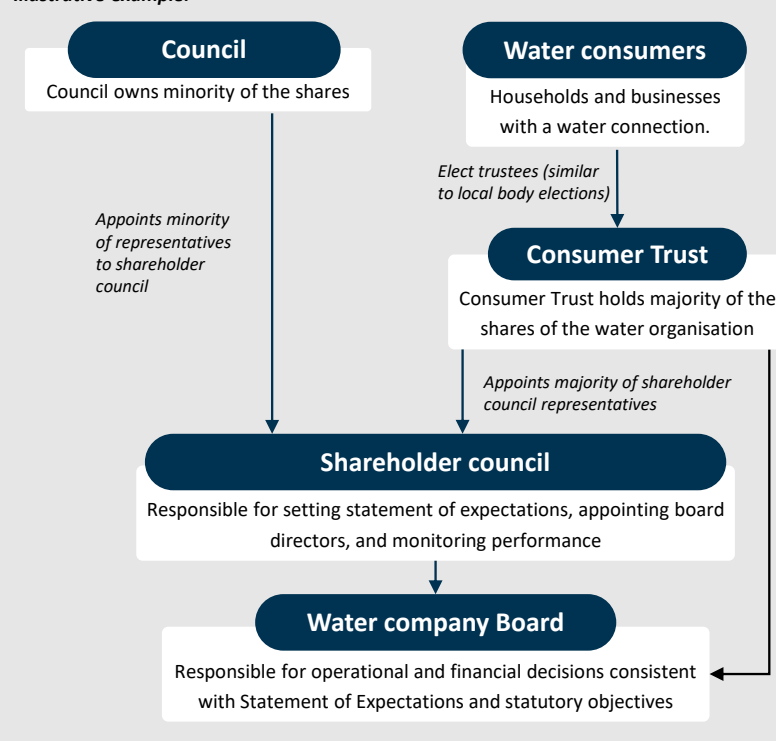
Under this option, one or more councils would establish a jointly-owned water organisation with a consumer trust holding a majority stake.

Councils will have flexibility to establish shareholder rights and interests through a company constitution and/or shareholder agreement upon establishment, subject to compliance with the legislation.

Water consumers elect trustees to the Consumer Trust. That consumer trust is then represented on the shareholder council (along with council representatives) and/or appoints board members directly. Certain restrictions apply to Consumer Trust to protect against privatisation.

Key features	
Ownership	<ul style="list-style-type: none"> Limited liability company owned by one or more councils with consumer trust majority ownership Ownership arrangements and rights set out in constitution and/or shareholder agreement, subject to compliance with legislation
Governance	<ul style="list-style-type: none"> Councils and consumer trust appoint a shareholder council to appoint directors Water organisation governed by independent, professional board of directors
Strategy	<ul style="list-style-type: none"> Shareholders agree the process for issuing a combined Statement of Expectations Water organisation prepare Water Services Strategy and consults shareholders
Accountability	<ul style="list-style-type: none"> Water organisation reports regularly to shareholders on performance (for example quarterly) Water organisation prepares annual report containing audited financial statements, including reporting on actual performance and other matters outlined in the water services strategy. Water organisation required to act consistently with statutory objectives
Borrowing	<ul style="list-style-type: none"> Borrowing would be independent of local authorities (for example banks) and subject to water organisation achieving sufficient credit-quality and track record

Illustrative example:



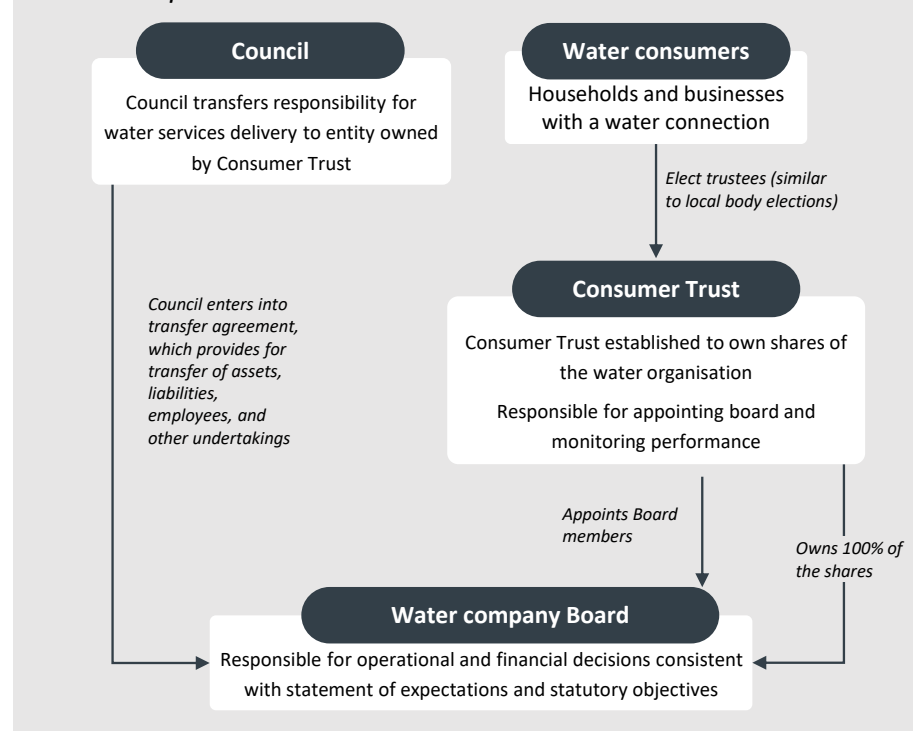
5. Consumer trust owned water organisation

Under this option, one or more councils would establish a wholly consumer trust-owned water organisation, and transfer water assets and responsibility for water services delivery to it.

The council would have no ongoing involvement, as the company board is wholly appointed through the Consumer Trust. Water consumers elect trustees to the Consumer Trust, similar to local body elections.

Key features	
Ownership	<ul style="list-style-type: none"> Limited liability company solely owned by a newly established consumer trust Trust deed is subject to certain minimum requirements to protect against privatisation
Governance	<ul style="list-style-type: none"> Trustees appoints company directors Water organisation governed by independent, professional board of directors
Strategy	<ul style="list-style-type: none"> Trustees issue Statement of Expectations Water organisation prepares Water Services Strategy
Accountability	<ul style="list-style-type: none"> Water organisation reports regularly to trustees and consumers on performance (for example quarterly) Water organisation prepares annual report containing audited financial statements Water organisation required to act consistently with statutory objectives
Borrowing	<ul style="list-style-type: none"> Borrowing would be independent of local authorities (for example banks) and subject to water organisation achieving sufficient credit-quality and track record

Illustrative example:



Summary of features of service delivery models

	1. Internal business unit or division	2. Council-owned water organisation	3. Multi-council-owned water organisation	4. Mixed ownership/ consumer trust owned water organisation	5. Consumer Trust owned water organisation
Ownership	Wholly council-owned as a business unit or division	Wholly council-owned as a separate water services organisation	Ownership shared across two or more councils	Consumer trust owns majority stake in water organisation, with one or more council	Wholly-owned by consumer trust as a separate water organisation
Governance	Internal business unit or division, responsible to Council through established mechanisms under Local Government Act 2002	Councils (and potentially other groups) appoint Appointments and Accountability committee (or can appoint board directly). Council or committee oversee board performance	Councils appoint members to a Shareholder Council, which appoints Board and oversees performance	Councils and trustees appoint a shareholder council to appoint directors	Trustees appoint directors and oversees performance
Strategy	Councils must prepare Water Services Strategy	Parent council issues Statement of Expectations. Water organisation prepares Water Services Strategy.	Shareholders agree process for issuing combined Statement of Expectations. Water organisation prepares Water Services Strategy	Shareholders agree process for issuing combined Statement of Expectations. Water organisation prepares Water Services Strategy	Trustees issue Statement of Expectations. Water organisation prepares Water Services Strategy
Accountability	Water-focused annual reports and financial statements	Reports to owners quarterly, prepares audited annual report, acts consistent with statutory objectives	Reports to owners quarterly, prepares audited annual report, acts consistent with statutory objectives	Reports to owners quarterly, prepares audited annual report, acts consistent with statutory objectives	Reports to owners quarterly, prepares audited annual report, acts consistent with statutory objectives
Borrowing	Council borrows, with water activity groups meeting their share of financing costs (on internal and external borrowing)	Borrowing via council or direct from Local Government Funding Agency with council financial support (guarantee or uncalled capital)	Borrowing direct from Local Government Funding Agency (with financial support from parent councils) or from banks	Borrows independently of local authorities, subject to water organisation achieving sufficient credit-quality and track record	Borrows independently of local authorities, subject to organisation achieving sufficient credit-quality and track record

Miscellaneous

Long-term contracting

Current arrangements under the Local Government Act 2002 enable local government organisations to enter contracts and joint local government arrangements with one another without restriction.

Legislation will ensure that water organisations are also considered to be local government organisations, with the maximum length of contracts to be extended to fifty years.

Extending the limit to fifty years may enable certain types of public-private partnerships, such as 'build, design and operate' contracts, for high capital expenditure assets. The development costs of the asset could be recovered over a longer period or match the economic life of the asset, which can lead to low costs per annum for providing this infrastructure.

Long-term contracting will be an option for all of the delivery models.

Local Government Official Information and Meetings Act 1987

Parts 1 to 7 of the Local Government Official Information and Meetings Act 1987 will apply to water all water service providers. All meetings would be open to the public except for commercially confidential matters or other matters specified in the Act.

Ombudsman

Water service providers would also be subject to the jurisdiction of the Ombudsman.

03 Governance and Accountability

Constitutions and accountability framework

Councils establish constitutions

While constitutions will not be required, they are good governance practice, and it is therefore expected that councils will establish constitutions for water organisations, with content requirements expected to include:

- minimum board size
- rights and process to appoint and remove Directors and Board members, and
- Board member requirements.

There are no restrictions on what can be included within a company constitution provided it meets the requirements of relevant legislation.

To ensure financial separation from councils is maintained, amendment of key features of the constitutions will require agreement by super-majority (75%) of shareholders.

Shareholder council (or similar body)

Shareholding councils may also wish to provide for the establishment of a shareholder council (or similar body) to represent council interests in the entity. This body would support the coordination of multiple council interests and could play a key role in developing shareholder expectations, appointing board directors and overseeing performance.

Establishment of a shareholder council (or similar body) is not a statutory requirement but is advisable to avoid multiple interfaces between the water organisation and its owners.

Members of a shareholder council could be appointed by councils and/or trustees of consumer trusts. Unlike boards, there would be no statutory restrictions on who could be appointed to a shareholder council. The process of appointing a shareholder council could be set out in a shareholder agreement.

Accountability framework

Legislation will provide for a new planning and accountability framework for water services comprising three core components:

- **Statement of Expectations** – to be prepared by shareholders or their representatives (such as shareholder's council), setting out shareholders' general expectations, strategic outcomes, and priorities, including any general guidance to the Board.
- **Water Services Strategy** – this is the primary strategy and planning document for the water organisation, and will set out its strategic priorities, how it will meet regulatory requirements, service standards and financial performance objectives, and will contain projected financial statements and its long-term infrastructure strategy
- **Annual report** – this is the primary accountability document, through which the water organisation is required to report on performance against expectations, service standards and financial performance objectives. The annual report must contain audited financial statements.

The requirements for a Water Services Strategy and Annual Report apply to all water services providers, including local authorities providing services through an internal business unit or division of council.

Statements of Expectations and annual reporting

Shareholders are required to prepare a statement of expectations

Shareholders must prepare a statement of expectations every three years. Any matters contained in the Statement of Expectations must support and align with the legislation and any applicable regulatory requirements.

Water organisations are required to give effect to this Statement, provided it is consistent with its purpose, the water organisation's statutory objectives and other applicable statutory requirements.

Where a water organisation is owned by multiple councils, councils will be responsible for agreeing a process for preparing a joint statement of expectations. This process will not be prescribed in legislation.

An example of this may be the water organisation choosing to prioritise investment in safe drinking water in several jurisdictions (driven by quality regulation) as a higher priority over another jurisdiction where the council would like to invest in wastewater assets.

The purpose of the Statement of Expectations will include:

- stating the expectations, priorities, and strategic direction for the water organisation, and
- informing and guiding the decisions and actions of the board of the water organisation.

Legislation will require the Statement of Expectations to include information on:

- shareholders expectations and strategic priorities for the water organisation
- outcomes the shareholders expect to be achieved through the delivery of water services, and
- any specific requirements and/or obligations that relate to Treaty settlements or other arrangements that are in place with local iwi.

The Statement of Expectations may also include other matters the shareholders may wish to include, including requirements relating to:

- performance expectations
- process for collecting and responding to customer feedback on an organisation's services, and
- community engagement on specific matters of interest.

Annual reporting

Legislation will require water services providers to prepare and adopt an annual report on water services within three months of the end of each financial year

The annual report would include similar content to council annual reports under the Local Government Act, such as:

- an audited statement comparing the capital expenditure budgeted with the amount spent
- an audited statement that compares the level of service achieved in relation to each water activity with the performance target(s) for the activity
- audited financial statements, including GAAP compliant standalone financial statements for each of water supply, wastewater and stormwater.

In addition, for water organisations, the constitution may specify additional reporting requirement for the company to deliver to the company's shareholders, for example quarterly or half-yearly reports on the company's operations.

Water Services Strategy

All providers must prepare a water services strategy

Legislation will include requirements for a Water Services Strategy, which would apply to all forms of water services provider. The purpose of the Water Services Strategy will likely include elements such as to:

- state publicly the activities and intentions of the water services provider, and the objectives and outcomes to which those activities will contribute
- provide transparency about the regulatory requirements and other expectations that apply to the provider (including for financial sustainability), how it proposes to meet those requirements and expectations, and the associated costs and levels of investment needed, and
- provide a basis for the accountability of the provider for its performance.

Process for approving

Strategies are prepared by local authorities or water organisations in accordance with the purpose and objectives set out in legislation (and needs to give effect to regulatory requirements and any statement of expectations)

Where service delivery is through a separate water organisation, shareholder council(s) and any other parties named in the constitution may comment on the draft Water Services Strategy, and the Board must consider these comments before preparing a final version

The Board must approve and deliver to shareholders a final Water Services Strategy before the first financial year to which it relates, and publish it on the council and water organisation websites

Information on water services will not be included in councils' long-term plans. All relevant strategy and planning information related to water services included in the strategy.

Contents of the strategy

Water services providers will prepare a Water Services Strategy every three years covering strategic, operational and financial planning information. This is likely to include matters such as:

- how it intends to give effect to the Statement of Expectations
- its objectives and outcomes, including performance targets and measures
- factors impacting the provider, including population, land use, costs
- the significant activities or work the provider proposes to undertake
- proposed levels of service, including planned changes
- the key risks affecting levels of service, revenue setting and debt availability
- how the provider proposes to obtain feedback from customers
- planned water charges and financing strategy
- forecast financial statements, including forecasts of capital and operating expenditure to meet additional demand, improve the level of service, and replace existing assets
- funding impact statements, identifying the sources and application of funding for each of drinking water, wastewater and stormwater
- significant infrastructure issues over the next 30 years, the principal options for managing those issues, and indicative estimates of the projected capital and operating expenditure associated with management of water infrastructure assets.

The content required to be included in a Water Services Strategy and the process for developing it would be set out in legislation.

04 Charging, borrowing and related matters

Powers to charge customers and debt collection

Charging customers

Legislation will include provisions that enable Boards of water organisations to:

- assess, set and collect water services charges, including charges for any or all of the following:
 - water supply, wastewater, and stormwater (where applicable)
 - the initial connection to one or more of the above services
 - contributions to the capital costs of infrastructure needed to service additional demand on the network, and
 - meeting the costs that the water organisation incurs in performing and exercising its functions.
- determine how charges are assessed and invoiced, when they are due, and how they will be paid or collected.

The Legislation will include a framework to enable water organisations to identify which ratepayers should be charged for water services – which will be based on a modified version of the existing framework in the Local Government (Rating) Act 2002.

Legislation will provide for councils to share relevant billing information with water organisations to enable water companies to contact and bill their customers. Councils will be able to charge a reasonable fee for this service.

When a new water organisation is set up, there may be a transitional period until the organisation has a billing system in place. In this case, councils and water organisations can enter into a voluntary 'pass-through' billing agreement.

The legislation will also enable water organisations to use the development contributions regime in the Local Government Act 2002. This will give water organisations the ability to directly charge developers who place new or

additional demand on water infrastructure, to help recover the capital expenditure that is necessary to service that growth over the long term.

Debt collection powers

Water organisations will not have the same rates collection powers as local authorities and will instead rely on commercial debt practices to collect overdue amounts. This is similar to the situation for Watercare and other regulated utilities.

Powers of receivers

The Local Government Act 2002 and Receiverships Act 1993 contain longstanding provisions that allow a receiver to be appointed where a council defaults on a debt. Among other things, a receiver may collect rates to repay the debt.

New water organisations that borrow independently of Local Government Funding Agency will have similar provisions to ensure receivers can act appropriately in the event that a water organisation defaults on a debt.

New legislation will:

- allow the receiver to assess and collect for a given financial year both the amounts owed by the water organisation for that year and the reasonable costs incurred in collecting that amount
- prohibit the receiver from having any interest or security in water services infrastructure assets, and
- allow the receiver to collect the amount through water services charges assessed on consumers.

In the event of financial distress, relevant provisions of the Corporations (Investigation and Management) Act 1989 will also apply.

Borrowing and credit rating implications

Local Government Funding Agency

The Local Government Funding Agency will be able to provide financing to new water organisations guaranteed by its shareholders in the same way as council-guaranteed council-controlled organisations.

The Government is developing options to enable the Local Government Funding Agency to lend to new water organisations, with the aim to provide confidence to councils in suitable financial solutions.

Borrowing from Local Government Funding Agency, with the support of shareholding councils will provide a transitional step towards water organisations borrowing independently in the future.

This transition path allows time for water organisations to develop sufficiency in their revenue gathering and develop an operating track record.

Foreign currency borrowing

Legislation will explicitly allow water organisations to borrow in foreign currency. This acknowledges that many organisations will need to borrow significant amounts to meet infrastructure costs, expected to exceed the amount of New Zealand-based lending available.

Water organisations will also be allowed to enter into incidental arrangements, such as derivatives and hedges, which allow water organisations to reduce their exposure to currency risk.

Credit rating implications

The impact on local authority credit ratings of establishing a water organisation will depend on a range of factors, including key features of the proposed model adopted, ownership, and financing arrangements (including provision of any council support). Councils who are considering establishing a water organisation should obtain their own advice on the rating and financial implications prior to deciding to establish a water organisation.

With support from Crown Infrastructure Partners and its commercial advisors, the following table has been prepared as an illustrative guide of the hypothetical rating treatment based on certain scenarios and assumptions. Crown Infrastructure Partners is available to answer any questions you have about this indicative rating evaluation, including the assumptions underpinning it.

Model	Council support	Indicative rating treatment	Financing mechanism
Internal business unit or division	N/A	On balance sheet*	LGFA
Single-council water organisation	N/A	On balance sheet*	LGFA
Multi-council water organisation (with council support)	Parent council provides guarantee	Contingent liability*	LGFA
Multi-council water organisation (with no council support)	No support from parent	Contingent liability*	Banks and/or capital markets
Mixed ownership	No support from parent	Contingent liability*	Banks and/or capital markets
Consumer Trust-owned	No support from parent	Off balance sheet	Banks and/or capital markets

* Impact on council credit rating depends on council and/or water organisation revenues and debt.

Distributions, taxation and related arrangements

Distributions

Local authorities will be able to decide whether to permit water organisations to make distributions or pay dividends to shareholders, and in what circumstances, when they establish a water organisation. Should councils wish to prevent a water organisation from making distributions to shareholders, this can be provided for in the company constitution. Economic regulation will, in certain circumstances, include a focus on the appropriateness of water charges and revenues, including considering the appropriate return on capital.

Tax status of water organisations

Most new water organisations will be exempt from income tax. This is because water organisations are not primarily engaged in commercial activities with a profit-making objective and will be owned by councils or consumer trusts.

If a water organisation is wound up, there will be a requirement that assets must be transferred to another water organisation or to a council on wind-up. This ensures that a taxable consumer trust or private shareholder would not receive any of the water organisation's assets (including any untaxed accumulated gains).

Exemptions from minimum requirements, outlined earlier, may affect a water organisation's tax status if they no longer meet the criteria for the income tax exemption. If a water organisation has a shareholder that is not tax exempt (such as a consumer trust that does not have charitable status) it may not be granted tax exempt status.

Rateability of land and assets owned by water organisations

Land transferred to water organisations will be rateable. Legislation will require land owned by water organisations, and assets that are owned by the organisation but located on or under land the organisation does not own, should be rateable. This aligns with the way that land and assets of other network providers, such as electricity and telecommunications companies, are rated.

Councils may elect to remit those rates if they decide that the water organisation, which they will likely be shareholders in, should not have to pay them.

Civil Defence Emergency Management cost-sharing arrangements

Legislation will ensure that Civil Defence Emergency Management cost-sharing arrangements with the Crown would apply directly to water organisations. This will ensure financial separation of water organisations and allow them to directly seek partial reimbursement from the Crown for emergency expenses.

Modernised powers and stormwater services

Modernised powers to carry out work on land and control connections

Legislation will include modernised provisions relating to water infrastructure and service including:

- Powers for water service providers to control connections to water services and infrastructure. These are powers that enable councils to approve connections by private individuals or businesses to water supply, wastewater and/or stormwater infrastructure, and include the ability to set design or engineering requirements.
- Powers for water service providers to carry out work on land in relation to water services infrastructure. These are powers that are required by all kinds of utility providers (water, telecommunications, electricity, and gas) to ensure infrastructure can be constructed or maintained, particularly where it is on private property or underground.
- An updated approach to the bylaws relating to water services. The current system of bylaws will be replaced or supplemented with new, fit-for-purpose statutory provisions, including requirements for management plans and enforcement rules. This will enable more effective and consistent management, while still addressing local issues and needs.

These changes will allow water services providers to control and protect drinking water catchments and manage trade waste. The legislation will include transitional provisions to provide for how local authorities and water services providers will transition to the new system over time.

Arrangements for the management and delivery of stormwater services

Councils will retain legal responsibilities for the management of stormwater services, but that can choose to:

- continue to deliver stormwater services in-house and contract aspects of stormwater service delivery to a new water organisation
- transfer aspects of stormwater service delivery (this might include stormwater network assets*) to a water organisation, and
- contract aspects of stormwater service delivery to a third-party provider, via long-term contract or public-private partnership.

Councils can determine the levels of service and performance targets for the delivery of stormwater management services. Water service organization identify the costs of delivering stormwater management services that meet the expected levels of service and meet performance targets.

Councils will continue to collect revenue through rates from residents and businesses for stormwater management services. Revenue for the delivery of stormwater management services is identified separately within council's accounts (ring fenced). Depending on the stormwater management services that are contracted or transferred, the revenue collected through rates may be allocated between councils and water service delivery vehicles to deliver stormwater service outcomes.

* Councils will need to consider this on a case-by-case basis as part of any transfer arrangements, including whether or not it is appropriate to transfer any assets as well as determining appropriate funding mechanisms.



Wellington Region Water Services Delivery Planning

Recommended regional approach to a joint Water Services Delivery Plan and delivery model

October 2024



LIMITATIONS AND DISCLAIMER:**Purpose of the report**

This report aims to provide information to support decision making by councils on whether to develop a joint Water Services Delivery Plan (WSDP), and joint delivery model with other councils in the region.

The report does not represent the position of any of the councils involved in this process. Rather, it outlines a recommended 'best for region', concept-level delivery model for a regional Water Services Council Controlled Organisation (WSCCO) to deliver water services in the region, should councils decide to adopt this approach. It follows the requirements of Government policy and legislation and provides a robust strategic-level analysis of the case for change and investment required. This report is not intended to fulfil the statutory requirements for a WSDP nor be a basis for investment decisions. A full WSDP along with further development and decisions on the proposed delivery model will need to be developed by councils later, based on the confirmed approach and in line with the requirements of legislation. Councils will need to separately consider and evaluate alternative options in relation to the recommended model to inform decision making.

Limitations of information and analysis

The analysis set out in this report in relation to the current state of the water services network has been based on best available information and is intended as a strategic and directional-level analysis to inform decision making on an approach to a WSDP, rather than the level required to complete a WSDP or to inform investment decisions. Where possible, the sources and limitations have been noted. As new or more robust information becomes available, this will be used to further inform and refine the analysis. Key assumptions, sources of information and levels of confidence are set out in Appendix C. This includes how information has been verified where possible, including through discussions with council officers and Wellington Water (WWL) staff to ensure accuracy and correct interpretation. There are a number of documents referenced in this report, (such as the draft Entity G Asset Management Plan) that were developed by the Department of Internal Affairs (DIA) but never finalised. These have been relied upon in the absence of other information in order to significantly reduce the time and costs of this process. As noted, reasonable efforts have been made to cross-check such information with other sources.

It should be noted that:

- Forecasts almost always turn out incorrect, especially over a 30-year horizon.
- There is great difficulty in estimating investment requirements over the next 30 years, given poor information on asset condition, lack of detailed engineering assessment of what is required to address water quality to match the proposed water quality standards, and uncertain growth investment.
- Choices need to be made over a myriad of modelling approaches, inputs, and assumptions that reasonable minds may disagree with over some decades.
- There is a range of decisions yet to be made and legislation to be enacted to give effect to reform of water services.
- All modelled network economics figures should assume to have a +/-20% accuracy, such as in relation to revenue, investment and debt over the 30-year period, which is considered a sufficient level of accuracy for strategic decision-making purposes at this stage. Some of these, such as the available asset condition metrics, are known to be weak.
- However, based on the analysis of information and cross-checking, there is a relatively high level of confidence that the analysis is directionally correct and sufficiently robust to support the strategic level of analysis in this report and the decision making that it is intended to support.
- As noted, the detail will be subject to ongoing refinement and change as more accurate, specific information is identified and councils complete the required detail in a WSDP.
- This analysis and report structure is aligned with the requirements of the Local Government (Water Services Preliminary Arrangements) Act 2024 in relation to the content of a WSDP as outlined in Appendix A.

Prepared by:	Scott Consulting Ltd
Prepared for:	Councils in the Wellington Region and Horowhenua District
Date:	4 October 2024
Status:	Final report for release

Contents

Abbreviations	6
Foreword	7
Executive Summary.....	8
Purpose of this report	15
Section summary.....	15
1. Purpose of this report.....	15
2. Legislative requirements	16
3. Council decisions	18
Regional approach	19
Section summary.....	19
4. Wellington Region and the Horowhenua District.....	19
5. Challenges and change for local government	21
6. A regional approach to water services delivery planning	22
7. What is important for our region.....	23
8. The role of Greater Wellington Regional Council.....	25
9. Engagement and consultation	26
Current state of the network and case for change.....	27
Section summary.....	27
10. An agreed need for change	28
11. Summary of key regional challenges	29
12. Summary of key issues by council.....	32
13. Current state of the water services network	35
14. Current levels of service and delivery models	39
15. Enabling growth	44
16. Compliance	48
17. Current and required expenditure and funding	50
Options and recommendations for a regional delivery model	53
Section summary.....	53
18. Process to test options for a joint WSDP and joint delivery arrangements	54
19. Type of model	54
20. Design principles and assumptions	56
21. Ownership and governance	60
22. Treaty obligations, principles and partnership	63
23. Joint arrangements and stormwater management.....	64
24. Customer model and local service delivery	66

25. Capability and capacity development	67
Financial sustainability of water services	69
Section summary	69
26. Financial sustainability.....	70
27. Approach to modelling	71
28. Scenarios	71
29. Investment sufficiency - Level of investment required.....	73
30. Revenue sufficiency - Revenue required and affordability	75
31. Financing sufficiency - Financing and borrowing.....	77
32. Potential for efficiency gains and economies of scale	79
Evaluation of the recommended regional delivery model	81
Section summary.....	81
33. Assessment of options	81
34. Evaluation of recommended model	81
35. Other key assumptions	87
36. Other key risks and challenges	87
Implementation considerations	89
Section summary.....	89
37. Next phases of work	89
38. Implementation plan.....	91
39. Engagement and consultation	91
40. Indicative time and cost for Phase 2.....	92
41. Indicative timeline and cost for Phase 3 – establishment of a WSCCO	94
42. Key transition principles	94
43. Next steps	96
Appendices	98

Abbreviations

AOG	Advisory Oversight Group
AMP	Asset Management Plan
Bill 3	Local Government Water Services Bill (expected to be introduced in December 2024)
CCO	council-controlled organisation
COC	council-owned company
DIA	Department of Internal Affairs
EoSL	end of service life
FDS	The Wairarapa-Wellington-Horowhenua Future Development Strategy 2024–2054
FFO	funds from operations
FTE	full time equivalent
FY	financial year
GDP	gross domestic product
GWRC	Greater Wellington Regional Council
HBA	2023 Wellington Regional Housing and Business Capacity Assessment
LGA	Local Government Act 2002
LGFA	New Zealand Local Government Funding Agency
LGOIMA	Local Government Official Information and Meetings Act 1987
LOS	level of service
LTP	Long-term Plan
MoU	Memorandum of Understanding
NPS-FM	National Policy Statement for Freshwater Management
pa	per annum
Preliminary Arrangements Act	The Local Government (Water Services Preliminary Arrangements) Act 2024
WICS	The Water Industry Commission for Scotland
WSCCO	water services council-controlled organisation
WSDP	water services delivery plan
WSS	water services strategy
WWC	Wellington Water Committee
WWL	Wellington Water Limited

Foreword

Everyone in the Wellington Region relies on our water services. These are critical to enable the health, well-being and economy of our towns and cities. However, it is also very easy to take water for granted, until something goes wrong.

All of us in the region have directly experienced some of the issues we face with our water services – whether that is an old water pipe bursting on a Wellington street, water shortages meaning you can't water your garden over summer or the impacts of stormwater or sewage on swimming spots.

Our drinking water, wastewater and stormwater services need fixing. We know it will be expensive and will take an ongoing effort. We want to ensure safe, reliable and sustainable water services so the Wellington Region can be more resilient, restore Te Mana o te Wai, enable new homes to be built, and safeguard the well-being of our communities.

The overall state of our water services network is simply not good enough. Water supply services are often unreliable, with old pipes resulting in about half of the water supply for the metropolitan area being lost through leaks.

We know our region has a significant backlog of investment in three waters infrastructure. To address this, enable new housing growth and maintain the network, we estimate for the greater Wellington area, about \$15-\$17 billion needs to be invested in water infrastructure over the next 20-25 years.

If delayed, we risk significant network failure, further deterioration and increased costs for more 'fixes'. We won't be able to build the 99,000 new homes that are needed across the region for a growing population. Our major wastewater treatment plants will continue to fall short of environmental standards and our drinking water supplies may be compromised. And we push this issue on to future generations.

There is no easy fix. The Government is putting in place legislation which will change how we manage water and is changing funding limits so councils can address the issues we face. Councils must make some bold and brave decisions with the backing of our communities. We need to be confident that we are making the best choices to address the critical challenges, that are deliverable and financially sustainable.

There is a need to increase revenue and effective use of borrowing to ensure cost increases are more affordable for households. This will be a significant challenge and will need to be carefully managed working with the water sector to find ways to do this work more efficiently.

While different parts of the region may have different priorities, all of us face issues with water services. This is everyone's problem, and it makes sense for us all to work together to turn the tide.

Taking a broader regional view will give councils confidence to make some hard decisions in the best interests of our region as a whole. This document aims to support this process. Many options have been worked through to find a better pathway forward. I urge both council officers and elected members to carefully consider the recommendations here.

I would like to extend my thanks to members of the Advisory Oversight Group and everyone involved in this report, which has been shaped by many people's expertise and hard work. It is an example of how well we can work together.

"Nāu te rourou, nāku te rourou, ka ora ai te iwi – With your food basket and my food basket, the people will thrive."



Dame Kerry Prendergast
Chair of the Advisory Oversight Group

Executive Summary

Troubled waters

Water services in much of New Zealand, including the Wellington Region, are suffering long-standing and serious challenges, mainly due to a lack of sufficient investment over a long period. Transformational reform is needed with significant and sustained investment over coming decades to fix the network, which is at risk of critical failure in places. Urgent attention is also needed to enable new housing growth, provide safe drinking water, improve environmental water quality and enhance resilience.

The Government is introducing legislation to address New Zealand's water services, with a requirement that all local councils and Greater Wellington Regional Council (GWRC) must prepare a Water Services Delivery Plan (WSDP) by September 2025. This may include establishing a new organisation to deliver water services.

Councils within the Wellington Region face some stark decisions and challenges in preparing a WSDP and meeting all the requirements and investment needed to improve water services, including drinking water, wastewater, stormwater, infrastructure and storage.

The purpose and limitations of this report

Under the Local Government (Water Services Preliminary Arrangements) Act 2024 (the Preliminary Arrangements Act), councils need to confirm their approach to a WSDP – whether they want to develop a joint WSDP with other councils and the extent of any joint arrangements; for example, for all or only some water services.

This report aims to provide information to support decision making by councils on whether to develop a joint WSDP, and joint delivery model with other councils in the region.

The report does not represent the position of any of the councils involved in this process but rather outlines a recommended 'best for region', concept-level delivery model for a regional Water Services Council Controlled Organisation (WSCCO) to deliver water services in the region, should councils decide to adopt this approach.

In the course of the decision-making process on the WSDP, councils must assess both their existing service delivery model and the option of establishing, joining or amending a WSCCO or a joint local government arrangement. If they choose, they may also consider other options for delivery of water services. The assessment of (at least two) alternatives needs to be credible with sufficient information to ensure decision-makers can reach a properly informed view.

This report does not deal with the assessment of the status quo delivery model in each district, or potential options for delivering water services other than the recommended model, as these are matters for each council to consider.

The report follows the requirements of Government policy and legislation and provides a robust strategic-level analysis of the case for change and investment required. This report is not intended to fulfil the statutory requirements for a WSDP nor be a basis for investment decisions. A full WSDP will need to be developed by councils later along with further development and decisions on the proposed delivery model, based on the confirmed approach and the requirements of Bill 3 (Local Government Water Services Bill).

A regional approach

The nine councils within the Wellington regional area, and Horowhenua District Council, signed a Memorandum of Understanding (MoU) in May 2024 to work together on a joint WSDP process. This included GWRC on the basis of its role as bulk water provider to the Wellington metropolitan area.

An Advisory Oversight Group (AOG) was established with elected member representatives and Iwi/Māori partners. This is supported by a Chief Executives' steering group, project team, joint budget and an agreed development process. The councils and Iwi/Māori partners made a commitment to work together through a collaborative and non-binding process, which does not transfer any formal decision-making responsibilities or delegations from any council. Each council within the Wellington Region still needs to make their own decisions on a WSDP and a preferred model for delivering water services in future.

The AOG has helped to test options and provide direction on a set of key requirements for a possible regional WSDP. They identified an agreed goal to: *ensure the delivery of safe, reliable, environmentally and financially sustainable water services so the region can be resilient, restore Te Mana o te Wai, and enable new homes and the well-being of communities.*

Current state of the network and case for change

Every day, millions of litres of safe drinking water are delivered to homes across the region and millions of litres of wastewater are safely treated and discharged. This relies on the hard work and dedication of more than 1,000 local people, who work directly on three waters networks for councils, Wellington Water Limited (WWL) and a range of partners, contractors and suppliers. Their day-to-day mahi and commitment to water services on behalf of the people in the region should be recognised and celebrated.

However, the Wellington Region also faces significant failure and deterioration in water infrastructure, with a risk of network fault runaway¹ in parts of the network. There are significant constraints to growth and new housing in many areas, with the need to meet regulatory standards and compliance requirements for water, and to build better seismic, network, and climate resilience. Challenges with current delivery models include lack of scale, workforce skills and capacity, and funding.

While not all councils have the same issues, all councils in the region have major challenges to address. About 45% of all drinking water in the metropolitan area of Wellington is lost to leaks. While the quality of asset condition information is very poor, across the region an average of about 21% of the total three water pipe infrastructure has been assessed as worn out. Wastewater is generally in the worst condition with about 33% of the pipes worn out. Many wastewater treatment plants are failing to meet compliance requirements and need large-scale replacement or investment, with immediate risks of structural failure of some wastewater pipes.

The costs for repairing and strengthening regional water services will be substantial. To address the backlog of investment needed in three waters infrastructure, to enable growth and maintain the network, it is estimated about \$15-\$17 billion of investment in the water network will be required over the next 20-25 years.

While councils are planning significant investment to manage these risks, combined Long-term Plan (LTP) investment over the next ten years is about \$4.82 billion (real), which is approximately \$470 million (or about 10%) less than the estimated investment required based on the recommended investment strategy in this report over the next 10 years and about 30-40% less than what will be required, on average over the next 20-25 years.

¹ Network fault runaway occurs when the operational capacity to fix faults is exceeded by the fault rate. The consequences of this include extended periods of water outages, sewage spills, and localised flooding.

The evidence in this report confirms the need for change. The status quo cannot continue and, under the requirements for developing a WSDP, councils will need to make some difficult choices about how to fund and deliver the urgent work needed on the three waters network and demonstrate financial sustainability by 30 June 2028.

Options and recommendations for a regional delivery model

The process has included working through a range of options and considerations to inform 'best for region' options for a joint WSDP and a concept-level design for a future delivery model. The councils have taken a collaborative approach, facilitated by a joint regional team, based on a series of workshops with the officers, council Chief Executives and the AOG to consider options and alternatives, provide feedback and direction.

This process has included:

- confirming what success looks like through identification of the key requirements for councils and a shared goal,
- consideration of the state of the network, level of investment required and case for change,
- consideration of how financially sustainable delivery of water services will be achieved by 30 June 2028,
- testing a range of possible structures and models for a joint WSCCO, including in-house delivery models; Council Controlled Organisation (CCO); a consumer trust; and a private sector option (which was not supported due to opposition to the privatisation of water), and
- development of governance and oversight arrangements, including design principles and assumptions for a new entity, including the relationship between the proposed WSCCO, councils and other key players.

While the model will need to be fully designed and confirmed in subsequent phases of work in line with Bill 3, **the recommended delivery model is for a joint council-owned company, (that is, a full-breadth water utility vested with ownership of all regional water assets, revenues and liabilities)**. This would have a similar structure to a CCO under the Local Government Act 2002 (LGA) but with reduced council oversight, enabling the company to have greater control and certainty over investment plans and clarity of accountability.

The entity would be within the new class of financially independent water CCOs, which according to Government policy announcements on 8 August 2024, will be provided for in Bill 3 to be introduced into Parliament in December 2024.

The new WSCCO model will operate in a much more regulated environment, providing a strong focus on assurance, quality, delivery and value for money. The primary relationship of a WSCCO will be with its customers, not its shareholders (or owners). Council direction and oversight would therefore be less than under traditional CCO models. The new entity needs the independence and accountability to deliver. A skills-based Board with a clear set of competencies is at the heart of the recommended governance model.

Councils are keen to ensure that any future regional WSCCO will provide a high level of local service delivery, including good compliance, response times and supply. The new WSCCO would provide all services directly to water customers and bill them for water usage and services provided.

Financial sustainability

A WSDP will need to demonstrate how financially sustainable delivery of water services will be achieved by 30 June 2028. This requires confirmation of:

- ‘investment sufficiency’ – projected investment is sufficient to meet levels of service, regulatory requirements and provide for growth,
- ‘revenue sufficiency’ – sufficient revenue to cover the costs (including servicing debt) of water services delivery, and
- ‘financial sufficiency’ – funding and financing arrangements are sufficient to meet investment requirements.

This document does not provide this level of detail but does provide a strategic level of analysis of these matters to ensure councils to have sufficient understanding of the level of investment required and a potential pathway to financial sustainability including opportunities to use new financing arrangements to help manage cost increases.

The new entity would be able to raise significant long-term debt. The Government recently confirmed that the New Zealand Local Government Funding Agency (LGFA) will:

- provide financing and increased levels of borrowing to support WSCCOs,
- treat borrowing by water organisations as separate from borrowing by parent council or councils, and
- lend to multiple-owned water organisations, that are financially supported by the parent councils. It is important to note that financially supported means either a guarantee or uncalled capital will be required from councils to match the liabilities of the water CCO.

After consideration of a range of investment scenarios, the recommended investment strategy to ensure financial sustainability is based on increased debt and pricing to enable an investment programme that will ‘**keep up**’ with network maintenance, ‘**catch up**’ on the backlog of worn-out infrastructure, ‘**build up**’ network capacity to enable growth and ‘**clean up**’ wastewater and stormwater to improve discharge standards by upgrading assets as they are replaced at end-of-life.

To ensure that this strategy is affordable, careful use of long-term financing will be required to smooth and balance cost increases over time. This is expected to result in a more affordable rate of increased costs to water consumers than would otherwise be possible under current local government funding arrangements.

It is estimated that it will take about 20-25 years to replace worn-out parts of the network and ensure substantial environmental compliance. It is also possible to extend the time for this catch-up period, which may result in lower costs but is likely to result in increased risk of network failure and consequential failure and repair costs.

The actual investment and therefore financial strategy and price path will be informed by development of the WSDP and then implemented by a WSCCO. This will be done in the context of a new economic regulator that will have a strong focus on quality and price based on the actual cost to provide sustainable networks and services.

A range of scenarios has been modelled to provide an indication of average potential price increases across the region and do not reflect the actual cost to serve a particular local area, existing prices or an agreed price transition. Under all scenarios modelled, prices will need to increase to address the backlog of investment needed. Price rises will need to be managed through the use of financing tools and effective and efficient targeting of the works required. Based on the scenarios modelled:

- Price rises could be up to 9% per annum on average across the region to address the backlog of investment in the network. This rate of price increase will need to be managed through financing arrangements and/or the level of investment undertaken.

- The average price per connection across the region in 2024 is \$1,711². The amount that this increases could be up to twice current prices or a peak of about \$3,000 to \$4,000. However, it may be possible to reduce this peak price through financing arrangements and a sustainable price is estimated at about \$2,596 when the catch-up phase is completed in about 20 years' time. This sustainable price is about 51% above the level of current charges, meaning that this level of increase could be gradually managed over time.

To manage affordable changes in prices, key assumptions include:

- Economic regulation will include a core principle that water prices must be based on the cost to provide services to the relevant group of customers.
- The WSCCO will need to work with the economic regulator to develop and agree a pricing and revenue strategy that will balance price and quality.
- The WSCCO will use LGFA financing arrangements and additional debt headroom to manage rate of cost increases.
- People across our region currently pay different amounts for water services depending on where they live and whether water use is metered. These existing price differentials will be locked in for a three-year transitional period to help ensure that consumers do not receive a major price shock.

Evaluation of the recommended model and benefits

All councils will need to assess both the WSCCO model and the status quo, and if they choose, other service delivery options during their decision-making process.

This report does not deal with those assessments, but rather evaluates a recommended regional option in relation to the key requirements and other key factors, including the Government's minimum requirements, cost to implement, risks, level of benefits and political acceptability. For each factor, the relevant benefits, risks, challenges and key assumptions have been identified.

This evaluation will help councils to undertake a comparative analysis in relation to the status quo and any other identified options.

Some of the identified benefits of the recommended model include:

- ongoing public ownership through shareholding councils,
- replacement of about 44% of the network over the next 20 years,
- new homes and growth,
- better resilience,
- scale to enable efficiency and continuous improvement,
- focus on affordability through more effective use of funding and financing arrangements than are currently available to local councils,
- better compliance and network performance through more investment,
- customer focus and local delivery,
- clarity of accountability, and
- long-term approach to planning and investment.

² Based on 2024 costs.

Implementation considerations

Legislation requires councils to have a WSDP by September 2025. Therefore, decisions on subsequent phases of work to consider a joint WSDP and WSCCO are expected to be made on an in-principle basis by late 2024 to enable this work to be progressed.

Work from late 2024 will need to focus on development and delivery of the WSDP. Councils will need to undertake communications, engagement and formal consultation (on at least the part of the WSDP that outlines the proposed service delivery model) during this time, as well as implementation planning. This will involve some significant decision making in relation to the development and adoption of a WSDP that meets councils' legislative obligations, as well as establishing any joint arrangements for the delivery of water services, with early establishment resources, accountabilities and funding.

The draft regional WSDP will need to be aligned with the legislative requirements and will include asset condition information and a related AMP; funding, financing and revenue requirements; the proposed model for delivering water services, including meeting compliance requirements; and an implementation plan, including timeframes and milestones.

Implementation planning will consider the potential establishment of a large full-service, multi-council-owned WSCCO, which would be entrusted with the stewardship of critical regional assets with a replacement value of about \$19 billion. This will also have a significant impact on councils including future role, operating model, financial arrangements and scale.

Details regarding the structure, accountabilities, decision-making rights and resourcing will need to be finalised. Decisions will need to be made on a high-level operating model and organisational design, a service delivery model, change process and strategy, as well as information systems, legal, procurement, costs, budget and funding. The strategy, processes and principles will also need to be established for debt and asset transfer, pricing, contract transfer, people transition, customer experience and billing. This report gives an indicative timeline and costs, with key transition principles that will need to be followed.

Next steps

The recommended regional model is well aligned with the key requirements set by councils, legislation and recent Government policy announcements.

To meet the legislated deadline, councils need to maintain momentum by:

- considering the recommended regional model and deciding whether to develop a joint WSDP with other councils,
- assessing status quo, an alternative model (may or may not be recommended regional model) and, if they choose, additional reasonably practicable alternatives,
- making in-principle decisions on the proposed model by late 2024 in order for this to be further developed,
- consulting on draft WSDP (at least on proposed delivery model) from late 2024 and into 2025,
- considering the implications for council, including the need to amend the LTP,
- adopting the WSDP (and any LTP amendment), and
- planning for implementation of WSDP in 2025 (especially if the new model is adopted).

Table 1: Summary of recommended regional model

Aspect	Key features
Councils and ownership	<ul style="list-style-type: none"> Public ownership through council-owned organisation. Ownership rights in constitution/shareholder agreement. Full-breadth water utility with ownership of all regional water assets, revenues and liabilities.
Governance	<ul style="list-style-type: none"> Empowered to operate independently with ability to prioritise investments. Shareholders' panel appoints an independent, skills-based Board (not representative-based Board). Key skills: commercial, asset management, network utilities, Treaty of Waitangi, customer, local government, and local knowledge.
Iwi/Māori	<ul style="list-style-type: none"> Treaty of Waitangi obligations are honoured. Governance role confirmed through constitution. Range of enduring relationships and Memorandum of Understanding.
Customer	<ul style="list-style-type: none"> Key relationship is with customers including service and billing. Customer interests supported by economic regulator. Local service delivery model backed by capability and scale to deliver efficiency.
Strategy	<ul style="list-style-type: none"> Shareholders agree Statement of Expectations. WSSCO prepares Statement of Intent, Annual Plan and Water Services Strategy (WSS).
Accountability and regulation	<ul style="list-style-type: none"> Statutory objectives per Bill 3. Annual reporting and public meetings. Oversight from regulators – Taumata Arowai, Commerce Commission, Regional Council(s). Single point of accountability for service delivery. Financially sustainable and compliant with regulation.
Borrowing	<ul style="list-style-type: none"> Borrowing initially from LGFA based on debt covenants. Focus on affordability through effective use of funding and financing arrangements. Certainty to plan, fund and invest optimally with confidence that it has committed access to long-term funding at a reasonable cost.

Purpose of this report

Section summary

The Government is in the process of introducing legislation to address New Zealand's long-standing water infrastructure challenges. This includes a requirement under the Preliminary Arrangements Act that councils must prepare and submit to the Secretary of Local Government a WSDP by September 2025.

This report aims to provide information to support decision making by councils on whether to develop a joint WSDP and joint delivery model with other councils in the region.

It follows the requirements of Government policy and legislation and provides a robust strategic-level analysis of the case for change and investment required. The report does not represent the position of any of the councils involved in this process but rather outlines a recommended 'best for region', concept-level delivery model for a regional WSCCO to deliver water services in the region, should councils decide to adopt this approach.

This report is not intended to fulfil the statutory requirements for a WSDP nor be a basis for investment decisions. A full WSDP will need to be developed by councils later, based on the confirmed approach.

This report outlines a recommended delivery model for a regional WSCCO to deliver water services in the region, should councils decide to adopt this approach.

It is not intended to support other subsequent decisions by councils which may be necessary, such as whether to adopt a WSDP. Such decisions will be supported by further analysis and advice.

1. Purpose of this report

This report was commissioned by the nine councils in the Wellington Region and Horowhenua District Council to respond to the direction of the Government's Local Water Done Well³ policy. This collective approach is discussed in more detail in the Regional Approach section of this report.

Local Water Done Well signalled an expectation that councils would prepare a WSDP within 12 months of legislation providing for the WSDP being enacted and that councils would consider collective approaches to the delivery of financially sustainable water services.

The purpose of this report is to provide information to support decision making by councils on whether to develop a joint WSDP, and joint delivery model with other councils in the region. Councils will need to separately consider and evaluate at least the status quo and may also consider other alternative options in relation to the recommended model to inform decision making.

³ <https://www.dia.govt.nz/Water-Services-Policy-and-Legislation>.

This report provides a regional analysis of:

- **Current state of the network and case for change.** This looks at why change is needed and the scale of the problem. This includes analysis of the level of investment required to fix the poor condition of much of the network, maintain the network, enable new housing, and ensure compliance with drinking water and environmental regulation.
- **Options and recommendations for a regional delivery model.** This includes a range of considerations for different types of models, governance and delivery. This section sets out a recommended concept model for a new WSCCO and looks at the importance of quality local service.
- **Financial sustainability of water services.** This outlines an investment strategy and potential financing arrangements to demonstrate how financially sustainable delivery of water services can be achieved by 30 June 2028 including investment, revenue and financing sufficiency.
- **Evaluation of the recommended regional delivery model.** This considers how well the recommended model meets key requirements as well as an assessment of key benefits, challenges and risks.
- **Implementation considerations.** This includes indicative time and costs, engagement and consultation with the community and looks at 'where to now'.

Limitations and disclaimer

Please refer to the limitations noted on page 2 of this report. In particular, it is noted that this report provides a strategic-level analysis of the case for change, a concept-level design for a recommended delivery model for a regional WSCCO, which councils will be empowered to establish under the Local Government Water Services Bill (Bill 3), and an investment strategy to inform how financially sustainable delivery of water services can be achieved by 30 June 2028 including investment, revenue and financing sufficiency.

This report is **not** intended to fulfil the requirements of a WSDP nor provide the basis for investment decisions or future pricing. Development of a full WSDP will need to be completed by councils during late 2024 and 2025 based on the confirmed approach.

2. Legislative requirements

Local Water Done Well is the Government's plan to address New Zealand's long-standing water infrastructure challenges.

It recognises the importance of local decision making and flexibility for communities and councils to determine how their water services will be delivered in the future.

It will do this while ensuring a strong emphasis on meeting economic, environmental and water quality regulatory requirements. Key components of Local Water Done Well include:

- Fit-for-purpose service delivery models and financing tools.
- Ensuring water services are financially sustainable.
- Introducing greater central government oversight, economic and quality regulation⁴.

Local Water Done Well is being implemented in three stages, each with its own piece of legislation.

Bill 1: Water Services Acts Repeal Act 2024. This repealed the previous Government's water reforms legislation.

⁴ <https://www.dia.govt.nz/Water-Services-Policy-and-Legislation>.

Bill 2: The Local Government (Water Services Preliminary Arrangements) Act 2024 establishes the Local Water Done Well framework and the preliminary arrangements for the new water services system. This was enacted on 2 September 2024.

The Preliminary Arrangements Act lays the foundation for a new approach to water services management and financially sustainable delivery models that meet regulatory standards.

Key areas included in the Preliminary Arrangements Act are:

1. Requirements for councils to develop WSDPs by 3 September 2025.
2. Requirements that WSDPs outline future water services delivery arrangements, and for councils to commit to an implementation plan.
3. Requirements for councils to include in their WSDPs baseline information about their water services operations, assets, revenue, expenditure, pricing, and projected capital expenditure, as well as necessary financing arrangements, as a first step towards future economic regulation.
4. Streamlined consultation and decision-making processes for setting up future water services delivery arrangements.
5. Provisions that enable a new, financially sustainable model for Watercare, including the appointment of a Crown monitor for the interim regulation of Watercare.
6. Interim changes to the Water Services Act, which mean the Te Mana o te Wai hierarchy of obligations in the National Policy Statement for Freshwater Management (NPS-FM) will not apply when Taumata Arowai sets wastewater standards.

Bill 3: In August 2024 the Government outlined key Local Water Done Well policy decisions, including those that will be reflected in the proposed Local Government Water Services Bill (Bill 3).

The Government will introduce Bill 3 in December 2024 that will establish the enduring settings for the new water services system. This will set out a range of changes to the water services delivery system and to the water services regulatory system. This includes:

- New water services delivery models for councils to choose from, including new water organisations that can be owned by councils and/or consumer trusts,
- Minimum requirements for local government water services providers,
- A new economic regulation regime for local government water services providers, to be implemented by the Commerce Commission,
- Changes to improve the efficiency and effectiveness of the drinking water regulatory regime, and the approach Taumata Arowai takes to regulating the regime,
- Changes in the approach to applying Te Mana o te Wai, affecting drinking water suppliers as well as wastewater and stormwater networks,
- A new approach to managing urban stormwater, including changes to improve the management of overland flow paths and watercourses in urban areas, and
- Changes relating to wastewater environmental performance standards and national engineering design standards.

The announcements in August 2024 included confirmation of financial arrangements that the LGFA will provide financing to support water council-controlled organisations⁵ (CCOs and trusts). LGFA will extend its existing lending to new water organisations that are CCOs and are

⁵ 'Water services provider' is defined as meaning all forms of local government provider and including councils that continue with direct (in-house) delivery as well as new water organisations. The term 'water organisation' refers only to separate organisations that councils may establish to provide water services and does not include councils with direct (in-house) delivery.

financially supported by their parent council or councils. It is important to note that financially supported means either a guarantee or uncalled capital will be required from councils to match the liabilities of the water CCO.

LGFA will support leverage for water CCOs based on an assessment of operating revenues, subject to water CCOs meeting prudent credit criteria. LGFA will treat borrowing by water CCOs as separate from borrowing by their supporting parent council or councils. These same lending arrangements would not apply to in-house delivery models.

3. Council decisions

Under the provisions of the Preliminary Arrangements Act, councils need to make a series of decisions. Some of these will be decisions required under the LGA, or the Preliminary Arrangements Act, while others will be non-statutory.

These non-statutory decisions may be tactical decisions to inform the project scope and approach, or strategic decisions (for example, to develop a joint WSDP) that are precursors to formal statutory decisions.

Key decisions councils may need to make include:

1. **Confirming the approach to a WSDP:** Whether to develop a joint WSDP with other councils and the extent of joint arrangements, for example, for all or some water services. (Sections 10 and 11 of the Preliminary Arrangements Act)
2. **Consultation:**
 - a. Whether to consult on the draft WSDP beyond the proposed model for service delivery (which must be consulted on), and when and how to consult.
 - b. The timing and approach to decision making, e.g., in relation to CCO establishment and governance, (should council plan to establish a new delivery model).
3. **Implementation:**
 - a. Whether to adopt a WSDP (Section 17 of the Preliminary Arrangements Act).
 - b. Whether to establish a new service delivery model.

This report aims to support decision number 1 above, *Confirming the approach to a WSDP*. Ongoing analysis and development of a WSDP will be required to support decisions 2 and 3 and to ensure councils have confidence that they are able to give effect to the WSDP. To enable this, a three-phase programme has been established, with indicative decision points (and potential exit gates) for councils at the end of Phases 1 and 2. See more detail in Section 37 of this report: *Next phases of work*.

Regional approach

Section summary

Local government is under considerable pressure to address current water service issues as well as the complex and evolving challenges ahead. The nine councils within the Wellington regional area and Horowhenua District signed a Memorandum of Understanding in May 2024 to work together on a joint WSDP process.

A joint elected-member governance group (the Advisory Oversight Group) was established alongside Iwi/Māori partners, a Chief Executives' steering group, project team, joint budget and an agreed development process. Our councils and Iwi/Māori partners have made a commitment to work together through a collaborative and non-binding process.

The process does not transfer any formal decision-making responsibilities or delegations from any council. Decisions on the WSDP, preferred models or commitments to future change remain with each council. There are points in the process where councils will need to reconfirm their commitment to remaining part of the collective. Any council may choose to leave the collective at any point.

The Advisory Oversight Group (AOG) has helped to progressively test and provide direction on a set of key requirements for a regional WSDP. It also identified an agreed goal to: ***ensure the delivery of safe, reliable, environmentally and financially sustainable water services so the region can be resilient, restore Te Mana o te Wai and enable new homes and the well-being of communities.***

As well as considering at least the status quo as an alternative to a WSCCO, councils will need to undertake a process of engagement and formal consultation on at least part of the WSDP from late 2024 and into 2025, in line with legislation.

4. Wellington Region and the Horowhenua District

The councils working together in the Wellington Region and Horowhenua District include GWRC and nine territorial authorities:

- Horowhenua District Council
- Kāpiti District Council
- Porirua City Council
- Wellington City Council
- Hutt City Council
- Upper Hutt City Council
- South Wairarapa District Council
- Carterton District Council
- Masterton District Council.

Represented by the four Iwi/Māori representatives on the AOG (see Table 3 below), the Iwi/Māori partners in this regional area include:

- Rangitane o Wairarapa
- Ngāti Kahungunu ki Wairarapa Tamaki Nui-a-Rua Treaty Settlement Trust
- Ngāti Kahungunu ki Wairarapa – Rūnanga
- Ngāti Kahungunu ki Wairarapa Tāmaki-Nui-a-Rua – PSGE
- Rangitāne Tu Mai Rā Trust – PSGE
- Rangitāne o Wairarapa Inc – Rūnanga
- Te Atiawa ki Whakarongotai
- Ngā Hapū o Ōtaki
- Ngāti Toa Rangatira/Te Rūnanga o Toa Rangatira
- Muaūpoko Tribal Authority
- Te Iwi o Ngāti Tukorehe Trust
- Te Tumatakahuki (rōpū of Raukawa hapū representatives within the Horowhenua)
- Te Runanga o Raukawa.

Figure 1: The nine territorial authorities and Greater Wellington Regional Council



Table 2: Wellington Region population inclusive of Horowhenua⁶

Regional population 2024:	~588,000
Regional population projection 2054:	Up to about 775,000 ⁷
Number of households 2024:	~224,000
Number of households 2054:	~323,000
Percentage of households served by connected water networks:	~89-90%
GDP per capita:	Wellington Region data was reported at \$NZ86,805 GDP in 2023 ⁸
Land area:	813,500 hectares ⁹

The region actively works together through a range of forums, planning processes, partnerships and projects to plan, coordinate and invest in the well-being of our communities. This includes:

- housing and growth,
- economic development,
- delivery of social and health services,
- transport,
- emergency management and resilience,
- climate change response,
- waste minimisation and management, and
- delivery of water services.

5. Challenges and change for local government

There are challenges to working collectively as a region, in part due to the disjointed nature of local government boundaries and different interests and pressures each council must manage. This has been the subject of several reviews and processes to consider council amalgamation at both a regional and provincial level.

Local government is under considerable pressure to address current issues as well as the complex and evolving challenges ahead, including those driven by a range of legislative changes. Proposed legislative change in relation to water services has the potential to fundamentally shift the scale, role and relationship between councils and communities in relation to water services. A significant contributing factor to these challenges is the funding model for local government.

“The financing of local government is a major barrier, local government needs a much-improved system of funding. In addition to an inefficient financing system, the pressures of inflation, increasing cost of living, skills shortages and climate change add to the challenge of funding for growth and delivering community aspirations.” – Upper Hutt City Council¹⁰

⁶ <https://wrlc.org.nz/reports/housing-data> estimated 2024 population including Horowhenua.

⁷ <https://wrlc.org.nz/reports/housing-data>.

⁸ New Zealand GDP per Capita: Wellington | Economic Indicators | CEIC (ceicdata.com). Does not include Horowhenua.

⁹ Greater Wellington — Your Region | Tō Rohe (gw.govt.nz). Does not include Horowhenua.

¹⁰ Review into the Future for Local Government, He piki tūranga, he piki kotuku, pg 54. June 2023.

6. A regional approach to water services delivery planning

In anticipation of legislative requirements for councils to develop a WSDP, the councils in the Wellington Region and Horowhenua District earlier this year agreed to work together to consider a joint approach towards development of a WSDP. This was formalised in May 2024 when the ten councils signed an MoU to work together on a joint regional WSDP process.

The process was deliberately started as early as possible in recognition of the tight timeframe and complexity involved in developing a joint WSDP within the 12-month period signalled under the Local Water Done Well policy and is now required under the Preliminary Arrangements Act.

The councils made a commitment to work together through a collaborative and non-binding process. To provide direction and oversight, the ten councils set up the AOG, made up of an elected member from each council and four Iwi/Māori representatives¹¹. This process is supported by a Chief Executives' steering group, a joint project team, a joint budget and an agreed project approach.

The approach has included running a series of workshops with the officers, Chief Executives and the AOG to consider options and alternatives, providing feedback and direction to guide the development of this process and this report. The key deliverable from this joint process is intended to eventually be a joint WSDP, including implementation plan for a future delivery model. The AOG is chaired by Dame Kerry Prendergast and members are listed in Table 3 below.

Table 3: Membership of the Advisory Oversight Group

Council/Organisation	Representative
Chair	Dame Kerry Prendergast
Greater Wellington Regional Council	Cr Ros Connolly
Upper Hutt City Council	Mayor Wayne Guppy
Hutt City Council	Mayor Campbell Barry
Porirua City Council	Mayor Anita Baker
Wellington City Council	Mayor Tory Whanau
South Wairarapa District Council	Cr Colin Olds
Carterton District Council	Mayor Ron Mark
Masterton District Council	Cr David Holmes
Kāpiti Coast District Council	Mayor Janet Holborow
Horowhenua District Council	Mayor Bernie Wanden
Iwi/Māori representative Porirua/Kāpiti	Helmut Modlik, Tumu Whakarae – CEO, Te Rūnanga o Ngāti Toa
Iwi/Māori representative Te Awa Kairangi/Poneke	Kara Puketapu-Dentice – Chief Executive of Taranaki Whānui ki te Upoko o Te Ika
Iwi/Māori representative Wairarapa	Jo Hayes – Trustee of Rangitāne Tū Mai Rā Trust
Iwi/Māori representative/Horowhenua	Di Rump – Chief Executive at Muaūpoko Tribal Authority

The process does not transfer any formal decision-making responsibilities or delegations from any council. Decisions on the WSDP, preferred models or commitments to future change remain with each council. There are points in the process where councils will need to reconfirm their

¹¹ Note, the Iwi/Māori representatives were progressively confirmed and joined the AOG during this process.

commitment to remaining part of the collective. Any council may choose to leave this collective at any point.

The AOG has met on five occasions to date to consider options and alternatives, and to provide feedback and direction for guiding the process. Workshops have included:

- Workshop 1: 10 May 2024 – MoU, membership, process, key requirements for success.
- Workshop 2: 21 June 2024 – network economics, funding and financing.
- Workshop 3: 5 July 2024 – governance and structure options.
- Workshop 4: 9 August 2024 – concept model, funding and pricing pathways.
- Workshop 5: 10 September 2024 – council positions, draft report and transitional issues.

Further meetings for the AOG are planned for the remainder of 2024. Next steps in the process are set out in Section 43 of this report.

Scale of the WSDP challenge

The issues considered in relation to a WSDP for the region are significant, requiring investment planning for billions of dollars of investment in water assets and operations. Implementation planning will consider the potential establishment of a large full-service, multi-council-owned WSCCO, which would be entrusted with the stewardship of critical regional assets with a replacement value of about \$19.7 billion. This will also have a significant impact on councils including future role, operating model, financial arrangements and scale.

Development of a joint WSDP will be a challenging, complex and highly political process in the context of evolving legislation. Additional challenge will come from the need to work across multiple councils, Iwi/Māori partners, and central government, including statutory consultation with the public and input from other stakeholders.

7. What is important for our region

Under the MoU, it was agreed that any future model options need to respond to agreed objectives and consider approaches that are workable, affordable, sustainable and meet the needs of communities and the environment.

Critical success factors included that the plan and any future delivery model would:

- be supported by all participating councils and Iwi/Māori partners,
- be supported by the Government policy and enabled through legislative change,
- be based on a sustainable funding model, and
- enable councils and Government to commit to subsequent phases of detailed design, delivery and implementation.

Building on these factors, the regional WSDP process has progressively tested and confirmed a goal, and a set of key requirements based on the needs of different interest groups and organisations¹². These are summarised in Table 4 below and the detailed requirements are provided in Appendix B.

¹² It is recognised that the categorisation used here of different organisations and groups is subjective and that some requirements relate to multiple groups (for example, water is a taonga for all, not just for Iwi/Māori).

The goal identified by the AOG is to ensure the delivery of safe, reliable, environmentally and financially sustainable water services so the region can be resilient, restore Te Mana o te Wai and enable new homes and the well-being of communities.

Table 4: Requirements for regional WSDP process and WSCCO

Stakeholder	What they need
Consumers	Water services must be: <ul style="list-style-type: none"> • in public ownership. • affordable with fair, equitable and transparent pricing. • high-quality, seamless, environmentally compliant services. • customer focused. • continuously improved.
Iwi/Māori	Water services must: <ul style="list-style-type: none"> • be treated as a taonga. • have an aspirational vision to restore and protect Te Mana o te Wai. Iwi/Māori should: <ul style="list-style-type: none"> • have meaningful influence with a skills-based Board where Treaty and cultural awareness are two key skills required. Iwi/Māori are looking for: <ul style="list-style-type: none"> • a genuine commitment to local and Māori procurement. • a major and fast revival of our waterways, well-being and people.
Councils	Councils require: <ul style="list-style-type: none"> • financially sustainable water services with the debt from water services assessed separately to parent councils' business by the LGFA, subject to a guarantee from owning councils, the WSCCO meeting prudent lending criteria and having the characteristics of an investment-grade utility provider over the medium term¹³. • local influence to ensure alignment of outcomes, particularly for supporting housing growth. • single point of accountability for service delivery. • assurance that the water delivery entity has strong processes, high-quality systems and core data. • a long-term planning horizon. • economies of scale and integration. • residual council financial sustainability (see more below).
Central Government	Water services must <ul style="list-style-type: none"> • be financially independent and sustainable. • be compliant with regulation. • allow for housing growth.

¹³ Note this has been updated in line with Government policy announcements on LGFA lending and was previously: "balance sheet separation – so water services' revenue, costs, asset ownership and debt are recognised on the new water service entity's balance sheet and separated from councils' balance sheets as far as reasonably possible"

Future water entity	<p>A future water entity needs:</p> <ul style="list-style-type: none"> • to be empowered to operate independently with freedom to prioritise investments. • to have an independent professional skills-based Board and an exceptional executive leadership team. • certainty to plan, fund and invest optimally with confidence that it has committed access to long-term funding at a reasonable cost. • to be a full-breadth, integrated utility, that owns assets, bills revenue and raises own debt. • high-quality systems and staff, as the new regulatory environment requires a quantum shift in the data collection, analysis and reporting capabilities of all water delivery services.
----------------------------	--

These critical requirements provide the basis for consideration and testing of a joint WSDP and the design of a potential water delivery model. During the process, options were tested regarding entity structure, governance, infrastructure strategy, price and debt funding.

A suite of transition requirements will also need to be met to achieve a smooth and seamless transition, including an equitable allocation of revenue and debt, as well as sound asset and contract transfer rules. These are detailed in Section 42 of this report: *Key Transition Principles*.

8. The role of Greater Wellington Regional Council

GWRC has a unique role as a regional council in New Zealand as it is responsible for collecting, treating and distributing safe and healthy drinking water to Wellington, Hutt, Upper Hutt and Porirua City Councils.

This work is carried out for GWRC by WWL. City and district councils are responsible for the distribution of water to households and businesses through their own networks¹⁴.

This unique role is recognised under legislation through the Wellington Regional Water Board Act 1972. Under this Act, GWRC which has a role in bulk water supply in the Wellington Region, does not need to prepare its own WSDP, but may be involved in developing a joint WSDP. GWRC has committed to this process but also noted that their intent is to focus on their resource management regulatory role and in time may plan to exit from asset ownership and associated accountabilities related to bulk water supply on the understanding that¹⁵:

- they will retain ownership of water catchment land at Kaitoke and Wainuiomata to support broader outcomes including biodiversity, recreation and climate change mitigation and adaption.
- any new entity has the structural and operational factors needed for success.

“We believe that the region can agree on a new model that will provide better water services for Wellingtonians. However, we will require evidence that a new model will provide for better and more sustainable asset management before considering the transfer of our assets.”¹⁶ Daran Ponter, Chair GWRC

¹⁴ GRWC LTP 2024-2034.

¹⁵ Letter from Chair of GWRC Daran Ponter to the Chair of the AOG dated 7 May 2024.

¹⁶ Letter from Chair of GWRC Daran Ponter to the Chair of the AOG dated 7 May 2024.

9. Engagement and consultation

To date, there has been no formal engagement or consultation on this report with other stakeholders or the public. The views of communities and Iwi/Māori have been represented by AOG members and council officers. This report is intended to support a process of engagement and formal consultation from late 2024 and into 2025, as councils consider service delivery options as part of the development of a WSDP in line with the requirements of legislation.

Current state of the network and case for change

Section summary

Councils in the Wellington Region face stark challenges to meet the investment needed for drinking water, wastewater and stormwater services and infrastructure. It is clear that transformational reform is required in water services for most councils, with significant and sustained investment over the coming decades to fix, maintain and improve the network - which is at risk of critical failure in some areas - as well as to enable growth, provide safe drinking water, improve environmental water quality, and enhance resilience. The issues are urgent and will also take sustained effort to address.

This section analyses the current state of the water services network based on best available information and varies from council to council. Key regional challenges include significant network failure and deterioration, risk of network fault runaway, constraints to growth and housing, more stringent regulatory standards and compliance requirements, as well as building seismic, network and climate resilience. Work is needed on wastewater, stormwater and drinking water supply to meet climate change and population growth. Some of the other system issues are lack of scale, workforce skills and capacity, and funding. There are also concerns regarding low revenue for water relative to actual costs, household affordability, risk management, and insurance.

While not all councils have the same issues, all councils in the region have major challenges to address. About 45% of all drinking water in the metropolitan area of Wellington is lost to leaks. Across the region, about 21% of the total three water pipe infrastructure has been assessed as worn out. Wastewater is in the worst condition with about 33% of the pipes worn out. Meanwhile, many wastewater treatment plants are failing to meet compliance requirements and need large-scale replacement or investment, with immediate risks of structural failure of some wastewater interceptor pipes.

A description of current levels of service and delivery models is set out in this section of the report. There are challenges with current delivery models with compliance issues and growth not being well managed.

While councils are planning significant investment to manage these risks, combined LTP investment over the next ten years is about \$4.82 billion (real), which is approximately \$470 million (or about 10%) less than the estimated investment required based on the recommended investment strategy in this report over the next 10 years and 30-40% less than what will be required, on average over the next 20-25 years.

10. An agreed need for change

Much of New Zealand has significantly underinvested in water infrastructure and water services over several decades. Councils around the country and in the Wellington Region now face stark challenges to meet the investment needed for drinking water, wastewater, and stormwater infrastructure.

This is not a new issue. The need to change how water services are funded and delivered has been the subject of several major reviews, policy processes and legislative reform. In 2000, the Parliamentary Commissioner for the Environment concluded the existing model for water services had reached the end of its design life, and this is even more the case in 2024¹⁷. Two more recent major reviews (the Havelock North Drinking Water Inquiry 2016-2017, and the Three Waters Review 2017-2019), both concluded that councils were struggling to maintain their ageing water infrastructure.

The 2020 Wellington City Council Mayoral Taskforce declared that ***“tinkering is not going to cut it. Transformational reform is required.”***

While there may be disagreement on exactly how much investment is required, or how this is best resolved, there is compelling evidence¹⁸ and political alignment that there is a significant infrastructure investment deficit for three waters and change is urgently required.

Significant and sustained investment in water services and infrastructure is required over the coming decades to fix the network – which is at risk of critical failure in places – as well as to enable growth, provide safe drinking water, improve environmental water quality, and enhance resilience to potential future seismic and climate change events.

While some parts of the network are in much better condition currently (in particular in Kāpiti Coast District Council), these will require a significant increase in planned renewals to avoid the risks being faced in older parts of the network. To address these issues, an estimated \$15-\$17 billion of investment in the water network will be required over the next 20-25 years.

This level of investment is not possible for local government under current borrowing settings. In the current context, the steep increase in rates or water charges, will be unaffordable for communities. A sustained investment will also be very challenging in relation to sector capacity. There will be a need to work closely with contractors and suppliers to grow the workforce, explore new delivery models and find new and lower-cost solutions.

¹⁷ Water NZ “How councils can steer clear of troubled waters”.

¹⁸ Water Industry Commission for Scotland, 2021; Beca DIA Three Waters Reform WIS modelling review, 2021.

“The current funding and financing approach is not sustainable in the context of complex wellbeing challenges and increasing community expectations.

Numerous previous reviews of local government funding have highlighted the problems and recommended changes to the system to ensure that councils can more sustainably fund their activities (NZPC 2019). However, central government has failed to enact these recommendations and the issues are compounding.

The Panel recommends some significant changes to the local government funding and finance system that will coincide with the new system of local government. This time, change must happen. Without it, local communities and future generations will be the ones missing out.”¹⁹

- *Review into the Future for Local Government, He piki tūranga, he piki kotuku*
-

It is accepted that the region’s population ultimately needs to be able to sustain the cost of delivering high-quality water services. This issue is urgent and any delay to new solutions will push a bow wave of costs and investment forwards into the future and risk council and communities’ ability to ensure clean and safe water.

11. Summary of key regional challenges

Every day, millions of litres of safe drinking water are delivered to homes across the region and millions of litres of wastewater are safely treated and discharged. This relies on the hard work and dedication of more than 1,000 local people that work directly on three waters networks for councils, WWL and a range of partners, contractors and suppliers. Their day-to-day mahi and commitment to water services on behalf of the people in the region should be recognised and celebrated.

However, the Wellington Region has a significant backlog of investment needed in three waters infrastructure and an increasing number of faults and network failures. The worn-out state of the network poses significant risk of increasing major service failures.

Critical risks include:

Significant network failure: Investment is needed to replace an ageing and failing network, including addressing the impacts of failing asbestos pipes. Currently about 21% of the network is worn out leading to an increased risk of major failure. This includes more than 1,300 kilometres of asbestos concrete pipes²⁰. About \$4.2 billion of investment is needed to replace the worn-out parts of the network. This equates to about \$200 million per annum for the next 20–25 years.

Network deterioration: In addition to replacing the most worn-out parts of the network, to avoid further deterioration and increased costs of reactive ‘fixes’, ongoing investment of about \$250 million per annum is needed to maintain the network as an ongoing cost every year.

Risk of network fault runaway: This can occur in any network where the fault rate generated by failing assets exceeds the operational capacity to fix them. This issue is starting to be seen across the metropolitan area of Wellington in relation to water leaks. The short-term effect is that there is always a growing backlog of outstanding faults. This typically cannot be remedied

¹⁹ He piki tūranga, he piki kōtuku – The future for local government (dia.govt.nz), 2023 page 54.

²⁰ Based on WWL information there are 1,392kms of AC pipes for all three waters (not including KCDC, CDC, MDC, or HDC).

without shutting down and renewing the part of the network affected. The longer-term effect is the diversion of resources and funding away from keeping the rest of the network operational.

Constraints to growth and housing: Funding and capacity for three waters infrastructure is a key constraint for greenfield and brownfield development and is already stopping some development occurring. An estimated additional 200,000 residents will live in the Wellington Region and Horowhenua by 2053, requiring about 99,000 new homes. While growth needs to pay for growth, challenges include current capacity constraints and financing infrastructure ahead of the recovery of costs.

New regulatory standards and compliance requirements: A new, more stringent regulatory environment for water services has been introduced which will require significant investment in plant, equipment, information systems and new, specialist skill sets to ensure clean and safe drinking water and improve environmental impacts of stormwater and wastewater. Currently three of the four major wastewater treatment plants in the metropolitan area are non-compliant and investment is required to ensure sufficient clean and safe drinking water and improve water quality. Further investment will also be required to meet economic regulations and focus on quality and price.

Seismic resilience: The entire region is highly sensitive to seismic activity and the 2016 Kaikōura earthquake clearly had a significant impact on the region's buildings and water infrastructure. The earthquake revealed weaknesses in the ageing network and significantly accelerated leaks with an urgent need to replace large areas of the failing water reticulation network. Serious seismic risk exposures remain for all water networks, particularly for the main trunk water supply network to Wellington running the length of the Hutt Valley beside State Highway 2.

Network resilience and redundancy: There are critical risks of summer water shortages in the metropolitan area and wastewater pipe failures. The network also has low levels of inherent resilience, particularly in storage, with a high risk of water shortages due to the current layout of water reservoirs and lack of network cross connections. For example, if the drinking water connections from the Hutt Valley to Porirua City fail, the city would only have two to three days of drinking water capacity. WWL estimates that in the event of a strong earthquake in the Wellington Region, some suburbs could be without water for 100 days and possibly longer²¹.

Climate change: The biggest risks driven by climate change are increasing severe weather events and coastal inundation and drainage. This risk is shared across the region but is particularly severe for the western lowlands of Horowhenua, Kāpiti, and coastal areas of Porirua City and Hutt City. Some parts of the region such as Wairarapa are expected to experience drier weather leading to less availability of drinking water. Metropolitan issues are also growing, as both parts of the lower Hutt Valley and Wellington CBD lie close to Wellington Harbour and are slowly subsiding, relative to average tides. In Hutt City, the wastewater treatment plant at Seaview faces the combined effects of sea level rise and flooding risk from the Hutt River. The iron trunk network in the Wellington CBD, which is already past End of Service Life²² (EoSL), is experiencing accelerated corrosion due to the ingress of saltwater from higher tides.

Wastewater: Significant and increasing inflow and infiltration into the network is resulting in more wet weather overflows from the network and treatment facilities in Wellington and the Hutt Valley. Compounded by increasing equipment failures, this reduces the ability to manage increasing loads. Treatment plants in Porirua and South Wairarapa are also reaching capacity and equipment failure risks are growing, limiting their ability to manage bigger flows. Treatment plants in Kāpiti will face challenges in consenting for discharges to meet growth. In some cases worn-out pipes are causing sea water to be ingested into the wastewater system and fed into

²¹ <https://www.wellingtonwater.co.nz/resources/topic/emergency-water-3/>.

²² The economic definition for 'End of Service Life' (EoSL) for an asset is when the "expected forward risk cost of asset failure exceeds the replacement cost of the asset". This means that it is more expensive to leave the asset in the network than it is to replace it. It does not necessarily mean that the asset has failed, although typically it means the asset is likely to fail.

wastewater treatment plants. This is exacerbated by the increased production of hydrogen sulfide, which is corrosive to both wastewater pipes and wastewater treatment plants.

Stormwater: More frequent and larger flooding events are expected due to climate change and urban densification. As community expectations rise, a significant increase in the need for flood mitigation initiatives is anticipated. Stormwater quality treatment and restoration of our waterbodies is also going to become increasingly important. This is already becoming evident as comprehensive consents in the Wellington Region are lodged. The stormwater system is incomplete within the Wellington Region and in some places has cross connections with the wastewater system. During high rain events, these cross connections can cause the wastewater network to overflow, spilling untreated wastewater into the environment.

Poor reliability of water supply services is challenged by worn-out pipe failures, limited storage, and limited water supply availability. This is exacerbated by nearly half of the drinking water supply being lost through leaks in the metropolitan area.

Other key water network challenges the Wellington Region needs to address include:

Lack of scale: The size and disjointed nature of councils constrain opportunities for efficiency, strategic investment and the ability to meet local challenges. It also makes it more challenging to invest in joint solutions, such as for wastewater treatment.

Workforce, skills and capacity: The capacity and capability of the water sector will need to be progressively increased to deliver on the investment needed. All councils and WWL advise that it is challenging to recruit and retain high-quality staff into the water services workforce. Reasons include lack of career paths, lack of training programmes, and better conditions in some water consulting firms. The risk is particularly acute for smaller councils that do not have the team depth to provide back-up for key skill sets or ensure cover for emergency events. New and different skills and experience will also be required to respond to economic regulation as this is phased in.

Funding and financing challenges: Councils have a diverse mix of funding challenges. Some councils are constrained in how much they can borrow, most are sensitive to affordability and face significant trade-offs with other activities or capital programs that need to be delivered. Funding for the sector is largely provided by the LGFA, at very favourable interest rates. With significant capital programmes the main constraint is in funding headroom (with flow-on challenges in serviceability). This constraint is also influenced strongly by credit ratings. It should be noted that an underpricing of water services and an overreliance on debt funding lies at the root of the funding challenge.

Low revenue for water relative to cost: Revenue from water users is significantly below what is required to fix and sustain the network, constraining both investment and borrowing. The average cost per household for three water services in the Wellington Region is about \$140/month²³ relative to about \$250/month for average power costs.

Household affordability: Monitoring affordability constraints on households is a key requirement with rising costs of living placing a strain on many households. This constraint will remain, with pressure on households only likely to grow where water revenue is funded by council rates.

²³ Note these figures are based on 2024 average rating costs for water at \$1,711/household.

Risk management and insurance: Insurance costs and the assumed reinstatement costs have escalated significantly in recent years. This is making it challenging for councils to ensure risks are adequately managed including sufficient insurance of three water assets.

Network Failure Case Study: Dixon St Adit Tunnel, Wellington City

Failures of water infrastructure can be sudden with severe impacts, as seen in the collapse of the Dixon St adit tunnel (wastewater connector) in Wellington in late 2019.

A targeted focus on improving health and safety has led to more costs and difficulties in inspecting large, buried water pipelines and tunnels. This has sometimes led to challenges in adequately understanding the condition of these extensive critical assets, says Wellington City Council Chief Infrastructure Officer Siobhan Procter.

Although earlier inspections of the central city Dixon Street adit tunnel had noted significant deterioration, the problem areas were unable to be readily accessed. Later inspections were less detailed because of the increased difficulties and costs. As a result, the tunnel discharging into the main wastewater interceptor was not identified as being at risk of failure. Without warning, the adit tunnel collapsed in the week before Christmas 2019, leading to a significant cavity in the carriageway, potentially threatening the stability of nearby structures and health and safety in the vicinity of Dixon Street and Willis Street.

Upstream pumping stations were temporarily turned off to divert wastewater away from the collapse, while immediate repair work took place. Emergency actions were also taken to minimise the overflows, which were directed to the stormwater overflow system and then into the harbour. However, approximately 6,500m³ of untreated wastewater was discharged over about 46 hours.

“Financial consequences of the unexpected failure far exceeded the cost of planned inspections of the adit with any subsequent rehabilitation or upgrade work prior to failure,” says Siobhan. Costs included those associated with the cleanup and provision of temporary solutions, investigations and monitoring, communications, delivery of the permanent solution in an urgent reactive manner, as well as third party loss of revenue and the risk of possible legal action. In addition to these financial consequences, there were significant:

- health and safety risks associated with both the untreated wastewater discharges as well as the road collapse,
- third party loss and significant disruption caused from closure, odour and construction activity,
- environmental risks and cultural offence to Iwi from discharge of untreated wastewater into the harbour, and
- council reputational damage.

“This incident showed that the huge impacts from unexpected failures dwarf those of planned works,” says Siobhan. “Out of sight should not mean out of mind.”

12. Summary of key issues by council

While not all councils have the same issues, all councils in the region have major challenges to address including debt constraints, network condition, resilience, climate change, compliance and growth. Some councils have immediate challenges; others have challenges to come over the coming decades.

A more detailed outline of the network and key challenges for each council, including network condition, is set out in the council profiles in Appendix D²⁴.

²⁴ At time of writing, no information on key challenges had been received from Carterton District Council.

Table 5: Key challenges for each council

Council	Key issues
Horowhenua District Council	<ul style="list-style-type: none"> • Ageing infrastructure such as the Levin Wastewater Treatment Plant. • Securing sustainable sources of water supply for growth, especially in Levin. • Infrastructure capacity to meet future population growth demand. • Increased severe weather events and stormwater impacts on wastewater and stormwater infrastructure. • Restoring the mauri of the water at Lake Horowhenua (Punahau) as this is a culturally significant and community asset.
Kāpiti Coast District Council	<ul style="list-style-type: none"> • Infrastructure capacity to meet future population growth demand. • Providing water supply network to unserved rural areas. • Water supply compliance to meet regulatory requirements. • Resource consents for wastewater treatment plants and proposed upgrades to meet future consent requirements. • Address flood hazards identified in 30% of urban properties. • Stormwater pipe network under capacity (50%) for one in 10-year event. • Organisational capacity and systems to meet future regulatory regime demands.
Porirua City Council	<ul style="list-style-type: none"> • Significant and growing renewals backlog in water and wastewater due to age profile of pipe materials. • The speed of population growth is ahead of current water infrastructure capacity. • High per capita water demand is outstripping supply due to water loss in the network and growth. • The condition of reservoirs makes them vulnerable to contamination. • The council is reliant on landfills accepting sludge from wastewater treatment plants which constrains ability to minimise waste. • Streams, rivers and harbours contain coliforms and other contaminants such as heavy metals and microplastics.
Wellington City Council	<ul style="list-style-type: none"> • Significant and growing renewals backlog in water and wastewater due to age profile of pipes. • Infrastructure capacity to meet future population growth demand. • High per capita water supply demand is outstripping supply due to water loss in the network and growth. • Water reservoirs conditions vulnerable to contamination. • Moa Point Wastewater Treatment Plant condition is resulting in ongoing compliance issues. • Karori Wastewater Treatment Plant outfall compliance issue. • Streams, rivers and harbours contain coliforms.
Hutt City Council	<ul style="list-style-type: none"> • Ageing water infrastructure and pipes that are failing and requiring urgent investment, i.e. 109km of water supply galvanised pipes. • Investing in finding and fixing leaks and managing water loss to avoid water shortages.

	<ul style="list-style-type: none"> • Infrastructure capacity to meet future population growth demand. • High per capita water supply demand is outstripping supply due to water loss in the network and growth. • Reservoir conditions mean they are vulnerable to contamination. • Wastewater investment is well short of what is required to renew ageing parts of the network (estimated only 10% of what is required). • Issues with compliance and ageing parts at the Seaview Wastewater Treatment Plant, i.e. sludge dryer. • Streams, rivers and harbours contain coliforms. • A significant increase in the value of water assets is expected this year resulting in significant increases in depreciation which are currently unfunded. • Market capacity issues regionally to undertake the level of renewals required.
Upper Hutt City Council	<ul style="list-style-type: none"> • Significant and growing renewals backlog in water and wastewater. • New environmental quality standards require very high investment to achieve wastewater and stormwater consent compliance. • Population growth is ahead of three waters infrastructure provision. Major investment is needed, especially in the wastewater network to enable growth to occur. • High per capita water demand is outstripping supply due to water loss in the network and growth. • As a bulk water purchaser, Council is a cost and service taker with limited influence over these aspects. • Major shared assets need upgrades, including sludge dryer at Seaview Wastewater Treatment Plant nearing end of life. • Network infiltration and inflows. • Wet weather overflows. • Contamination and overflows into waterways.
South Wairarapa District Council	<ul style="list-style-type: none"> • An ageing network results in asset failure and requires an increase in renewals. • The speed of population growth is ahead of current water infrastructure capacity. • Emissions from three waters are not reducing. • Lack of redundancy in critical systems to provide safe drinking water in accordance with the Water Services Act. • Poor condition of assets compromising water system and wastewater resiliency. • Inability to comply with resource consents. • Treatment plants lack multi-barrier protection and have significant operational and seismic resilience challenges. • Streams and rivers contain coliforms. • Flooding. • No new wastewater connections are available in Martinborough or Greytown.

Masterton District Council	<ul style="list-style-type: none"> • Meeting population growth demand. • Resource consent renewals. • Climate change impacts. • Affordability of levels of service. • Network capacity. • Compliance with new regulatory requirements.
GWRC	<ul style="list-style-type: none"> • Ageing water network that requires increased investment in renewals. • The speed of population growth is ahead of current water infrastructure capacity. • High per capita water demand for the metropolitan councils is outstripping supply due to water loss in the network and growth. • Current demand is highlighting that GWRC may not be able to meet its duty of care obligations as an asset owner under the Water Services Act in the long term. • Seismic resilience of the bulk water assets does not meet the required earthquake resiliency standard. • Work is underway, but the system is not yet reliable to meet regulatory requirements for fluoride due to lack of redundant systems and asset reliability. • Current demand is placing at risk the existing assets due to lack of headroom to allow major assets to be taken off-line. • Significant investment is required for the Pakuratahi lakes in the near future.

13. Current state of the water services network

Current condition, lifespan, and value of the water services networks

Network asset condition (such as for a power or telecommunications network) is usually assessed at quite a granular level and is considered a core requirement for mature essential network management. For water networks, most assets are underground and not easily inspected.

The Wellington Region's asset condition assessment is less mature than it should be. Accordingly, analysis is based on sample condition assessments of network pipes available from the latest AMPs. Key sources of information regarding asset condition, and the relatively low level of confidence in this information, are noted in the appendices.

Based on available information for most parts of the Wellington Region, three waters infrastructure is considered to be in a very poor condition (relative to a sustainable network) due to underinvestment over decades, as well as failure of asbestos pipes and impacts of the Kaikōura earthquake.

Asbestos Concrete Pipes

The Wellington Region has more than 1,300 kilometres of asbestos concrete pipes. Most of these were laid in the 1950s and 1960s and are now past their EoSL. They are susceptible to sudden collapse because over time, water flow has washed out most of the asbestos fibres²⁵ which make up the inside lining of the pipe and provides them with much of their strength. The residual concrete outer layer becomes porous, brittle, and liable to collapse due to vibration and earth movement in dry periods. Pipe failures are increasing rapidly and there is a high risk of wastewater pipes that remove waste for multiple streets or parts of suburbs failing.

While there is variability across the region (in particular, the asset condition of Kāpiti Coast District Council and GWRC networks are substantively better than other councils), an estimated 21% of the total three water pipe infrastructure has been assessed as worn out. This is a serious situation. Wastewater is in the worst condition with about 33% of the pipes worn out. This is a very high level for any network.

Key metrics for the three waters network are shown in the table below.

Table 6: Pipe network

	Drinking water	Wastewater	Stormwater	Total/Average
Length of pipe network²⁶	3,743km	3,445km	2,165km	9,353km
% in poor or very poor condition²⁷	17%	33%	15%	21%
Estimated average life	55 years	70 years	100 years	74 years

Meanwhile most treatment plants need large-scale replacement or investment. In the short term, there are immediate risks of structural failure of some wastewater interceptor pipes.

These worn-out assets (which are past the end of their 'End of Service Life') are generating faults such as water leaks, pipe failures, major road closures, inundation of wastewater with stormwater during rain events, untreated discharges and localised flooding. These events undermine the economic efficiency of the network by placing an additional cost burden on councils and diverting funds and maintenance resources away from productive activities including preventative maintenance and asset replacement.

The only way to address the deteriorating condition of the network assets is to aggressively replace worn-out assets with new ones until the risk of further major failures becomes manageable.

²⁵ Please note that asbestos concrete pipes do not pose a threat to human health. Refer to the background document for development of WHO Guidelines for drinking-water quality: <https://www.who.int/publications/i/item/WHO-HEP-ECH-WSH-2021.4> and information is also available on the Wellington Water website: <https://www.wellingtonwater.co.nz/help-desk/water-pipe-networks/>.

²⁶ AECOM and Tonkin and Taylor, Initial Draft Asset Management Plan, Entity G Wellington Wairarapa Draft version 2.0 December 2023 and updates from individual councils – refer Appendix E.

²⁷ AECOM and Tonkin and Taylor, Initial Draft Asset Management Plan, Entity G Wellington Wairarapa Draft version 2.0 December 2023 and updates from individual councils – refer Appendix E.

Figures 2 and 3 below show an analysis of the problem and the gap that needs to close. The condition of the wastewater network is particularly concerning, which is a key driver for investment.

Figure 2: State of the network²⁸

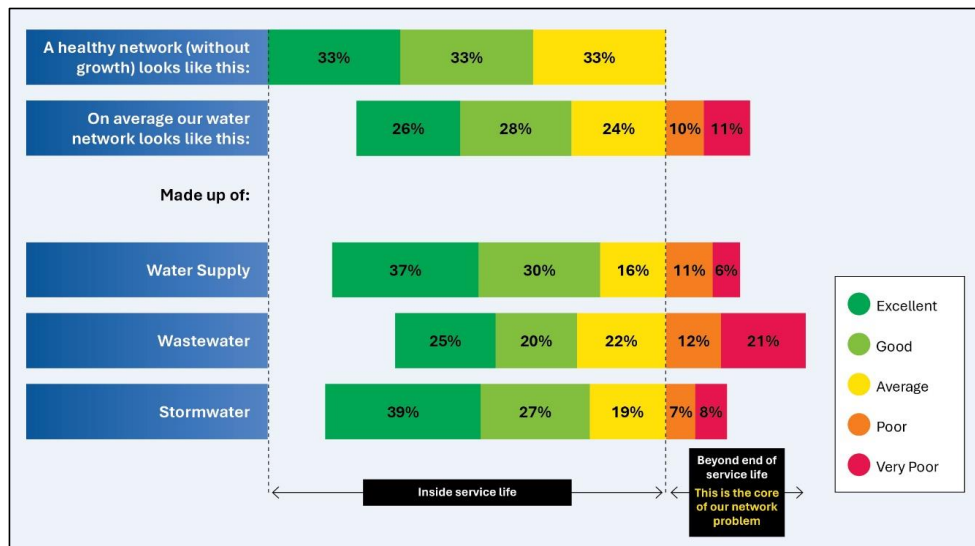
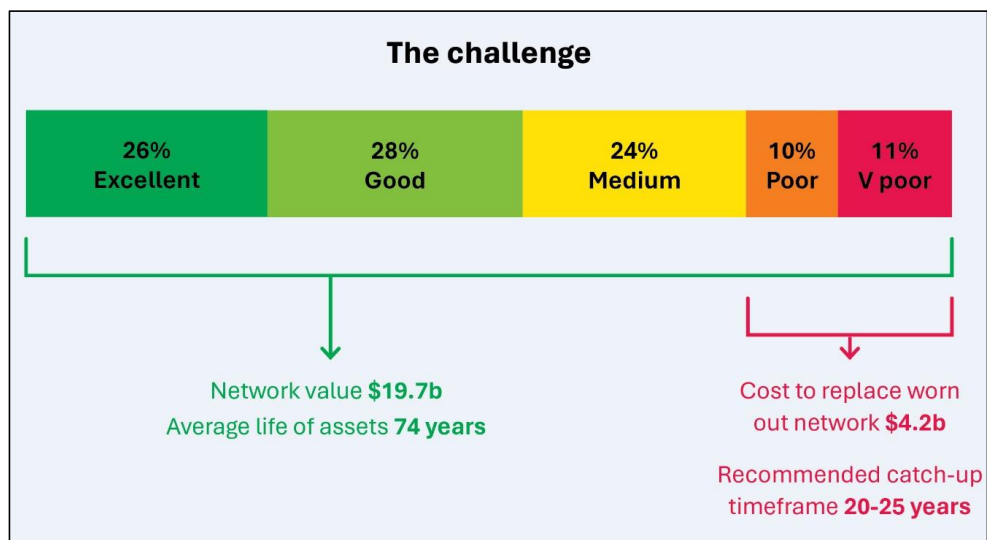


Figure 3: The challenge



²⁸ AECOM and Tonkin and Taylor, Initial Draft Asset Management Plan, Entity G Wellington Wairarapa Draft version 2.0 December 2023.

A note on network maintenance and renewal (catch up)

It is important to have a correct understanding of the terms 'maintenance' versus 'renewal' when applied to networks.

Once an asset has become worn out, it is often impractical and economically inefficient to continue to spend money maintaining it, if doing so no longer prevents its failure. Instead, it has to be replaced. This process is called 'network renewal' and is usually an ongoing process in large essential networks. Water networks need about 1/74th of the network on average replaced every year because the average maximum age of the assets – based on measuring when they wear out – is 74 years.

The key reason that large parts of our water networks are now suffering continual and increasing failures is not necessarily because the network has not been maintained properly, but because the worn-out assets have not been replaced or renewed sufficiently, due to underfunding. This has resulted in a large backlog of worn-out assets, which are now generating high volumes of network failures, including leaks.

This is also exacerbated at points in the 'lifecycle' of a city. For example, the region has a number of suburbs such as Naenae, Avalon and Taita which were developed over a short time period with all of those assets laid at around the same time and now due for renewal creating a large bulge of renewals over a relatively short time period.

These failures cannot be controlled by fixing the leaks themselves, because the underlying assets are worn out and just break again in a different place or way. The only way to fix the network, including getting rid of the leaks, is to replace or renew these assets. Funding both regular renewal (keep up) at the same time as renewing the backlog of worn-out assets (catch up) is what is driving the high cost required to fix our networks.

Other examples of the poor state of the water network

Loss of drinking water and leaks:

- About 45% of all drinking water in the metropolitan area of Wellington is lost to leaks²⁹. This equates to approximately 30 Olympic-sized swimming pools every day.
- At 30 June 2024, WWL reported 1,601 open leak jobs and had fixed 10,160 leaks over the previous 12 months³⁰. (Note: at time of writing this number has since declined, which is in line with reduced reported leaks during winter and increased council investment in leak repair).

Drinking water restrictions and drought resilience

- The metropolitan area faces ongoing severe water restrictions over summers or an acute water shortage. This includes low resilience to risk of droughts with current supply capacity only able to meet unrestricted water demand in a one in 13-year drought, as opposed to a target of one in 50 years.
- Changes in climate, water shortages during drought years and rising demand from increases in population will contribute to the network's ability to meet current and future demand.

²⁹ WWL reporting.

³⁰ WWL report to Wellington Water Committee 26 July 2024.

Network Condition Case Study: Hutt Valley

Hutt City Council has allocated about \$1.6 billion over the next 10 years and is proposing a 16.9% increase to rates to address water issues, as well as increasing debt to \$1 billion. Hutt City Council Strategic Advisor Bruce Hodgins says “that is still far below the estimated \$2.6 billion needed for capital works. If we were to try and fund all that from rates, it would mean they would go up astronomically and unacceptably.”

But the challenges cannot go unaddressed. A recent report to Hutt City Council’s Audit and Risk Committee listed 23 major risks. These included an 18km sewerage pipe that could cost about \$700 million to replace, unresolved odour issues at the Seaview Treatment Plant, and the possibility of running out of drinking water.

The report noted that wastewater and stormwater network resilience, as well as drinking water network safety, was compromised due to poor condition of assets and underinvestment in maintenance and renewals. “Hutt City Council has invested a lot in water assets already, but significantly more is needed,” says Bruce.

“We were told we need to renew 30km of pipe every year for the next 30 years to get on top of the issue. We’re doing about half of that at the moment.”

Meanwhile the wastewater treatment plant is coming to the end of its working life and requires another \$225 million in investment over the next 10 years. Locals complain about the smell and the GWRC has issued many infringement notices, and an abatement notice in response to breaches of consent conditions.

Although only about 20 years old, many critical components have deteriorated with equipment failures severely limiting the plant’s ability to manage any additional flows or to realistically undertake any significant maintenance programmes. Significant renewal investment is underway to avoid further consent breaches, including an odour control upgrade, sludge dryer replacement and the UV system renewal.

“We’re talking some big money that needs to be invested and it’s going to be difficult,” says Bruce.

“There is unanimous support around the council table for investment in water service delivery and the community also understands that assets have aged, and it is part of the life cycle of the city,” he says.

“This is not something we can solve in 10 years. It will take 20 years to get to a point where we can deal with all of this under a new model.”

14. Current levels of service and delivery models

The Wellington Region includes about 224,000 residential properties. Of these, an estimated 89-90% are served by a connected public water network.

Key areas that do not receive three waters services include the rural areas of the region, while some smaller towns do not have a connected piped stormwater network.

This report does not go into detail on current levels of service for water services, which is a requirement of a WSDP, but rather provides an overview of current service delivery models.

Water services are provided through two main delivery models as detailed below.

In-house service delivery models

Of the five district councils in the region, four operate in-house delivery models while South Wairarapa District Council is part of the WWL model.

Each town in these areas typically has its own, standalone water supply and wastewater networks. There are a few instances where interconnections have been built to provide a

secondary water supply as a backup to the main source of water supply (such as between Greytown and Featherston). Most of the towns are situated on flatter terrain. This makes water supply and wastewater reticulation easier but often presents greater stormwater challenges.

A brief summary of each of the in-house delivery models follows.

Horowhenua District Council

Over the last seven years, Horowhenua has run its three waters service model through the Horowhenua Alliance Agreement. In 2023, a full review of the agreement was undertaken and in May 2024, the Council approved the three waters service model be returned in house, effective from 6 November 2024.

The current Horowhenua Alliance Model employs 26 staff dedicated to operation and maintenance of reticulation, waste and water treatment plants. The Council has a small three waters team of 12 staff, who oversee asset management, engineering, projects and project planning. Two staff in the finance team perform water billing, budgeting and forecasting roles.

Horowhenua's water services charges are collected primarily from targeted rates, general rates and development contributions. Currently, Horowhenua is rolling out a 24-month project to install water meters throughout the district. This project is due to be completed by December 2025 and is currently approximately 14% completed.

Masterton District Council

Masterton District Council's water service delivery is a hybrid model of in-house and outsourcing. Revenue is derived from targeted rates, general rates and development contributions. The Council plans to introduce water meter-based charges from 1 July 2025 and is developing the policy framework to support this. The majority of residential and industrial or commercial premises are currently metered. Consumption will not be fully meter-based; there will be a threshold allowance and anything over that will attract charges.

The Council contracts the maintenance of the water, stormwater, water race and wastewater reticulation networks to City Care; the operation of the two water treatment plants and four wastewater treatment plants is carried out by in-house staff. Larger water projects are awarded through a competitive tender process under the Council's procurement policy. A number of projects are managed in-house by a small project team with specialist support.

The Council has customer service staff supporting water services and a team of technical staff managing the water infrastructure. The small team includes seven staff directly operating the treatment plants, and four people responsible for the operation of the reticulation networks, managing the service contract and planning larger water projects. Compliance and asset management functions are supported in-house by staff in the Environmental Health and Asset Management teams.

Kāpiti Coast District Council

Kāpiti Coast District Council's water service delivery is currently run in-house. This includes bulk water and wastewater treatment, network maintenance and asset management of all three waters. Water services charges are collected primarily from targeted rates, general rates and development contributions. The council rolled out water metering 10 years ago and all reticulated supplies pay for water via a volumetric charge.

The Council has developed a staged 100-year water supply strategy to ensure the district's future and has implemented an active leakage control programme and volumetric consumer charging. A 2018 Auditor-General report, "Managing the supply of and demand for drinking water", showed that Kāpiti was setting a good example with its future-focused approach to supplying drinking water. Consequentially, Kāpiti has not needed to apply summer water restrictions since the last phase of measures, which included universal metering, was introduced in 2014.

The district has a wide distribution of assets across four main communities serviced by a number of water and wastewater treatment plants. The completion of Transmission Gully and other recent transport network improvements have had a major impact on the rate of growth being experienced across the district.

The Council has a dedicated Project Management Office in-house which manages the larger water capital projects. Operations and maintenance works are carried out by in-house resources, but all large capital works are carried out by external contractors. The current service model runs well and meets water quality standards. However, there are significant future challenges. These are growth-related pressure, potential increased environmental compliance in the future and resourcing, both operationally and in the asset management area.

The Council has 51 FTE staff supporting water billing and customer services, operations and maintenance of water infrastructure and the planning, investment and management of water.

Carterton District Council

Carterton District Council delivers water services on a hybrid model consisting of an in-house operations team and contractors for delivering major projects and network renewals.

Water services charges are collected primarily from targeted rates and general rates. Almost all water users are on smart water meters which makes billing relatively easy.

The current model delivers a very high level of customer service that meets all regulatory requirements for water supply and wastewater treatment, including making good progress towards a long-term goal of 100% land discharge of treated effluent. All major water service issues are included in the AMP and funded through the LTP. The delivery of the AMP will ensure continued compliance with all regulatory requirements as well as catering for anticipated growth.

The council has a three waters operations and maintenance team of ten staff, two support staff, a project manager and an asset development engineer.

Wellington Water Limited model

WWL was established in September 2014 as a result of a merger between Capacity Infrastructure Services and GWRC's water supply group. WWL became jointly owned by the Hutt City, Porirua City, Upper Hutt City, Wellington City and Greater Wellington Regional Councils in 2015. South Wairarapa District Council joined as a shareholder in 2019.

WWL does not own any water infrastructure, or set policies or user charges, or control rates. These functions sit with the six shareholding councils.

The model primarily services the metropolitan city areas comprising 75% of the region's population. The services rely on integrated water supply, wastewater and stormwater networks. For example:

- Drinking water collected and treated in the Hutt Valley. Bulk water is collected and treated from the Waiwhetu Aquifer and Wainuiomata River in Lower Hutt as well as from the Hutt River in Upper Hutt.
- Wastewater from Upper Hutt is piped to and treated in Seaview (Lower Hutt).
- Wastewater from northern areas of Wellington City is piped to and treated in Titahi Bay (Porirua City).

The WWL councils have a history of working together to address the challenges of local water services. This includes forming WWL as the second largest CCO in the country. WWL currently employs close to 400 staff, although it has a total workforce capacity of about 1,000 people,

which is procured through a combination of supplier arrangements. This includes partnerships with Fulton Hogan, Veolia, and contractor and consultancy providers³¹.

WWL delivered an annual capital programme of \$329.3 million for the year ended 30 June 2024.

The WWL model has been successful in many respects and provides invaluable learnings for the region:

- **Integrated network management:** The collective management of the city councils' integrated three waters network has provided opportunities to benefit from a larger scope and scale.
- **Scale:** The size of the WWL model enables it to employ a depth of water expertise and capability, which would be challenging for most of the owner councils if they operated an in-house model.

The WWL model does however have significant limitations which will constrain shareholding councils to meet the challenges going forward. These include fragmented accountabilities between WWL and its shareholding councils, constrained and uneven funding across the shareholding councils and the limited investment in critical core IT systems.

Other key limitations include:

- **Accountability:** The dispersement of accountabilities, especially of price, revenue setting and collection, investment planning, asset ownership and borrowing have been the source of many issues. As a result, WWL has to operate more than 20 different sets of accounts, such as an opex and capex account for each council. This is very time-consuming and prevents the design and execution of an investment programme which is optimised for the network as a whole. The fragmentation also inhibits the efficient and optimal operation of many other processes, such as investment planning, governance, customer service and consistency of bylaws.
- **Systems:** WWL was established on a constrained budget. There was minimal investment in providing the essential core IT systems. More than a decade on, WWL relies on Wellington City Council's financial system, third parties' maintenance management system and has no customer management system. This creates significant operational risk, impairs the ability of WWL to be effective and efficient in its performance, provide high-quality information and implement best practice financial processes.

Key aspects of the WWL model include:

- **Service provision:** WWL is contracted to provide water management, operations, maintenance services, future infrastructure and investment planning, and capital programme delivery services. It operates a mixed in-house and outsourced service model.
- **Asset ownership, revenue and debt funding:** All the water service assets, revenues (targeted rates, metering charges, development contributions etc) and debt remain with each council. As a result, WWL must agree discrete maintenance, capital works and funding programmes separately with each council. This inhibits WWL's ability to optimise investment across the network as a whole.
- **Shareholding:** WWL is 100% council owned. The councils' shareholdings approximately reflect their funding commitments (Wellington City 40%, Hutt City 20%, GWRC 15%, Porirua City 12%, Upper Hutt City 8%, South Wairarapa District 5%). Each council has an equal number of voting shares.

³¹ Source WWL figures at 30 June 2024.

- **Governance:** The key governance bodies are the (i) Shareholder Committee (Wellington Water Committee); and (ii) Board of Directors.
- **Shareholder Committee:** This committee comprises a representative from each council and Iwi/Māori representatives. Its role includes providing strategic direction, formulating a Letter of Expectations, coordinating feedback on the annual Statement of Intent and monitoring performance.
- **Board of Directors:** The company is governed by an independent Board which is appointed by the Water Committee. The Board appoints the Chief Executive.

WWL has been the subject of several reviews over the past two years, which have highlighted limitations and areas for improvement, including the need for clearer accountabilities and evolution of the model.

WWL is responding to these issues through an 'Organisational Capability Plan'³². This includes a range of actions in response to the findings of these reviews including improvements to accountability, assurance, financial controls, responsibility to shareholders, preparation for transition from reforms and embedding organisational values and behaviours.

WWL is also investigating the potential requirements and costs for enhanced IT systems and processes which are likely to require significant investment from shareholding councils and would need to be considered in council annual planning and budgeting processes for the 2025/26 and 2026/27 financial years.

Table 7: Key findings of reviews in relation to Wellington Water Limited

Review	Key findings
Inquiry into the cessation of water fluoridation by Wellington Water, Martin Jenkins, 2022	<ul style="list-style-type: none"> • Fluoridation was not a priority for WWL. • Drinking water has been safe but not optimally fluoridated. • Fluoridation was stopped to ensure the safety of the drinking water and operators, with no plan to turn it back on. • There were long-standing challenges to providing fluoridation safely. • There was good awareness of these issues within the organisation at operational levels, and attempts to address them, albeit slowly. • There were organisational barriers to raising and addressing issues. • The Board did not have the technical expertise to realise that they needed to be asking questions about fluoride in relation to oral health. • Escalation and communication of the decision to stop fluoridation took too long. • The complexity of the WWL model makes service delivery challenging. • The prospect of reform appears to be challenging for WWL's performance.
Wellington Water Contract Review, FieldForce4, 2023	<ul style="list-style-type: none"> • Maintenance costs had increased by 71% over the last three years. This review also found that the level of reporting from WWL was insufficient for a water utility of its size. • The review suggested that efficiencies could be found if there was more focus on performance measures and cost targets. • The report findings included: suboptimal contract management between WWL and its contractors; failure to ensure the performance and financial risk is proportionately shared between Wellington City Council, WWL and contractors; and a finding that the WWL reporting

³² WWL Committee report 27 September 2024.

	to the City Council fails to accurately capture and link network performance to the physical work programme and associated budgets.
Wellington Water Limited: capital programme estimating and budget systems, Roy Baker and Kevin Jenkins, 2024	<ul style="list-style-type: none"> • This noted the organisation was not as mature as reviewers would expect. • WWL is now 10 years old, but it has not evolved in step with the evolution of its functions and as an organisation has not kept pace with increased demand. • Unclear structures and accountabilities, with like functions not being grouped with like; a control environment that is loose and not fit for purpose; inadequate systems and processes; some missing competencies (including strategic leadership); underresourcing in the finance and the risk functions; and a mismatch between WWL's values and, as described, its culture. • A culture of not wanting to hear or present bad news. There is a tendency to want to manage bad news before informing stakeholders, and to try to shape their perceptions and reaction to the problem in order to minimise it. Although staff and middle management had formed good relationships with the shareholders, reviewers were told that WWL comes across as defensive to shareholders. • Problems from the 2022 fluoride review had not been addressed. • Issues in this review need to be addressed urgently, otherwise similar errors will happen again. The critical work to be done includes recovering the lost trust and confidence of WWL's shareholder councils. For the senior leadership, it also includes recovering some lost trust and confidence among their own people.

15. Enabling growth

This report does not go into detail on the future investment required to enable population growth and development capacity, which is a requirement of a WSDP. It focuses on demand for new housing growth and the extent to which this is currently being constrained due to a lack of capacity in existing infrastructure and little investment for new three waters infrastructure in areas that are set to intensify.

Planning for growth and housing demand

The Horowhenua-Wellington Region has been experiencing steady growth and development, with the population projected to reach more than 775,000 people by 2054. The Carterton and Masterton Districts' populations are expected to increase by more than 50%. In Wellington City the population may grow to more than 271,000.

The Wairarapa-Wellington-Horowhenua Future Development Strategy 2024–2054 (FDS),³³ sets out how the region plans to deliver well-functioning urban environments in existing and future towns and cities over the next 30 years. It proposes where to prioritise housing and business development, as well as investment in infrastructure to support this development. The strategy guides regional policy development, including Regional and District Plan changes in the future, as well as Land Transport Plans, infrastructure strategies, councils' budgets (LTPs) and other policies.³⁴

³³ [1404-GWRC-WLRC-Future-Development-STRATEGY-2024-240223-06.pdf \(wrlc.org.nz\)](#).

³⁴ <https://wrlc.org.nz/future-development-strategy>.

The Wairarapa-Wellington-Horowhenua FDS informed by the 2023 Wellington Regional Housing and Business Capacity Assessment (HBA) Update,³⁵ projects that an additional 200,000 residents will live in the Wellington Region by 2053, requiring 99,000 more homes to be built over that period. These additional homes are expected to be built in both new greenfield locations and redeveloped brownfield locations within existing urban areas.

Constraints on growth

The regional HBA has identified that there is sufficient plan-enabled housing development capacity up until 2053 due to either plan changes, variations, or full District Plan reviews that will enable intensification as required by the National Policy Statement – Urban Development. This is currently being updated to reflect new Government policy and direction.

However, in some cases councils have identified housing capacity which does not have accompanying LTP funding for infrastructure investment to address constraints. An example is in Porirua City for the Northern Growth Area (NGA) which is considered the Wellington Region's most important greenfield housing opportunity³⁶ with capacity for 5,000-7,000 new homes. Porirua City has not included all the three waters infrastructure costs to enable development in the NGA in the 2024-2034 LTP due to affordability and balance sheet constraints.

Furthermore, in some areas, critical issues exist in allowing new water connections to reservoirs, which in metropolitan areas are nearly all in Levels of Service (LOS) deficit.

Some new wastewater connections are managing LOS by using retention tanks on private property, but the lack of monitoring and compliance could result in significant environmental and health issues as these systems fail and are not maintained.

The implementation plan for the FDS³⁷ highlights that investment in the required three waters infrastructure is unconfirmed for some key development areas including:

- Te Aro growth corridor, Johnsonville (Wellington City) – three waters.
- Trentham priority development area, Upper Hutt strategic public transport corridor (Upper Hutt) – potable water, wastewater and stormwater.
- Te Āhuru Mōwai (Western Porirua), Kenepuru, Northern Growth Area – potable water, wastewater and stormwater.
- Hutt Central priority development area – wastewater pipeline, pump station and emergency storage.
- Featherston priority development area – potable water, wastewater and stormwater.
- Carterton – new water supply.
- Masterton - wastewater treatment upgrade.

Other examples of capacity restrictions on growth

- **Martinborough:** Significant performance and compliance issues resulted in GWRC issuing an abatement notice for the Martinborough Wastewater Treatment Plant in August 2022. The plant has also reached its design capacity as population growth and annual connections have far exceeded expectations. Due to these issues, South Wairarapa District Council is no longer issuing building consents that need new wastewater connections³⁸.

³⁵ Regional Housing & Business Development Capacity Assessment 2023 - WRLC.

³⁶ Northern-Growth-Area-Selection-Decision-Report.pdf (kaingaora.govt.nz).

³⁷ GWRC FDS Implementation Strategy June 2024.

³⁸ <https://swdc.govt.nz/martinborough-wwtp/> and <https://swdc.govt.nz/greytown-wwtp/>.

- **Greytown:** In June 2024, WWL advised South Wairarapa District Council that there was not enough capacity at the Greytown Wastewater Treatment Plant to allow development of a proposed 200 lot subdivision or sufficient capacity for new connections to the wastewater network in Greytown. The plant was designed to service 2,200 connections and is currently servicing 2,700 connections³⁹.
- **Growth planning:** Porirua City Council, Upper Hutt City Council, Wellington City Council and Hutt City Council are all working with WWL to understand funding and constraints of current and future growth demands.
- **Water supply:** The region is approaching capacity constraints to meet current water demand in the greater Wellington metropolitan area, leading to the risk of more severe water restrictions and water shortages (see case study below). This has required a comprehensive programme of demand management (education, water restrictions and planning for water meters) and asset development (treatment plant upgrades), and potential additional storage⁴⁰.

Housing demand and projected shortfall

- Besides the very significant funding constraints facing councils, sustained growth pressures are affecting the Wellington Region including a current deficit of 9,500 - 12,000 houses and 2,400 families on the social housing register (representing an increase of more than 1,000 families since 2019).
- For the year ended 2023, a total of 2,427 new residential dwelling consents were issued, representing a 33% decrease since the end of 2021⁴¹. Based on current residential consenting rates for the past 10 years, it is expected there will be a housing supply deficit of 21,000 houses in the next 30 years.

Funding for growth

Along with the advantages of growth for the region comes the difficulty of funding and building sufficient infrastructure and community facilities (such as reserves and community infrastructure) to service a growing community.

Much of the cost of the infrastructure for new growth is covered by developers, particularly within property boundaries or where large-scale, comprehensive greenfield development occurs. This can include local pipe networks, stormwater detention and drinking water reservoirs.

However, development also adds pressure to existing infrastructure and the wider three waters network, which requires upgrades to add capacity. This includes water supply and reservoirs (especially where these serve multiple development areas), stormwater retention and discharge, and wastewater collection and treatment. These capacity upgrades are often very expensive and need to be integrated with other planned renewals work, which can lead to complex investment planning and long lead times.

Typically, councils recover much of the cost of these upgrades through development contributions or financial contributions⁴². These range significantly across the region in terms of costs to developers. There is however often a significant timing gap between the upfront investment to enable development and receipt of revenues. For example, a major wastewater upgrade may be required to enable development which will then repay these costs over the next

³⁹ <https://swdc.govt.nz/news/pause-on-new-applications-to-connect-to-greytowns-wastewater-treatment-plant/>.

⁴⁰ <https://www.wellingtonwater.co.nz/our-wai-can-run-dry/>.

⁴¹ [WRLC Housing Data](#).

⁴² The purpose underlying development contributions as outlined in s197AA LGA2002 "is to enable territorial authorities to recover from those persons undertaking development a fair, equitable, and proportionate portion of the total cost of capital expenditure necessary to service growth over the long term."

20 years. The gap needs to be bridged by councils using debt and this is a problem for funding-constrained councils. Where infrastructure is not provided in a timely manner this can constrain development, as evidenced by the examples above.

Case Study: Mitigating the risk of water shortages for metropolitan areas of Wellington

GWRC owns the bulk water supply network for Wellington, Porirua, Lower Hutt and Upper Hutt. This involves large water collection areas, four water treatment plants, 15 pumping stations and more than 180kms of large-diameter pipelines.

On a typical day:

- Upper Hutt, Porirua and Wellington's northern suburbs are supplied from Kaitoke.
- Lower Hutt is supplied from Waterloo.
- Wellington's CBD, southern and eastern suburbs are supplied from a combination of Waterloo and Wainuiomata.

An important feature of the bulk water supply system is the interconnection between the two main pipelines (Kaitoke to Karori and Wainuiomata to Wellington) at Ngauranga. This interconnection provides some degree of security of water supply to the cities. This bulk water supply network is managed by WWL.

WWL plans to work with shareholding councils to reduce the rising risk of more severe water restrictions and water shortages and to reduce the impact on communities as much as possible. WWL reports that, based on planned activity and the level of investment councils can afford, removing the risk of Level 3 and 4 water restrictions is not realistic. Instead, WWL is aiming to reduce the risk of entering Level 4 water restrictions for the 2024/25 summer.

WWL's approach to this work is driven by three key outcomes: keeping the water in the pipes, reducing water demand and adding more water supply.

WWL is working on behalf of shareholding councils across a range of activities to mitigate these risks:

- **Fix the network:** continue to increase investment into finding and fixing leaks, managing water loss and replacing old infrastructure.
- **Reduce demand:** continue to encourage customers to reduce water use.
- **Water metering:** investigate and plan for water metering. All metropolitan councils have indicated they will support work towards water metering and will progress this on varying timeframes (South Wairarapa District Council already have residential meters).
- **Increase supply:** in the long term, there is a need to increase the amount of bulk water supplied to the Wellington, Porirua and Hutt and Upper Hutt City Councils by building two more water storage lakes. These lakes will ensure the region has sufficient water supply in the summer to meet demand in Wellington, Porirua and the Hutt Valley. WWL will develop concept designs, and work through consenting. The cost to build the lakes will be high and as a region, there is a need to first reduce the use of water by fixing leaks in the parts of the system owned by the city councils, and by reducing demand. Construction of any new water storage lakes will be subject to community consultation and resource consent approvals.⁴³

⁴³ GWRC LTP 2024-2034.

16. Compliance

New Zealand is in the early stages of implementing a system of water regulation. The Taumata Arowai – Water Service Regulator Act 2020 and the Water Services Act 2021 introduced a new regulatory environment for water services.

This is an evolving space and will require all water providers to have the capability, capacity and investment needed to meet regulatory and compliance standards.

Major changes to the compliance framework include:

- **Establishment of Taumata Arowai:** Taumata Arowai has established new Drinking Water Standards and is establishing Wastewater Discharge Standards. Taumata Arowai has made significant progress in developing and monitoring drinking and wastewater quality since it was established. Government announcements on 8 August 2024 signalled changes to how Taumata Arowai regulates drinking water suppliers. The changes will “...remove barriers to Taumata Arowai taking a proportionate, cost effective and efficient approach in its functions and duties.”⁴⁴
- **Tightening of environmental compliance requirements:** Direction is set by the Government via its NPS-FM, which is currently under review. GWRC implements this through changes to the Regional Policy Statement and Natural Resources Plan and ensures compliance with environmental standards, including the allocation of water supply (take) from natural sources and for wastewater/stormwater discharge requirements. Government announcements on 8 August 2024 signalled further changes including:
 - It will require Taumata Arowai to take account of the NPS-FM, and any regional plans, prepared under the Resource Management Act, that relate to freshwater, as part of the exercise of its functions, duties and powers.
 - Development of wastewater environmental performance standards that are being developed by Taumata Arowai under the Water Services Act. The legislation will be amended so there will be a single standard, rather than a minimum or maximum.
 - These amendments would be designed to ensure regional councils implement a single standard approach in resource consents and cannot exceed the standard in consenting conditions apart from on an ‘exceptions’ basis.
- **Appointment of the Commerce Commission** as the consumer protection and price/quality regulator for water delivery services (with detail and legislation to be confirmed in late 2024). More details of the economic regulatory regime will be announced later this year when Bill 3 is enacted. It is expected that the Commerce Commission will regulate the economic performance of water delivery through regulation of price and delivery service quality. Government announcements on 8 August 2024 confirmed an intent to introduce economic regulation primarily based on information disclosure with additional powers of oversight. The main purpose of this regulation will be to ensure the right level of investment to ensure good quality water services at an affordable level. This is a critical part of the new water regulatory framework and will be necessary to give communities assurance that prices set for water services are fair and reasonable.

⁴⁴ <https://www.dia.govt.nz/Water-Services-Policy-Future-Delivery-System>.

Drinking water

Most water supply treatment plants in the region are compliant for safety and those that are not, have existing remediation plans. There are several exceptions to this where water take and bore reliability will require more detailed and high-priority planning. While water safety requires continued investment, this is at a much lower scale than that required for water supply capacity, both in terms of supply take and storage. A summary of key compliance issues for drinking water is included in Appendix F.

Water pipes failure and capacity

The impact of water pipe failure will be considered as part of the quality component of water delivery service price/quality regulation and monitored by the Commerce Commission. The absence of sufficient focus on this issue by councils, when compared to water quality and environment regulation, has left this as the highest risk with the largest consequential cost to society from network asset failure.

Pipes represent about 80-90% of the total asset value of the water network, depending on differing locations in the region. As noted above, asset condition information on the pipe networks is currently incomplete. Water pipe condition assessment, identification of existing or imminent pipe failure, and the subsequent replacement of these pipes is considered the highest priority for the network, with the obvious exception of maintaining safe drinking water.

Wastewater pipe capacity is currently seriously impacting growth for many councils in the region including the targeted high-growth rate expected in Porirua and Kāpiti.

Wastewater header and interceptor pipe failures have been the predominant form of major network failure over the last few years and represent one of the highest risks of major network failure.

Wastewater

Many of the wastewater treatment plants in the region are not currently compliant. There are also serious capacity risks in both forms of treatment plant which is currently limiting population growth of many cities and districts within the Wellington Region. Because capacity constraints are not regulatory in nature, this is becoming a lower priority issue. It will be necessary to unlock these capacity constraints as a remediation priority for the network. A summary of key compliance issues for the main wastewater treatment plants is set out in Appendix F.

The high proportion of worn-out assets, and limited storage and sourcing capacity of the network is expected to result in significant economic regulatory non-compliance and required improvements as part of regulation by the anticipated economic regulator. The low historical priority given to network fault rates, failures and renewal is likely the consequence of not having economic regulation for water to date.

As noted above, the network has a very high percentage of worn-out assets and these give rise to frequent failures, repair backlogs, and divert remediation and network maintenance funds to fixing leaks and trying to achieve environmental compliance. This also raises the cost of running the network due to the burden of high levels of faults.

In practice, it will not be possible to achieve sustained compliance to wastewater discharge standards with the network failures that are currently occurring and the current design of the stormwater network including cross connections. These will need to be fixed first, as no amount of treatment plant enhancement will be able to cope with these two upstream weak spots in the network.

Priority must be given first to fixing the pipe networks because this will:

- reduce water supply leaks to both lower cost and retain water supply capacity for our summers, and
- allow wastewater treatment plants to operate at known peak load capacity without the significant ingestion of seawater and groundwater.

17. Current and required expenditure and funding

All councils (with the exception of South Wairarapa District Council) have recently consulted their communities and confirmed proposed three waters investment (capital and operating expenditure) for 2024-2034 through the LTP process.

While councils are planning significant investment to manage network risks, combined LTP investment over the next 10 years is about \$4.82 billion (real), which is approximately \$470 million (or about 10%) less than the estimated investment required based on the recommended investment strategy in this report over the next 10 years and 30-40% less than what will be required, on average over the next 20-25 years.

Based on the assessment of the condition of the network, as well as investment required to enable growth and meet compliance requirements, the level of funding planned under LTPs is considered below what is needed and this will lead to further network deterioration and increasing risks. This is highlighted starkly in the WWL Statement of Intent 2024 which states that *“The likely levels of funding will exacerbate the region’s critical risks and create new ones”*.

Investment required versus what is affordable – increasing the risks

As part of the LTP process, WWL shareholding councils are advised on required funding by WWL. From the WWL 2024 Statement of Intent⁴⁵:

Wellington Water advised councils that regional capital investment in the order of \$10 billion is required over the next 10 years to deliver on all the region's strategic priorities. This level of investment is unaffordable and currently undeliverable.

Based on delivery to date, Wellington Water recommended that councils (excluding South Wairarapa District Council) invest \$7.6 billion in capital expenditure over the 2024-34 LTP period. This level of funding is the maximum that can be delivered in the region⁴⁶.

Some councils have invested more in water infrastructure than ever before. However, the councils have been clear to Wellington Water that \$7.6 billion is still unaffordable due to council debt headroom constraints and impact on ratepayers.

The capital investment programmes agreed by councils collectively totals \$3.6 billion, around half of what Wellington Water recommended as being deliverable. Funding is particularly constrained in the first three years of the 2024-34 LTP period.

Wellington Water recommended a regional 10-year operating expenditure budget totalling \$1.7 billion (excluding South Wairarapa District Council). Councils have provided a 10-year operating expenditure budget of approximately \$1.5 billion.

The level of funding set by councils for the 2024-34 LTP period means we cannot achieve a balanced programme that delivers on all the region's strategic priorities.

\$2.8 billion baseline programme – based on funding assumptions from councils' 21-31 LTPs, this is the basic level of capital investment to keep the lights on but won't improve the region's water assets to a sustainable and manageable level.

The likely levels of funding will exacerbate the region's critical risks and create new ones. Of particular concern is the ability to supply water to communities in the coming summers and the longer-term costs of deferring this investment now. Based on councils' proposed level of funding, there will be limited work to support population growth, renew infrastructure at a sustainable rate, improve water quality and resilience and reduce carbon emissions.

The risks below are key risks that all our councils across the region face. The likelihood of these risks occurring is dependent on the level of investment each council provides and some, therefore, will vary by council:

- *Severe water restrictions or an acute water shortage in future summers.*
- *Continued risk to drought resilience across the region. In the Wellington metro area, the current supply capacity is only able to meet unrestricted water demand in a 1 in 13-year drought, as opposed to 1 in 50 years.*
- *Wastewater treatment plants are not reliable and do not comply with consent conditions with limited ability to bring the wastewater treatment plants back to compliance reliably in the next three years.*
- *Environmental damage and not meeting communities' and mana whenua expectations due to wastewater overflows from network and treatment plants.*
- *Assets fail more regularly due to lack of investment in proactive activities such as renewing and replacing assets, planned maintenance, leak detection and condition assessments.*
- *Customers face more disruption and longer waits for repairs on the wastewater and stormwater networks.*
- *Disruption and repair times on the drinking water network will initially improve but begin to worsen from July 2025.*
- *Additional population growth puts pressure on the capacity of the network and treatment plants, leading to impacts on customers and the environment.*

⁴⁵ WWL Statement of Intent 2024 <https://www.wellingtonwater.co.nz/>.

⁴⁶ This is based on a 30% uplift of work year on year that plateaus at \$1b per year. WWL Statement of Intent 2024.

Planned renewals

Another example of planned investment relative to required investment is the:

- planned length of pipe replacement (renewals) relative to the length of the network, and
- average service life (how long a pipe is expected to last - this is a proxy for actual asset condition information).

This table helps to illustrate how long it would take, at that rate, to replace a pipe network. For 2024/2025, the planned meters of pipe replacement for each council are shown in the table below.

Table 8: Planned pipe replacement for Wellington Water Shareholder Councils 2024/2025 financial year⁴⁷

Council	Planned pipe replacement 2024/25 (km)	Total meters of pipe in network (km)	No. of years to replace pipe network at 2024/25 rate
Hutt City	4.971	1,845	371
Wellington City	0.427	2,728	6,388
Porirua City	0.200	1,065	5,325
Upper Hutt City	2.838	662	233
South Wairarapa District	0.472	209	442
GWRC	0.180	187	1,038
Total	9.088	6,696	736

⁴⁷ WWL Statement of Intent 2024 <https://www.wellingtonwater.co.nz/>.

Options and recommendations for a regional delivery model

Section summary

This section outlines the process followed and key considerations and options for a joint WSDP and high-level design for a future delivery model.

The process focused on the development of ‘best for region’ options. This section sets out a *recommended* delivery model which needs to be endorsed and then fully developed in subsequent phases of work as part of the decision making regarding a joint WSDP and potential establishment of a WSCCO. This will require consideration of the provisions in Bill 3 when this is introduced into Parliament (expected to be December 2024).

The councils took a collaborative approach, facilitated by a joint regional team based on a series of workshops with the officers, Chief Executives and the AOG to consider options and alternatives, provide feedback and direction. This process helped confirm the key requirements and case for change.

A range of possible different models and structures for a joint delivery model were considered, informed by current models in the region including in-house delivery models; a joint CCO service delivery only; a joint CCO full-breadth, asset-owning, a joint council-owned company (COC); a consumer trust; and a private sector option, which was not explored.

Based on the analysis of options and direction from workshops, the recommended option is for a **joint council-owned company** (that is, a full breadth water utility, owning all assets, revenues and liabilities). This would have a similar structure to a CCO but with reduced council oversight, enabling the company to have greater control and certainty over investment plans. The recommended option is consistent with the Government’s policy announcements on 8 August 2024 relating to a new class of financially independent water CCOs that councils will be empowered to establish under Bill 3.

The new WSCCO model will operate in a much more regulated environment, which will provide a strong focus on assurance, quality, delivery and value for money. The primary relationship of a WSCCO will be with its customers, not its shareholders (or owners). Council direction and oversight would therefore be less than under traditional CCO models. The new entity needs the independence and accountability to deliver. A skills-based Board with a clear set of competencies is at the heart of the recommended governance model.

The new WSCCO would provide all services directly to water customers and bill them for water usage and services provided. Councils are keen to ensure that any future regional WSCCO will provide a high level of local service delivery, including good compliance, response times, and supply. The new model needs to be able to meet these expectations.

18. Process to test options for a joint WSDP and joint delivery arrangements

As mentioned, the councils in the Wellington Region have agreed to work together to consider a joint approach to development of a WSDP. Dependent on decision making of councils, the key deliverable from this joint process is intended to eventually be a draft joint WSDP, including implementation plan for a delivery model.

The process for this report focused on the development of ‘best for region’ options and did not consider alternative council-specific or provincial options – these are being developed and evaluated in parallel to this process by councils to inform their own decision making in relation to the WSDP.

Outlined below is a recommended approach which would need to be confirmed as part of future work relating to the development and decision making of a joint WSDP and the implementation planning and establishment of a WSCCO.

The approach was informed by a series of workshops with the officers, Chief Executives and the AOG to consider options and alternatives, provide feedback and direction to guide the development of this process. The workshops were supported by analysis of information, data, options and alternatives, to support informed discussion and direction.

The key stages of the approach are set out below.

Table 9: Workshops

	Workshop 1	Workshop 2	Workshop 3	Workshop 4	Workshop 5
Overall focus	Process Key requirements for success	Network economics, funding and financing	Governance and structure options	Concept model, funding and pricing pathways	Council positions, draft report and transitional issues
Summary of options and direction	Confirmation of process Key requirements Preferred type of model	Approach to network economics and scale of the challenge Level of investment required	Governance design principles and model including role of council owners, Board and Iwi/Māori	Key elements of concept model Risks and benefits of different funding and pricing pathways to achieve financial sustainability Transition principles	Council position updates Draft regional report feedback Key activity in September and October Transitional issues and alignment
Timeline	April/May 2024	June 2024	July 2024	August 2024	September 2024

19. Type of model

A WSDP is required to identify the likely form of any joint arrangement, including whether it is anticipated to involve water services being delivered by a joint delivery model and the proposed model or arrangements for delivering water services.

In terms of different types or structures of joint delivery models, a range of options were considered. This assessment was informed by consideration of what does or does not work well in current models across the region, including council-delivered options and through WWL. Key learnings were:

- In-house delivery models can be prone to underfunding, less commercial expertise and potential lack of role clarity.
- WWL Board's power to chart strategic direction is hindered by not owning assets or controlling funding and the WWL model has led to underfunding.
- The WWL model has a practical overlap between Committee and Board.
- Wellington Water Committee (WWC) has a strong focus on operations, relative to performance oversight.
- Shareholder representatives on the WWC can focus on local issues at the expense of a regional and network-wide focus.
- Small shareholding councils of WWL can feel their voices are not heard.
- Consumers have underpaid for the full cost of services under all models and there has been little use of all potential funding and price levers.

Key options considered and recommended model

More details on the key options can be seen in Appendix G. A range of possible structures for a joint delivery model were considered, informed by current models in the region, including:

1. In-house delivery models,
2. Joint CCO – service delivery only,
3. Joint CCO - full-breadth, asset-owning,
4. Joint COC (which is a slightly modified version of number 3) ⁴⁸,
5. Consumer trust, and
6. Private sector option (Note: this was not explored due to strong opposition from councils to the privatisation of water).

Recommended delivery model

Based on the analysis of options (summarised in Appendix G) and direction from workshops, the recommended delivery model is for a **joint council-owned company** (that is, a full breadth water utility, owning all assets, revenues and liabilities).

This recommended option was selected as it was the only option that met the key requirements of councils, aligned with Government policy intentions, and the anticipated requirements of the Preliminary Arrangements Act and Bill 3.

The entity would be of the type that councils will be empowered to establish under Bill 3 to be introduced in December 2024. It would have a similar structure to a CCO under the LGA, but with reduced council oversight (as provided for under Bill 3), enabling the company to have greater control and certainty over investment plans. This is one of the features necessary to enable borrowing by the new entity.

A key assumption is that Government will introduce details for a new asset-owning WSCCO through Bill 3 – in line with the announcements on 8 August 2024 – which will provide this type of organisation with the necessary purpose, powers and functions to meet the region's requirements.

The recommended model is well aligned with the guidance on delivery models announced on 8 August 2024. This includes a similar structure to the 'multi-council-owned water organisation'

⁴⁸ Since the workshops, the government has adopted the term Water Services Council-Controlled Organisation (WSCCO) in legislation to describe the new type of water services entity. This aligns with other regulations. Throughout this report therefore we also use this term as the description of the new proposed entity.

outlined in DIA guidance including a similar governance and accountability framework. The exception to this is in relation to stormwater, as discussed below.

The announcements on 8 August also support the recommended model option in that:

- this delivery model is well aligned with the minimum requirements that will be set out in Bill 3, and
- it would meet the requirements for a ‘water organisation’ (which refers to separate organisations that councils may establish to provide water services), which will be necessary to ensure lending from the LGFA.

Since AOG workshops on governance arrangements, the Government has provided broad details of the governance and accountability arrangements that will apply to the new class of CCOs that will be enabled under Bill 3. The three accountability documents provided for in these announcements are a Statement of Expectations, WSS and water services annual report. The Statement of Expectations is directly comparable to the Letter of Expectations considered during the council workshops. Similarly, the proposed water services annual report is as envisaged during those workshops. The workshops anticipated a Statement of Intent which is currently the primary accountability document for CCOs established under the LGA, but it seems likely that water CCOs established under Bill 3 will have a WSS in place of a Statement of Intent.

Until Bill 3 is enacted, however, there remains some (albeit a relatively low) risk that this type of WSCCO is not fit for purpose or able to meet the region’s identified key requirements. This will require ongoing engagement with the legislative process.

20. Design principles and assumptions

Informed by the policy announcements on Bill 3, a number of design principles and assumptions have been identified for the recommended model. This includes the relationship between the proposed WSCCO and the other key “players” who form part of the water service delivery ecosystem.

Key relationships

- **Councils (owners):** New council-owned WSCCO delivering three waters services across the region directly to customers. This will ensure ongoing public ownership and control. Bill 3 is likely to confirm further protections against privatisation⁴⁹. Councils will have some ability to set purpose and direction including processes to appoint and hold the Board to account through the constitution.
 - Transfer of assets and debt: Councils transfer all their water assets, liabilities and customers to create a full-breadth water utility.

⁴⁹ Protection against privatisation. Government announcements on 8 August confirmed that legislation will likely include the following statutory protections:

- Only local authorities and/or consumer trusts will be permitted to own shares in a water organisation.
- Provisions that prevent:
 - water infrastructure assets from being used as security for any purpose
 - divestment of ownership or other interest in a water service except to another local government organisation or water organisation; and
 - lose control of, sale, or other form of disposal of the significant infrastructure necessary for providing water services in its region or district, unless, in doing so, the local authority or water organisation retains its capacity to meet its obligations
- Shares in water organisations cannot give any right, title or interest in the assets, security, debts, or liabilities of the entity, and would not be able to be sold or transferred.

- The existence of strong regulators and an independent Board leaves councils with a relatively light, residual oversight role. The shareholders provide a Statement of Expectations and the WSCCO Board, having considered the Statement of Expectations, prepares and adopts the WSS (after having provided shareholders with an opportunity to comment on a draft) and an annual report. See Section 21: Ownership and Governance.
- **Water customers:** Water consumers become customers of the WSCCO. The WSCCO provides all services directly to water customers and bills them for their water usage and services provided.
- **Iwi/Māori partners:** Embraced as partners of the WSCCO, as both parties work to achieve an aspirational vision to restore Te Mana o te Wai. See Section 21: Ownership and Governance.
- **WSCCO:** The WSCCO is 'non-profit making' in that it is not allowed to pay dividends but needs to generate a sufficient and fair surplus. 'Sufficient' means that the surplus revenue is sufficient to fund the renewals to maintain a high-quality water network and to operate the organisation with sufficient investment in people, systems and processes. 'Fair' means that there is good alignment between the generation that funds the cost of infrastructure and the generation that benefits from that investment.
- **Governance – Board:** The WSCCO is governed by a professional, independent Board with members selected for their skill sets and experience.
- **Debt funders:** The LGFA is likely to be the WSCCO's main funder at first. Government announcements on 8 August 2024 confirmed that the LGFA would immediately be able to lend to new water organisations⁵⁰. Over the longer term, the WSCCO is likely to develop the financial strength and maturity to be investment grade in its own right.
- **Regulators – wastewater quality:** Taumata Arowai sets the three waters' standards and monitors the performance of drinking water. At a local level, the regional council applies the standards and ensures compliance for discharges and bulk water takes. Additionally, regional councils are environmental regulators under the Resource Management Act.
- **Regulators – economic efficiency:** The economic regulator role will be to regulate availability and quality of services, and to protect consumers' interest by ensuring that the WSCCO sets fair prices and drive cost efficiency.

The key operating relationships and design principles are shown in Figures 4 and 5 below.

⁵⁰ Defines 'water services provider' means all forms of local government provider and including councils that continue with direct (in-house) delivery as well as new water organisations. The term 'water organisation' refers only to separate organisations that councils may establish to provide water services and does not include councils with direct (in-house) delivery.

Figure 4: WSCCO operating relationships

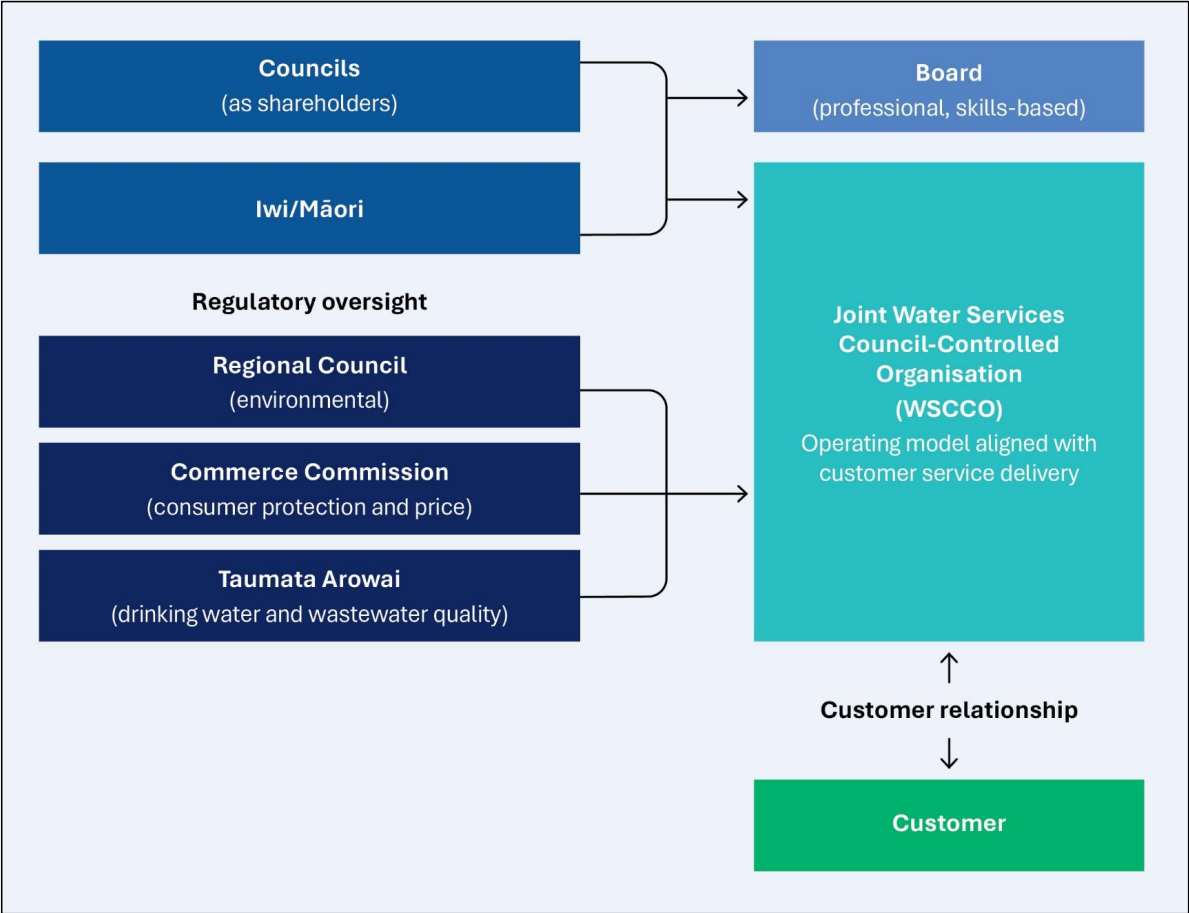
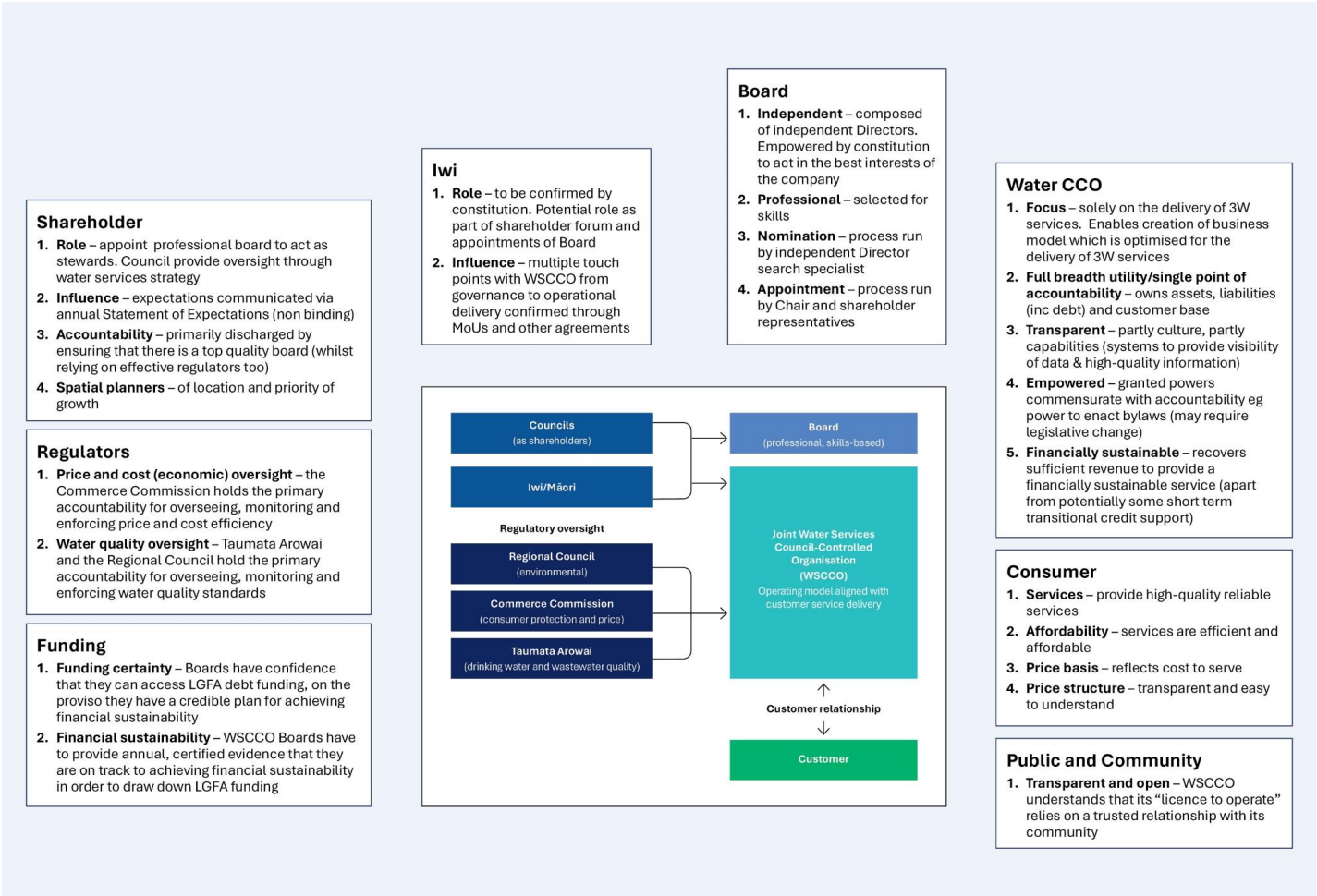


Figure 5: WSCCO key design principles



21. Ownership and governance

Through the workshops, councils considered a range of options for ownership and governance of a WSCCO. These were guided by the following council requirements relating to governance and have been updated in line with the policy announcements on Bill 3:

- Public ownership – no privatisation of water assets or delivery.
- Local (shareholder) influence to ensure alignment and enable broader outcomes.
- Single point of accountability for service delivery and wider clarity of role.
- An independent, professional Board appointed based on skills, with strong commercial discipline.
- Iwi/Māori input must be meaningful.
- Board to be empowered to operate independently and innovate to achieve outcomes.
- Board has certainty to plan, fund and invest (implies limit on shareholder role).
- Board adopts a long-term planning horizon.

Other key considerations were:

- The new WSCCO model will operate in a much more regulated environment – economic, environmental, quality, so not the same as existing CCO models.
- Regulation provides a strong focus on quality, assurance, delivery and value for money. These also provide channels for customers.
- The need to recognise that the primary relationship of WSCCO will be with its customers, not its shareholders (owners).
- Role of shareholders will be less than under traditional CCO models – with direction and oversight through Board appointments, Statement of Expectations and annual plan reporting.
- In this context, there is a need for clarity on the role and influence of shareholders and focus, such as outcomes, alignment with growth and housing.
- The new entity needs independence and accountability to deliver.
- A skills-based Board with a clear set of competencies is at the heart of the proposed governance model.

Options considered focused on the role of the Board of a WSCCO and the role of shareholders.

Table 10: Appointment of the Board of Directors – recommended model and other options

	Recommended option and design principles	Other options considered
Board appointment process	<ul style="list-style-type: none"> • Shareholder agreement covers appointment rights • Appointment process should be apolitical • Shareholder appoints member to appointments panel which (with Board Chair) then appoints directors by unanimous vote • Appointments panel adds rigour 	<ul style="list-style-type: none"> • Directors appointed by unanimous shareholder committee resolution (current WWL model) • Same as option above but appointment by majority vote • Same board for entity establishment and BAU operation

	<ul style="list-style-type: none"> Small establishment Board can have different focus 	
Board skills and membership	<ul style="list-style-type: none"> Experienced professional directors given WSCCO's challenges Director skills matrix is key to having relevant skill sets and experience on Board No elected members or specific local representation on Board Key skills would include commercial, asset management, network utilities, Treaty of Waitangi, customer, and local government 	<ul style="list-style-type: none"> Constitution could allow or prohibit elected members on Board Iwi/Māori representation on Board

Table 11: Role of shareholders – recommended model and other options

	Recommended option and design principles	Other options considered
Shareholder role and influence	<ul style="list-style-type: none"> Shareholder forum to agree Statement of expectations and comment on draft WSS Panel to appoint/remove directors Objectives in WSS to reflect entity's statutory purpose and responsibilities Bill 3 may need to provide more independence especially around WSS 	<ul style="list-style-type: none"> Statement of Expectations only Statement of Expectations and power to modify WSS Individual shareholders produce Statement of Expectations and comment on draft WSS Bill 3 may provide new options to consider
Performance monitoring	<ul style="list-style-type: none"> Annual report only Compliance burden on CCO needs to be managed Annual report should not duplicate plans required by regulators 	<ul style="list-style-type: none"> Half yearly/quarterly reports Residual monitoring
Oversight	<ul style="list-style-type: none"> Two meetings in public only, and Parts 1-6 of LGOIMA (availability of information) One additional shareholder meeting (AGM) Regulators, Auditor-General and Ombudsman will provide oversight across all areas of activity 	<ul style="list-style-type: none"> All Board meetings in public Additional shareholder meetings Bill 3 will clarify oversight by Commerce Commission and Taumata Arowai.

Other feedback and future considerations

Specific matters will require further consideration in the detailed development of the recommended model, including alignment with the minimum requirements for delivery models under Bill 3⁵¹. These will need to be worked through as part of any shareholding agreement, constitution and clarification of the roles and process for appointment of the Board. Issues include:

- Details in Bill 3 – this is likely to define the purpose of a new WSCCO established under that legislation and may clarify the roles of owners and Board as well as reporting requirements.
- The importance of economic regulation in a new model – vital to ensure fair prices and sustainable investment. Economic regulation oversight and price change will need to be phased in over time, to ensure that there is sufficient capability for both the regulator and delivery models.
- Role and oversight from owner councils and Iwi/Māori partners:
 - There will be a transitional development of the new entity and significant compliance requirements in the first few years. There is a need to ensure the Board and WSCCO are not overloaded. Council oversight may change as regulators are established.
 - There will need to be some form of shareholder forum to set and agree direction, with a need to clarify membership or role of Iwi/Māori on this.
 - Key roles of councils include holding Board to account, alignment with growth, and equity.
 - Foundation documents will need to provide clarification on the role of councils and mana whenua in relation to Board appointments panel – membership, process, decision making; and shareholder forum – such as membership, role, key areas of focus, representation.
 - Councils will need to communicate the changes to their communities, including the shift in relationship from council-customer to WSCCO-customer, with the regulator as ‘backup’.
- Board of WSCCO and entity:
 - It is important to have skilled people on the Board and get the setting right to make this attractive. Skills/competencies to be considered would include commercial, asset management, network utilities, Treaty of Waitangi, customer, local government, and local knowledge.
 - The Board needs to be professional and skills-based, not representative – with appointments by panel. The appointments process will need to work through challenges and options regarding the membership of the appointments panel and decision-making requirements – such as consensus or majority, and role of Iwi/Māori.
 - Unanimous decision making often does not work, and this is a learning from WWL. Particularly when appointing directors to boards, the decisions should not need unanimity.

⁵¹ Government announcements on 8 August noted councils can design own arrangements as long as these meet minimum requirements:

- Will have to meet clear minimum requirements set out in legislation. This includes meeting regulatory standards, financial sustainability requirements such as ringfencing of water services.
- Restrictions against privatisation.
- Additional requirements for water organisations to ensure they are operated and governed effectively.

- There is potential for a transitional Board during the establishment period.
- There is a need to be clear on how to ensure effective day-to-day operations and in relation to a skills-based governance board.
- The new model must not impact on Treaty settlements.
- Following a concern that smaller councils may not get same priority as bigger councils, there should be a focus on a baseline of level of service and local delivery.

Establishment period and rights of entry and exit

A further matter for consideration in the next phase of work and the establishment documents will be rights of entry and exit as shareholders.

During the first 3–5 years of the new WSCCO it may be necessary that there is a ‘lock down’ period of shareholders.

This is to provide the WSCCO with sufficient certainty of accountabilities, shareholders and investment and to avoid potential significant distraction caused by shareholders joining or leaving the model while the WSCCO is developing capability.

This approach would potentially also allow for a formal review point for the WSCCO that could provide for a review of constitution, governance arrangements and shareholders.

This process would need to recognise the potential cost and resource implications for the WSCCO and shareholders of this review and for joining or leaving.

GWRC has indicated a preference to focus on their resource management regulatory role and in time may plan to exit from asset ownership and associated accountabilities related to bulk water supply.

22. Treaty obligations, principles and partnership

Two of the key design principles are to ensure that:

1. Iwi/Māori have meaningful influence and
2. Treaty of Waitangi obligations are honoured.

The role of Iwi/Māori in relation to the governance of a WSCCO is discussed above and will need to be confirmed through any foundational documents such as the constitution, shareholders’ agreement and role of the Board appointment panel. This includes a potential role as part of a shareholder forum and Board appointments. The Board would also need to have suitable competencies and skills in relation to the Treaty of Waitangi.

The new WSCCO will need strong relationships with Iwi/Māori in operations and delivery. There is an opportunity to learn from the Watercare model, which has enduring MoU arrangements that set durable and long-term arrangements which go beyond the transactional.

This will need to be confirmed through the development of the WSDP to ensure that the organisational design has clear, designated roles to partner with Iwi and to give effect to any Treaty settlement obligations which transfer across from the councils.

Watercare model and partnership with Iwi/Māori

Watercare is the CCO, 100% owned by Auckland Council, that provides water supply and wastewater services in Auckland. As well as being a CCO, Watercare is an “Auckland Water Organisation (AWO)” as defined in the Local Government (Auckland Council) Act 2009 (LGACA), and as an AWO is given various rights and obligations under Part 5 of that Act.

The LGACA does not require that the Watercare Board has any particular level of mana whenua representation on it. Instead, Auckland Council appoints the directors of the Watercare Board in the normal way, and subject to ordinary LGA requirements.

These include section 57(3) of the LGA, which states that when identifying the skills, knowledge and experience required of directors of a CCO, the local authority must consider whether knowledge of tikanga Māori may be relevant to the governance of that CCO.

Auckland Council has an Appointments and Remuneration Policy for Board members of Council Organisations. One of the core competencies the Council requires on the boards of its substantive CCOs, including Watercare, is: uphold the principles of the Treaty of Waitangi, readiness to promote improved outcomes for Māori and knowledge of Te Ao Māori and established Māori networks.

In 2012, Watercare established the Mana Whenua Kaitiaki Forum (the Forum) to encourage discussion and guidance, and to share views on the management of water and wastewater. The Forum’s focus has widened to all Watercare matters affecting the strategic interests of mana whenua across the Auckland Region. There are 19 tribal authorities represented on the Forum.

The Kaitiaki Schedule is regularly sent to the 19 tribal authorities on the Forum. It sets out Watercare’s planned work programme, most of which requires resource consent. Representatives are invited to express interest in projects.

Watercare has also entered into relationship agreements with various Iwi and hapu in Tāmaki Makaurau (Auckland) and beyond. These include kawenata with Waikato Tainui and other ‘river Iwi’ that acknowledge the parties’ respective interests, desired outcomes, and sets out how the parties will work together. Watercare also from time to time enters into agreements with Iwi/Māori entities relating to specific projects.

Watercare’s Board is supported by the Executive Leadership Team at Watercare, including the Tumuaki Rautaki ā-Iwi me ngā Hononga (Chief, Māori Strategy and Relationships.) This officer is responsible for ensuring Watercare has the structures and resources to meet its obligations under Te Tiriti o Waitangi.

23. Joint arrangements and stormwater management

A WSDP must confirm the extent of any joint arrangements, including whether the joint arrangement will deliver all water services for all the territorial authorities that are parties to the joint arrangement, or other arrangements.

Through the workshops, councils considered the extent of joint arrangements and whether this would cover two or three waters. Councils have confirmed a preference for the recommended model to include all three water services. This would also mean the transfer of these assets and any relevant liabilities.

A three waters delivery model aligns with the current WWL service model for shareholding councils, and it would be challenging for councils to build or retain sufficient internal capacity for stormwater outside a separate WSCCO.

The identified exceptions to these recommended joint arrangements are:

- Non-piped stormwater networks in urban areas would remain under council ownership. It is likely that councils would enter into service level agreements to confirm management for these areas as part of an integrated approach to stormwater.
- GWRC intends to retain ownership of drinking water catchment areas in Kaitoke and Wainuiomata to support broader outcomes including ecosystems, recreation and climate change.
- Wairarapa councils intend to retain water races that service agriculture.

This recommended model may not fully align with the Government announcements on 8 August 2024 in relation to stormwater management and expected content of Bill 3. The announcements⁵² set out that:

Councils will retain legal responsibilities for the management of stormwater services, but they can choose to:

- *continue to deliver stormwater services in-house and contract aspects of stormwater service delivery to a new water organisation,*
- *transfer aspects of stormwater service delivery (this might include stormwater network assets) to a water organisation, and*
- *contract aspects of stormwater service delivery to a third-party provider, via long-term contract or public-private partnership.*

Councils can determine the levels of service and performance targets for the delivery of stormwater management services. Water service organisations identify the costs of delivering stormwater management services that meet the expected levels of service and meet performance targets.

Councils will continue to collect revenue through rates from residents and businesses for stormwater management services. Revenue for the delivery of stormwater management services is identified separately within council's accounts (ring fenced). Depending on the stormwater management services that are contracted or transferred, the revenue collected through rates may be allocated between councils and water service delivery vehicles to deliver stormwater service outcomes.

The key potential issue here is for conflict of accountabilities and funding under a model where councils choose to transfer delivery and assets to a WSCCO but are legally required to collect revenue (ring-fenced) and have legal responsibility for stormwater. This is particularly challenging where there are cross connections in the network between wastewater and stormwater.

The approach to stormwater is an issue that councils will need to further consider in Phase 2 of this process and may need to submit on in relation to Bill 3 including further engagement with DIA.

Separation of stormwater and clarification of optimal arrangements for the region may be complex and key aspects to work through will be:

- legislative requirements,
- network condition and investment required to deliver outcomes including improved discharge quality,
- achieving financial sustainability, including council financial positions, pricing and financing,

⁵² <https://www.dia.govt.nz/Water-Services-Policy-Future-Delivery-System>.

- asset ownership, debt transfer, revenue transfer,
- asset and network types and interconnections including between piped networks, overland flow paths, roading and other parts of the stormwater system,
- accountabilities and potential service delivery and resourcing options, and
- interrelationship with flood management, risks and accountabilities.

24. Customer model and local service delivery

The new WSCCO would provide all services directly to water customers and bill them for water usage and services provided. Councils are keen to ensure that any future regional WSCCO will provide a high level of local service delivery, including good compliance, response times, and supply. The new model needs to be able to meet these expectations.

Under the recommended model, water consumers would become customers of the WSCCO. The WSCCO would provide all services directly to water customers and bill them for water usage and services provided. This would require the WSCCO to have the ability to:

- proactively communicate to customers,
- receive and respond to service requests, and advice regarding leaks on private property,
- transparently bill customers based on an agreed price basis, and
- ensure service levels are met.

As reflected in the key requirements, councils have expressed a strong view that any future regional WSCCO would need to provide a high level of local service delivery and not result in a loss of service levels for communities. Typical levels of services and performance measures include:

Compliance and quality:

- compliance for drinking water supply with Taumata Arowai drinking water quality assurance rules,
- providing an efficient and effective stormwater system to minimise the impact of heavy rainfall,
- delivering stormwater services in a manner that is acceptable, safe and, where possible, enhances the environment, such as water quality at beaches,
- number of flooding events due to stormwater overflows,
- number of complaints received about water clarity, taste, odour, pressure, flow, and continuity of supply, and
- compliance with resource consents.

Response times:

- response times to a fault or unplanned interruption to the water network,
- resident satisfaction with the water supply service they receive,
- resolution of urgent callouts,
- attendance for non-urgent callouts, and
- resolution of non-urgent callouts.

Supply:

- average drinking water consumption per resident per day,

- percentage of real water loss from networked reticulation system, and
- kilometres of renewals for three waters infrastructure.

It will be important that the organisational design and operating model for a regional WSCCO is set up to meet these expectations for local service delivery. This may draw upon the benefits of scale which provides additional capacity and capability with a local focus to ensure effective customer services, including website, channels, and call centre and quality local service delivery; including local depots for service delivery to ensure local knowledge and efficient response to service requests.

Based on the Government announcements on 8 August, it is expected a WSCCO would be required to develop and implement a WSS which will likely include elements to:

- state publicly the activities and intentions of the water services provider, and the objectives and outcomes to which those activities will contribute,
- provide transparency about the regulatory requirements and other expectations that apply to the provider (including financial sustainability), how it proposes to meet those requirements and expectations, and the associated costs and levels of investment needed, and
- provide a basis for the accountability of the provider for its performance.

25. Capability and capacity development

The intended reforms represent a significant opportunity for the water industry and for local employment, and there will be a need for a national focus on capability and capacity development. Working with wider sector partners, a new WSCCO would need to have a significant focus on capability and capacity development to be able to deliver the scale of investment required, meet new regulatory requirements, service customer needs and drive efficiency gains.

While it is assumed that many of the people working in the water sector will continue to do so, this new model will also require new and different skills that are not currently part of the WWL or in-house council delivery models.

This will require a focus on:

- IT systems and processes: significant investment will be required to ensure that the WSCCO has the full end-to-end digital capability to undertake its functions effectively.
- Quality and completeness of asset data including asset condition information: greater focus on asset data, condition inspections and the management and use of this information to support effective investment decision making.
- Planning: long-term strategic network planning and investment to support financial sustainability and meet the requirements of the regulators.
- Regulation: new and enhanced capability to meet regulatory requirements, in particular for economic regulation.
- Supply chain and procurement: working with the wider sector to identify opportunities to drive efficiency and support private sector investment in new capability and capacity building.
- Training and development partnerships: working with a range of partners and stakeholders to identify and provide training and career pathways. Leveraging existing local providers where possible.
- Technology and innovation: new ways to do work more effectively, especially for pipe condition assessment and replacement work as this represents the greatest challenge.

- Customer focus and billing processes: to ensure good quality service provision, and transparent and effective service delivery.

Financial sustainability of water services

Section summary

A WSDP will need to demonstrate how financially sustainable delivery of water services will be achieved by 30 June 2028. This document does not provide this level of detail but does provide a strategic level of analysis of these matters to ensure councils to have sufficient understanding of the level of investment required and a potential pathway to financial sustainability, including opportunities to use financing arrangements to help manage cost increases.

Informed by modelling of a range of investment scenarios, the recommended investment strategy to ensure financial sustainability is based on increased debt and pricing to enable an investment programme that will **'keep up'** with network maintenance, **'catch up'** on the backlog of worn-out infrastructure, **'build up'** network capacity to enable growth and **'clean up'** wastewater and stormwater to improve discharge standards by upgrading assets as they are replaced at end-of-life.

To ensure that this strategy is affordable, careful use of long-term financing will be required to smooth and balance cost increases over time.

It is estimated that it will take about 20-25 years to replace worn-out parts of the network and ensure substantial environmental compliance. It is also possible to extend the time for this catch-up period, which may result in lower costs but is likely to result in increased risk of network failure and consequential failure and repair costs.

The actual investment and therefore financial strategy and price path will be informed by development of the WSDP and then implemented by a WSCCO. This will be done in the context of a new economic regulator that will have a strong focus on quality and price based on the actual cost to provide sustainable networks and services.

A range of scenarios has been modelled to indicate average potential price increases across the region and do not reflect the actual cost to serve a particular local area, existing prices or an agreed price transition. Under all scenarios modelled, prices will need to increase to address the backlog of investment needed. Price rises will need to be managed through the use of financing tools and effective and efficient targeting of works required. This is expected to result in a more affordable rate of increased costs to water consumers than would otherwise be possible under current local government funding arrangements.

Based on the scenarios modelled:

- Price rises could be up to 9% per annum on average across the region to address the backlog of investment in the network. This rate of price increase will need to be managed through financing arrangements and/or the level of investment undertaken.

- The average price per connection across the region in 2024 is \$1,711⁵³. The amount that this rises to could be up to twice current prices or a peak of about \$3,000 to \$4,000. However, it may be possible to reduce this peak price through financing arrangements and a sustainable price is estimated at about \$2,596 when the catch-up phase is completed in about 20 years' time. This sustainable price is about 51% above the level of current charges, meaning that this level of increase could be gradually managed over time.

To manage affordable changes in prices, key assumptions include:

- Economic regulation will include a core principle that water prices must be based on the cost to provide services to the relevant group of customers.
- The WSCCO will need to develop and agree a pricing and revenue strategy working with the economic regulator that will balance price and quality.
- The WSCCO will use LGFA financing arrangements and additional debt headroom to manage the rate of cost increases.
- People across our region currently pay different amounts for water services depending on where they live and whether water use is metered. These existing price differentials will be locked in for a three-year transitional period to help ensure that consumers do not receive a major price shock.

26. Financial sustainability

A WSDP will need to demonstrate how financially sustainable delivery of water services will be achieved by 30 June 2028. This requires confirmation of:

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

Further guidance has recently been provided by the DIA on how financial sustainability should be demonstrated within a WSDP⁵⁴.

This document does not provide this level of detail but does provide a strategic level of analysis of these matters to ensure councils have sufficient understanding of the level of investment required and a potential pathway to financial sustainability, including opportunities to use financing arrangements to help manage cost increases. This has been informed by a network economics approach (see Appendix H).

Further work will be undertaken to demonstrate financial sustainability in line with legislative requirements, departmental guidance and associated templates as investment scenarios are refined and the WSDP is developed. In particular, this will need to focus on financing arrangements to manage affordability and rate of cost increases. This work is expected to result in a more affordable rate of increased costs to water consumers than would otherwise be possible under current local government funding arrangements.

⁵³ Based on 2024 costs.

⁵⁴ <https://www.dia.govt.nz/Water-Services-Policy-Water-Services-Delivery-Plans>.

Limitations: It is important to note that this report is intended as a strategic level of analysis and investment strategy to support this phase of council decision making. This modelling is indicative only and the actual WSDP will need to demonstrate financial sustainability by 30 June 2028. The financing, pricing and investment strategy will be developed as part of the WSS by the Board of a WSCCO over some decades, with oversight from the economic and quality regulators to ensure a balance of compliance, quality and affordability.

27. Approach to modelling

This report has been informed by network economic and financial modelling to support strategic options assessment and initial consideration of financial sustainability requirements. The methodology followed is based on established best practice network economics for regulated networks (see Appendix H).

The network economic and financial modelling is multi-dimensional and can be used to test a wide range of alternative investment, price, debt and risk scenarios. These scenarios are not intended to represent planned investment or financial arrangements, but to help understand tradeoffs and potential options.

Apart from the rate of catch-up investment, the total investment required was taken as an assumed fixed quantum on the basis that it is the essential investment required to turn the network around and to meet growth and compliance standards. It is noted that this is an *estimate* only of the level of investment required and will require significant further refinement through the development of the WSDP. These estimates will continue to be reviewed and refined as part of a WSDP based on more robust bottom up analysis of the investment needed.

The variables to trade off then become a scale of capital programme (which informs the network remediation period) and the funding sources, being price and debt. In assessing financial sustainability and arriving at a recommended investment strategy, several key considerations need to be balanced including:

- addressing the critical network challenges through increased revenue from price and borrowing. The WSCCO will also need to ensure that the level of borrowing is sustainable and within covenants agreed with the LGFA,
- rates of price increase and ensuring cost increases are affordable for households. All scenarios modelled require price increases over time. Without price increases, it will not be possible to catch up and the region will face ongoing risks of significant network failure,
- balancing the risk and costs of network failures with affordability of price increases and with the level of debt that is sustainable. Taking a longer time to fix worn-out pipes will mean increased risk of critical network failures as well as carrying the faults cost burden for longer,
- financing arrangements, including how the WSCCO can utilise and structure borrowing to manage and smooth the rate of cost increases (note, only limited focus has been undertaken to date on financing opportunities and this will need to be fully explored in subsequent phases of work) and
- being deliverable based on sector capacity.

28. Scenarios

The considerations outlined above inform a two-stage logic to modelling scenario options for network remediation, price and debt. The modelled scenarios have been based on the

information, assumptions and limitations as noted in Appendix C, are intended to inform strategic trade-offs only and are not the basis for investment decisions or price pathways.

The scenarios are all modelled based on FY24 real numbers (not inflated) and all scenarios assume pricing for Years 1-3 are based on LTP investment levels and rates increases.

Consideration one – scale of capital programme and network remediation period

The amount of network to be remediated is fixed (this is estimated at ~\$4.2 billion based on 21% of the network being worn out with a total replacement value of \$19.7 billion). Remediation of the network can be practically achieved over about 20-30 years based on sector capacity.

The slower this occurs, the lower the annual capital spend required because it spreads the \$4.2 billion catch-up cost over a longer period. This means that fixing the network over a longer period may result in lower costs overall because the lower capital spend means that less borrowing is required while prices are being raised until Funds from Operations (FFO)⁵⁵ cover capital requirements.

However, the slower the network is fixed, the more investment will be required to fix faults. Also, this will lead to higher risks of both critical network failure and network fault runaway increasing, due to leaving worn-out assets in the network for longer.

These risks are assessed as already having high likelihood of occurrence with corresponding serious consequences and potentially very high associated costs which are not currently factored into the modelling. These include consequential costs from sustained or regular occurrences of lack of water supply delivery, lack of wastewater delivery and localised flooding from stormwater. Once these are factored into modelling, these may outweigh additional interest costs from lower borrowings.

Consideration two – price rise rate and debt

Until the FFO exceed capital expenditure, the balance must be borrowed in some form of debt. Use and structure of debt will be an effective way to efficiently and equitably invest in the network over time, and deliver network improvements faster.

Raising prices more quickly lowers the total debt required and reduces the overall cost to the consumer over the longer term.

Raising prices slowly is more affordable to consumers but may also raise the overall cost during network remediation due to the increased overall debt and associated interest cost burden.

Modelled scenarios

Based on the considerations above, the range of scenarios modelled include testing of the following variables (see Appendix I):

- lower and higher rates of price increases,
- slower and faster rates of network remediation,
- higher and lower construction costs,
- higher faults costs,
- higher debt, and
- investment based on LTP investment levels.

⁵⁵ Funds from operations (FFO) is the actual amount of net cash flow generated from a company's business operations. FFO Formula = Net Income + Depreciation + Amortization +/- Gains or Losses on Property Sales.

29. Investment sufficiency - Level of investment required

Requirement: the projected level of investment is sufficient to meet levels of service, regulatory requirements and provide for growth.

Informed by consideration of a range of scenarios, the recommended investment strategy to ensure investment sufficiency is to **'keep up'** with network maintenance, **'catch up'** on the backlog of worn-out infrastructure, **'build up'** network capacity to enable growth and **'clean up'** wastewater and stormwater to improve discharge standards by upgrading assets as they are replaced at end-of-life, and as much as possible separate the stormwater system from the wastewater system (so that the latter can be made discharge compliant).

It is estimated that it will take about 20-25 years to replace worn-out parts of the network and ensure substantial environmental compliance. It is also possible to extend the time for this catch-up period to around 30 years, which may result in lower costs but is likely to result in increased risk of network failure and consequential failure and repair costs.

Even with an optimised investment strategy, the costs will be substantial. It will rely on a combination of price and debt. Over the next 20-25 years, the total network investment required is estimated at about \$15-\$17 billion at an average of approximately \$700-\$750 million per annum (note this will require a gradual increase in investment to ensure market capacity to deliver).

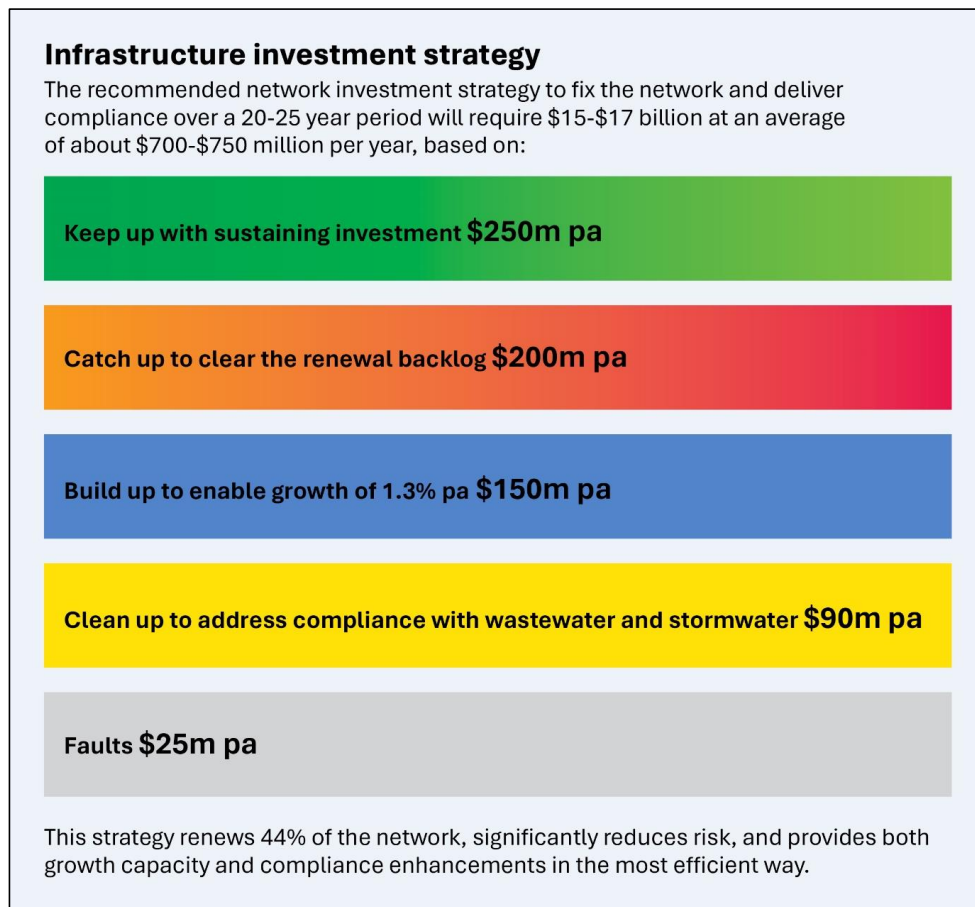
This is based on investment sufficiency to:

1. **Keep up by investing an average \$250 million per year in sustaining investment.**
This is the investment required to simply maintain the network in its current state. The \$250 million is the average annual sustaining investment required for a \$19.7 billion network with an average 74-year maximum asset life and a 1.3% per annum population growth over an initial 10 years.
2. **Catch up by investing an average of \$200 million per year to redress the renewal backlog over 21 years.**
Based on the \$19.7 billion replacement cost, a \$4.2 billion investment is required to replace the 21% of assets which are in poor or very poor condition. The rationale for selecting a 21-year recovery period is explained below.
3. **Build up capacity by investing \$150 million per year in growth.**
This is the annual growth investment required to expand the capacity of the network to support the forecast population growth of 1.3% per annum. This figure has been matched to current annual capital growth costs for the region net of development contributions.
4. **Clean up by investing \$90 million per year to meet drinking and wastewater quality standards.**
There is huge uncertainty regarding the cost and timeframe for achieving water quality standards, particularly around wastewater. In the absence of a solid fact base, it has been assumed partial compliance can be achieved by upgrading assets when they are replaced at the end of their lives. The \$90 million per annum is a placeholder calculated at 5% of the replacement cost of the assets replaced each year. Once the network has been fixed, the remainder of the \$2 billion allocation to compliance will be spent on remaining wastewater pipes that have not yet been replaced during the catch-up period, and on treatment plant compliance.

5. Faults

The annual cost of fixing faults (including leaks) is currently estimated at more than \$41 million per annum (based on the WWL Annual Report). This cost is driven largely from the fault repair cost associated with worn-out assets in the network and will reduce over time as parts of the network are fixed resulting in an average assumed cost of \$25 million per annum over a 20-year period. If fault rates continue to increase (due to non-replacement of worn-out assets) then this cost burden will also increase. There is low confidence in this figure of \$41 million due to leaks only being classed as faults when reported by the public (in the absence of metering), increasing fault backlogs (which do not create an accounting cost until they are repaired), and underground leaks (which are often not visible), so on review this figure may need to become much larger. Nearly all faults (particularly leaks) represent capital inefficiency in the network because they occur only at low levels when the network is functioning properly.

Figure 6: Infrastructure investment strategy (figures are indicative and subject to ongoing review and validation)



Basis for catch-up timeframe

The current condition of the network, and the high risk and cost of major failures, highlight the need for early and significant network intervention, mainly in the form of asset renewals for pipes and plants.

However, the 'low' price being charged for water by councils does not currently allow the network to be sustained in its current state, let alone remediate a large portion of worn-out assets.

The recommended investment strategy is to complete the catch-up investment over about 20-25 years. This balances the cost of faults versus the cost of interest. It also results in the replacement of about 44% of network assets over this time, due to both sustainable asset renewal and catch-up renewal.

Through increased use of financing tools and debt, an alternative investment strategy would be to target a 12-15-year catch-up period. This would significantly lower the risk of network failure but is unlikely to be deliverable based on sector capacity. The alternative to this is to spread the costs over 30 years but would also have higher risk of network faults due to the extended period the network continues to be held in its current poor condition.

The cost of a failing asset

The cost of a failing asset depends on its position in the network because this impacts the consequential cost of its failure. An asset which is centrally located (upstream) in the water supply network (and downstream in wastewater and stormwater networks) is typically replaced earlier in its degradation process because its failure causes a larger impact on the delivery edge (downstream) of the network.

A typical example would be a low-cost rubber seal in a pump that supplies water to a reservoir. A failure of this seal causes a failure of the pump, which prevents the filling of the reservoir that may then run out of water for all the downstream connections. For highly critical network components, assets are replaced earlier in their degradation cycle. Conversely, even seriously failing assets on the edge of the network that impact only a few customers are often intentionally run to failure because this is still cheaper than replacing the asset earlier.

30. Revenue sufficiency - Revenue required and affordability

Requirement: there is sufficient revenue to cover the costs (including servicing debt) of water services delivery.

As noted above, the actual investment and therefore financial strategy and price path to deliver the investment strategy will be informed by development of the WSDP and then implemented by a WSCCO with oversight from the economic regulator. The revenue and price analysis below is intended to help illustrate how much could be funded based on a range of scenarios and is not intended as an accurate estimate of actual price increases or an investment strategy.

To understand potential trade-offs to deliver on the 'investment sufficiency' and also ensure affordability, a range of scenarios has been modelled. Further analysis of these will be required informed by financing arrangements (see Section 31: Financing sufficiency) to smooth and balance cost increases over time.

Delivering affordable water is a major challenge, not just in New Zealand but in most developed economies. A recent World Bank Study determined that the percentage of GDP spent on water

infrastructure by developed economies is currently 2% and needs to rise to 4%. This is consistent with the economic analysis in this report and is a material change.

Councils are keen to ensure that any future regional WSCCO will provide a high level of local service delivery, including good compliance, quality, response times, and supply while also ensuring that these services remain affordable.

The new WSCCO would provide all services directly to water customers and bill them for water usage and services provided.

Currently the full costs of delivering water services are not fully funded by the water portion of council rates, and current council LTPs do not make an allowance for full funding of water services into the coming years.

A new water company will be required by the economic regulator to fully fund the costs of water services. Because of this, the WSCCO will need to effectively use debt and households are also going to have to pay more for water than they have been.

The scenarios have been modelled to provide an indication of average potential price increases across the region. These do not reflect the actual cost to serve a particular local area, existing prices or an agreed price transition. Under all scenarios modelled, prices will need to increase to address the backlog of investment needed. Price rises will need to be managed through use of financing tools and effective and efficient targeting of the works required. Based on the scenarios modelled:

- Price rises could be up to 9% per annum on average across the region to address the backlog of investment in the network. This rate of price increase will need to be managed through financing arrangements and/or the level of investment undertaken.
- The average price per connection across the region in 2024 is \$1,711⁵⁶. The amount that this rises to could be up to twice current prices or a peak of about \$3,000 to \$4,000. However, it may be possible to reduce this peak price through financing arrangements and a sustainable price is estimated at about \$2,596 when the catch-up phase is completed in about 20 years' time. This sustainable price is about 51% above the level of current charges, meaning that this level of increase could be gradually managed over time.

Key assumptions in relation to pricing and ensuring a focus on affordability include:

Economic regulation:

- Legislation will confirm the Commerce Commission as the economic regulator. They will have a key role in customer protection and ensuring a focus on both price and quality.
- In particular, the Government has stated that the economic regulations will include a core principle that water prices must be based on the cost to serve the relevant group of customers.

Financing, pricing and revenue strategy:

- The WSCCO will use LGFA financing arrangements and additional debt headroom to manage the rate of cost increases.
- Actual price increases from about 2027 will be based on the actual investment required and an agreed pricing and revenue strategy that the WSCCO develops with the economic regulator.

Harmonisation of pricing structures, over time:

- People across our region currently pay different prices for water. This varies a lot depending on where they live and whether their water use is metered.

⁵⁶ Based on 2024 costs.

- The WSCCO will inherit a diverse suite of revenue sources and pricing structures from across the region. Given this, revenue and pricing will be very complex. For example, there are very diverse charging structures for non-residential services such as development contributions, although there is scope for these to be set (and continue to be set, even by a regional or sub-regional entity) on a local 'catchment' (as opposed to 'district' or 'service-area') basis. Charging structures are likely to require simplification and alignment over time, to avoid overcomplicating the new entity's systems on day one and to avoid early price shocks for consumers.
- The WSCCO will have a significant challenge to transition these into a simple set of services with fair and transparent prices. This will be a key task for the first three years of operation, which will be supported by the proposed economic regulation framework.

Transitional period:

- Until a WSCCO is fully up and running (about 2027), water prices are likely to be based on existing council rates with increases based on what councils have set through their LTPs. These levels of increase will vary from council to council.
- A key assumption is that there will be a **three-year price differential lock in period** to help ensure that consumers do not receive a major price shock on transition. This could be applied evenly to residential charges across the region, thereby maintaining existing residential price differentials. (Note: This is subject to existing revenues being sufficient to cover the full costs of water service provision, i.e. the council having set the existing revenue at a sufficient level to fully fund the costs of water service provision per the water services Financial Impact Statement).

Ability to charge customers

Based on the Government announcements on 8 August 2024, it is assumed that legislation will include provisions to enable boards of water organisations to:

- assess, set and collect water services charges, including charges for any or all of the following:
 - water supply, wastewater, and stormwater (where applicable),
 - the initial connection to one or more of the above services,
 - contributions to the capital costs of infrastructure needed to service additional demand on the network, and
 - meeting the costs that the water organisation incurs in performing and exercising its functions.
- determine how charges are assessed and invoiced, when they are due, and how they will be paid or collected.

31. Financing sufficiency - Financing and borrowing

Requirement: funding and financing arrangements are sufficient to meet investment requirements.

Actual debt required will depend on the selected investment strategy and will need to balance efficient financing of long-term assets to ensure equity. The WSCCO will need to carefully use increased levels of debt to manage the rate of price increases, balanced with the costs of servicing debt and therefore the longer-term total cost to consumers.

The Government announcements on 8 August 2024 and subsequent information from the LGFA confirmed some of the financing arrangements that will be available to support WSCCOs.

- The LGFA will support leverage for water organisations up to a level equivalent to 500% of operating revenues (around twice that of existing councils), subject to water organisations meeting prudent credit criteria.
- The LGFA has subsequently indicated that this will be based on FFO. Basing the criteria on FFO is likely to result in the WSCCO being able to borrow less than the indicated 5x revenue limit. This would be negotiated between the LGFA and WSCCO.
- LGFA will treat borrowing by water organisations as separate from borrowing by parent council or councils.
- A parent council(s) guarantee or uncalled capital (proportionate amongst shareholders) will be required.
- The additional debt funding from the LGFA is only available to water CCOs ('water organisations')⁵⁷ who must meet prudent lending criteria and have the characteristics of an investment-grade utility provider over the medium term (within 10 years).

Key points to note based on the in relation to financing and borrowing:

1. **Opening debt:** It has been assumed that the WSCCO will inherit about \$2.3 billion of debt in 2027 from the councils. This is because when water assets transfer, so would the associated revenue collection powers and associated debt. *The opening debt at 1 July 2027 is currently a placeholder and subject to ongoing review will need to be confirmed as part of Phase 2 and 3.*
2. **Source of funds:** It is assumed that as a water organisation, the entity will rely on the LGFA as its lender. The LGFA is currently working on the covenant framework that will apply to WSCCOs. LGFA has indicated it will align with the covenants used by the WSCCO international peers. The primary metric being the ratio of Funds from Operation to Net Debt, where a ratio of >9% is the minimum standard setting required to maintain an investment grade rating.
3. The **long-term funding** objective is to reach a sustainable position, whereby operations and infrastructure are funded by the generation(s) that benefit. The long-term strategy for achieving this objective is to:
 - ensure today's revenues are sufficient to fund the delivery, operation and maintenance of fully compliant services/infrastructure for today's generation⁵⁸ (sustaining + catch up + growth + compliance), and
 - use debt to fund capacity growth for the benefit of future generations.
4. **Transitional funding:** For about 10 years, revenue is likely to be insufficient to cover the full delivery and investment costs of the current network and services, resulting in a potential funding shortfall. Therefore, the transitional funding strategy is to:
 - phase in the price increases necessary to correct the revenue shortfall at a rate which is acceptable to consumers,

⁵⁷ 'Water services provider' means all forms of local government provider and including councils that continue with direct (in-house) delivery as well as new water organisations. The term 'water organisation' refers only to separate organisations that councils may establish to provide water services and does not include councils with direct (in-house) delivery.

⁵⁸ A utility operating at a financially sustainable level would typically have an optimal gearing ratio of about 40%. Once the optimal gearing level is reached, and depending on the level of debt used to fund growth, equilibrium can likely be maintained by ensuring operating cash flows are sufficient to cover renewals expenditure and using debt to fund growth expenditure.

- spread catch-up remediation over a 20–25-year period. This is still relatively fast and would help to stabilise and prevent further deterioration of the network, and
- gear up the balance sheet to a fiscally prudent level to manage the rate of price increases and ensure efficient and equitable use of debt.

The accompanying financial projections are set out in Appendix J.

32. Potential for efficiency gains and economies of scale

Efficiency can be defined as: the act of spending less and receiving the same outcome, or of receiving a better outcome for the same level of spending. This does not mean less jobs. On the contrary, this report assumes that significantly more people will be employed in the water sector.

The scenarios modelled have not made any assumptions or allowance for efficiency gains.

It is considered that it will be challenging to deliver efficiency at a meaningful scale during the early establishment years of a WSCCO as the organisation sets in place the required capability and capacity to deliver. As the organisation then grows in maturity there will, however, be some significant opportunities for efficiency gains over time which can lead to overall lower costs for consumers and better outcomes for the community and the environment.

Key opportunities to deliver efficiency include⁵⁹ ⁶⁰:

Preconditions: Efficiency is dependent on the set-up of the organisation and the broader water services system including governance and regulation, and:

- the entities need to have effective governance arrangements and be able to attract and retain appropriately skilled management,
- regulatory compliance and enforcement with water quality and other matters is effective,
- effective economic regulation is established, and
- the entities have access to the necessary resources to fund the amalgamation and reform processes and over time make the required investment.

Economy of scale: Efficiency can be achieved through economies of scale, focused on shared consumer use of networks. This includes:

- standardisation of materials and plant and consumables,
- fit for purpose procurement and supplier management processes,
- power cost savings,
- improved systems and use of technology,
- focused design principles for network design to provide for reliability, capacity, redundancy, and growth in all planning⁶¹,
- ensuring that the assets in the network are maintained and replaced appropriately to avoid the additional cost burden from failing assets such as leaks,
- certainty of workflow which allows the supply chain both to invest and reduce unit costs,
- a genuine commitment to benefit sharing and sharing the risks of innovative approaches, and

⁵⁹ Water Industry for Scotland, Economic analysis of water services aggregation, May 2021.

⁶⁰ Three waters reform, review of methodology and assumptions underpinning economic analysis of aggregation. May 2021, farrierswier.

⁶¹ Cost estimate for Phase 2 and 3 is indicative only and subject to a range of risks and assumptions including the passage of legislation.

- both capital and operational savings achieved through asset rationalisation.

Capability: Scottish Water managed to retain and reward the high-quality staff, attracting talented senior management and building the required capabilities (for example, on strategic asset management and water modelling). This has, in turn, allowed it to achieve additional capital investment efficiencies through improved asset planning and strategic asset management.

Network efficiency: Optimal network efficiency requires intensive designing and planning, with focus on the in-house skills required to do this. It is a lot cheaper to change a design before it is implemented rather than after. It makes sense to make sure it is right before building it as the network will need to last for many decades. This includes:

- building for long life – this is the only way to get efficiency from capital – reworking networks destroys this,
- maintaining the network well – the network is at its most efficient when it is not ‘going wrong’, all forms of which create a cost burden, and
- ensuring a mechanism for continuously piloting innovation.

Compliance costs: Planning for and investing to make resilient networks, rather than continually undertaking reactive maintenance leads to lower compliance costs. Besides the highest priority being on safety (drinking water, wastewater containment, flooding management etc), the main focus of compliance should be on network and plant reliability and immediate capacity constraints.

Evaluation of the recommended regional delivery model

Section summary

Under the Preliminary Arrangements Act, councils need to confirm their approach to a WSDP – whether they want to develop a joint WSDP with other councils and the extent of any joint arrangements; for example, for all or only some water services.

Councils must assess in the course of the decision-making process on the WSDP, both their existing service delivery model and the option of establishing, joining or amending a WSCCO or a joint local government arrangement. If they choose, they may also consider other options for delivery of water services. The assessment of (at least two) alternatives needs to be credible with sufficient information to ensure decision-makers can reach a properly informed view.

This report does not deal with the assessment of the status quo delivery model in each district, or potential options for delivering water services other than the recommended model, as these are matters for each council to consider. However, to support councils to undertake this assessment, the recommended regional option has been evaluated here in relation to the key requirements and other key factors including cost to implement, risk, level of benefits and political acceptability.

The evaluation will help councils to undertake a comparative analysis of service delivery options, as well as the scope and approach to ongoing development of a joint WSDP and WSCCO.

33. Assessment of options

Under the provisions of the Preliminary Arrangements Act, councils need to **confirm their approach to a WSDP**: Whether to develop a joint WSDP with other councils (section 10) and the extent of joint arrangements (section 11), for example, for all or some water services.

Each council's assessment of service delivery options (at least 2 as noted above, one of which is the status quo) needs to be credible. The analysis can identify a preferred option but must also ensure that decision-makers have sufficient information to reach a properly informed view and make their own assessment of advantages and disadvantages of the different options, including by reference to the matters set out Part 3 of the Act.

Making this decision should enable the council to commit to the development of a joint WSDP, or to take another approach. This will then inform the scope, approach and timeline for this work.

34. Evaluation of recommended model

The recommended model is for a full-breadth water utility vested with ownership of all regional water assets, revenues and liabilities; with a similar structure to a CCO but with reduced council oversight, to ensure sufficient financial and decision-making separation from council owners.

An *initial* evaluation of the recommended model has been undertaken in relation to the key requirements and other key factors, including the ability to meet new regulatory requirements, alignment with Government announcements on 8 August 2024 (including minimum requirements), cost to implement, risk, level of benefits, and political acceptability.

For each factor, the relevant benefits, risks and challenges and key assumptions have been identified. This evaluation is subjective and has been informed by the current state case for change as outlined above.

The evaluation is intended to help support and inform:

- councils to undertake a comparative analysis of the recommended model and the status quo, and
- the scope and approach to ongoing development of a joint WSDP and WSCCO.

Table 13: Evaluation of recommended regional model - benefits, risks and challenges, assumptions

Key requirements identified by councils	Alignment with council requirements	Benefits	Risks and challenges	Assumptions and details to work through
Water consumers	Good alignment	<ul style="list-style-type: none"> • Council ownership ensures ongoing public ownership and protection from privatisation. • More affordable and transparent pathway for water services than may be possible under current local government funding constraints. • Customer focus and local delivery model part of design. • Compliant services through increased investment and capability. • Scale of organisation enables continuous improvement. • Higher rates of investment deliver better network outcomes and levels of service. 	<ul style="list-style-type: none"> • Assurance of no loss of service and local delivery. • Ability to meet environmental compliance requirements in the short term will be challenging. • Will require price increases under all scenarios. • Transitional pricing arrangements. • Understanding that key relationship will be with WSCCO not with councils. 	<ul style="list-style-type: none"> • Establishment of the economic regulator to support consumer protections. • Role of Taumata Arowai and GWRC as environmental regulators. • Organisational design and operating model for a regional WSCCO is set up to meet these expectations for local service delivery. • Overall impact of change (increased and separate water services charges, impacts on rates) to be understood.
Councils	Good alignment	<ul style="list-style-type: none"> • Financial separation from councils will result in improved council financial metrics including revenue to debt for most councils. • Council governance role enables alignment of investment and outcomes. • Clarity of accountability between WSCCO and councils. • Long-term approach to planning and investment. • Scale to enable efficiency and capability. • Three waters model. 	<ul style="list-style-type: none"> • Financial impacts on councils post reform to be confirmed. • Confidence of alignment on outcomes given financial pressure on WSCCO. 	<ul style="list-style-type: none"> • Confirmation of principles and process for transfer of debt, revenue and liabilities. • Assessment of alternative options. • Public acceptability of need for change and preferred model. • Approach to stormwater in relation to Bill 3.
Iwi/Māori	Good alignment	<ul style="list-style-type: none"> • Meaningful role and influence through governance and operations. • WSCCO to embrace Te Mana o te Wai. • Improvement to water quality. 	<ul style="list-style-type: none"> • Time to address water quality issues. 	<ul style="list-style-type: none"> • Confirmation of role and influence through foundational documents. • Establishment of meaningful operational relationships and structures.

Future water entity	Excellent alignment	<ul style="list-style-type: none"> • Empowered to operate independently. • Skills-based Board. • Long-term planning and investment. • Full service and good quality systems. • Depth and breadth of people. 	<ul style="list-style-type: none"> • Time to establish and reach full organisational maturity. • High consumer expectations with high price rises. • Establishment costs. 	<ul style="list-style-type: none"> • Sufficient investment to 'set up right'. • Establishment process and timeframes. • Ability to retain and grow capability and capacity.
Central Government	Good alignment	<ul style="list-style-type: none"> • Alignment with minimum requirements for delivery models. • Financially sustainable model by 30 June 2028. • Scale to deliver. • Increased compliance with regulation and ability to comply with economic regulation. • Enables housing growth. 	<ul style="list-style-type: none"> • Alignment on stormwater policy settings. 	<ul style="list-style-type: none"> • Public acceptability of need for change and preferred model.
Transition	Reasonable alignment	<ul style="list-style-type: none"> • Equitable and fair process for transfer. • A focus on people with clear pathways. • Seamless change. 	<ul style="list-style-type: none"> • Time and cost to agree preferred model and implementation. • Costs to establish. • Risks of disruption during establishment phase – delivery, people, networks. • Lack of certainty of which councils are part of a future WSCCO / WSDP 	<ul style="list-style-type: none"> • Confirmation of principles and process for transfer of debt, revenue and liabilities. • Confirmation of principles for transfer of people. • Alignment with requirements of Bill 3. • Sufficient resourcing to plan and deliver change process.

Table 14: Other key factors

Other key factors	Alignment with other key factors	Comment
Ability to meet new regulatory requirements	Good alignment	<ul style="list-style-type: none"> Scale and level of investment, capacity and capability of the WSCCO will enable alignment with compliance including economic regulation and improved water quality. Will be some ongoing challenges to deliver full compliance in the shorter term with environmental compliance due to costs and level of investment required.
Alignment with Government announcements 8 August 2024	Good alignment	<ul style="list-style-type: none"> Recommended model aligns very well with Government announcements on 8 August 2024 including minimum requirements for delivery models. This includes protection against privatisation and a similar structure to the 'multi-council owner water organisation' outlined in DIA guidance including similar governance and accountability framework. Recommended model well aligned with the proposed funding arrangements from the LGFA including meeting requirements for a 'water organisation'. It is important to note that LGFA will only lend to WSCCOs that are financial supported by their parent council(s). This means that either a guarantee or uncalled capital will be required from councils to match the liabilities of the water CCO. Potential area of misalignment is in relation to urban stormwater and policy requirement that councils retain legal responsibility for stormwater including revenue, even if service delivery and assets are transferred to a water organisation. This will require further consideration. It appears workable but may pose challenges in relation to ensuring sufficient revenue for stormwater and alignment of broader investment by a WSCCO.
Cost to implement	Some challenges	<ul style="list-style-type: none"> Costs to complete detailed work required to complete a joint WSDP and an implementation plan will be high and are not currently budgeted for by councils. Implementation costs for a full service WSCCO are expected to be high, in part driven by the need for fit for purpose IT processes and systems. This will need to be funded by way of an establishment fund against the balance sheet of the new WSCCO.
Risk	Some challenges	<ul style="list-style-type: none"> Shorter term: Coordination of planning and delivery of a joint WSDP and joint WSCCO will be challenging with multiple risks of time, cost and scope. See list of risks and assumptions below. Longer term: The scale of a joint WSCCO will have significant ability to manage network and investment risks due to scale, capacity and capability.
Level of benefits	Excellent alignment	<p>Investment in water is critical to the health, well-being and economic sustainability of our region and will enable significant regional benefits. A large, full-service, asset-owning WSCCO is considered to provide opportunity to deliver on a range of benefits based on effective leadership, depth of expertise, influence with government, easier integration with regional spatial planning, digital capability and financial scale to tackle network challenges.</p> <p>Key potential benefits include:</p> <ul style="list-style-type: none"> New homes: The investment will better enable planned growth and new housing of both greenfield and brownfield for the region.

		<ul style="list-style-type: none"> • More jobs: The investment will require growing the capability and capacity of the water industry to deliver the required works. • Resilience: Over the next 20 years, an estimated 44% of the network could be replaced, building significant resilience for future events. Investment will also address the region's critical water shortage challenges through meters, increased water storage and fixing leaks. • Scale and efficiency: Addressing these issues at scale and coordinating efforts across council boundaries offers significant opportunities for efficiency and reduced long-term costs. • Focus on affordability: Household costs for water services will increase. Under the proposed regional model, there is an opportunity to ensure that affordability remains a key focus for delivery with lower total costs in the long run through effective use of funding and financing arrangements than are currently available to councils. • Potential efficiency gains over time through strategic investment decisions, supply chain management and reduction in duplication of roles. • More expertise and capacity. • Better able to respond to regulators.
Political acceptability	Good alignment	<ul style="list-style-type: none"> • Recommended model aligned with expected direction in Bill 3 for asset-owning WSCCO as outlined by Government announcements on 8 August 2024. • The level of political acceptability across multiple councils is still to be confirmed through council decision-making processes.
Position of councils	Good alignment	<ul style="list-style-type: none"> • The recommended regional model was developed with considerable input from councils from the AOG, Chief Executives and officers through workshops and feedback. • At time of writing and based on feedback from councils on the draft version of this report, no significant issues with the recommended model have identified and the model is considered to be the 'best for region'. This is not the same as 'best for council' and each council will need to undertake its own evaluation and decision-making process in line with the requirements of legislation.

35. Other key assumptions

Other relevant assumptions include:

- Bill 3 policy parameters as expressed in the 8 August 2024 announcements, are given effect in the Bill introduced in December 2024.
- Bill 3 is introduced into the House in December 2024 and will introduce details for a new asset-owning WSCCO, that will provide this type of organisation with the necessary purpose, powers and functions to meet the region's requirements.
- Councils have sufficient information to confirm a preferred approach to water services delivery by the end of October 2024 in order that detailed development of a WSDP can get underway from November 2024.
- Councils are able to undertake stakeholder and community engagement as required by legislation. Councils have sufficient information to undertake annual plan reviews and amend their LTPs as required.

36. Other key risks and challenges

Other relevant key risks and challenges include:

- **Mandate and support**
 - political support, including due to timing of local government elections,
 - lack of alignment on decision making by councils,
 - lack of support or loss of confidence in the process by councils,
 - lack of support from Government, including required legislative changes,
 - lack of buy-in or understanding from community, and
 - lack of support or loss of confidence in the process by Iwi/Māori partners.
- **Decision making** – process and requirements for council decision making is unclear or not understood resulting in rework and/or challenges to decision making (such as judicial review).
- **Model** – future models are not financially viable.
- **Resourcing** – lack of effective resourcing for the process by councils, including capacity of senior staff, or funding for future phases.
- **Scope** – balancing expectations of detail vs progress.
- **Quality** – analysis and outputs do not support effective decision making.
- **Timing**
 - ability to be agile and respond to changing needs,
 - ability of councils to make decisions on a timely basis,
 - alignment of process and consultation to LTP amendment process, and
 - ability of councils to make decisions ahead of local government elections in 2025.
- **Legislation** – misalignment with legislation or legislation does not enable the preferred model.
- **Engagement** – lack of clarity on engagement and consultation requirements of new legislation or these are unworkable.

- **Impacts on existing delivery models** and productivity due to uncertainty of the potential change process.
- **Impact on councils' ability to enable and deliver on growth.** The decisions, priorities and capacity of a water services organisation will have significant impact on a range of council activities. It will be challenging to ensure close coordination between councils and the water organisation to ensure councils are able to drive and deliver on directions without an added layer of complexity or being at the mercy of another organisation's priorities. This is especially important for housing growth where the water organisation will be a growth plan taker rather than a plan maker.

Implementation considerations

Section summary

Decisions on subsequent phases of work to consider a joint WSDP and WSCCO are expected to be made on an in-principle basis by late 2024 in order that these can be further developed.

Phase 2 will need to include development and delivery of the WSDP. This will support councils to make decisions in relation to the development and adoption of a regional WSDP that meets councils' legislative obligations, as well as establishing joint arrangements for the delivery of water services and preparing for the subsequent implementation of the preferred approach in Phase 3.

Phase 2 includes the need to undertake consultation and engagement on at least part of the WSDP relating to the proposed service delivery model, and the implementation planning required for Phase 3. This will involve significant decision making in relation to early establishment resources, accountabilities and funding.

The draft regional WSDP will need to be aligned with requirements of Part 2 of the Preliminary Arrangements Act including:

- asset condition information and a related AMP,
- funding, financing and revenue requirements to achieve financial sustainability,
- the anticipated or proposed model or arrangements for delivering water services, including how these will meet compliance requirements, and
- an implementation plan for the WSDP including timeframes and milestones, and how a future delivery model would be established in Phase 3.

Implementation planning will consider the potential establishment of a large, full-service, multi-council-owned WSCCO.

Details regarding the structure, accountabilities, decision-making rights and resourcing will need to be finalised. Decisions will need to be made on a high-level operating model and organisational design, with a service delivery model, change process and strategy, entry and exit rights, as well as requirements for information systems, legal, procurement, and costs, budget and funding.

The strategy, processes and principles will also need to be established for debt and asset transfer, pricing, contract transfer, people transition, customer experience and billing.

Councils will need to undertake communications, engagement and formal consultation during Phase 2. It is assumed that councils will confirm a regionally coordinated approach to this with the process still based on individual decision making by each council.

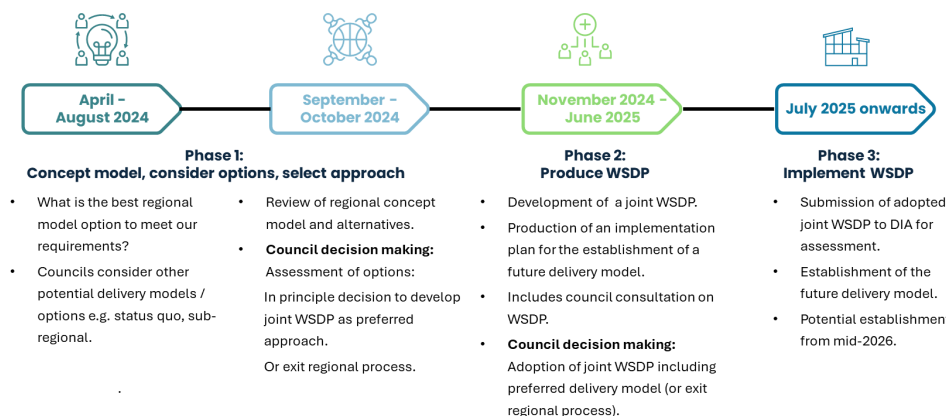
An indicative timeline and costs are shown below. Key transition principles will need to be followed to complete the transition in a fair and equitable manner.

37. Next phases of work

Subsequent phases of work to consider a joint WSDP and WSCCO will be informed by the decisions councils make in relation to a joint WSDP and joint arrangements. It is expected that

these will be made on an in-principle basis by late 2024. This is on the assumption that some or all councils commit to an ongoing process to develop a joint WSDP.

Figure 10: Phases of work



Phase 2 will include development and delivery of the WSDP. This will support councils to make decisions in relation to:

- the development and adoption of a regional WSDP that meets councils' legislative obligations, and
- establishing joint arrangements for the delivery of water services as described in the WSDP and preparing for the subsequent implementation of the preferred approach in Phase 3.

Phase 2 includes the need to undertake consultation and engagement on at least part of the WSDP relating to the delivery model and the implementation planning required for Phase 3. This will involve some significant decision making in relation to early establishment resources, accountabilities and funding.

The two key outputs from Phase 2 are:

- a draft regional WSDP, and
- an implementation plan for the establishment of the selected future delivery model.

Scope of a regional WSDP

The draft regional WSDP will need to be aligned with requirements of Part 2 of the Preliminary Arrangements Act. Guidance and templates provided by the DIA in September 2024 have helped to clarify requirements but, in general, the WSDP can be conceived as having four parts:

- asset condition information and a related AMP,
- funding, financing and revenue requirements to achieve financial sustainability,
- the anticipated or proposed model or arrangements for delivering water services, including how these will meet compliance requirements, and
- an implementation plan for the WSDP including timeframes and milestones.

38. Implementation plan

The implementation plan is also to be aligned with the requirements of Part 2 of the Preliminary Arrangements Act and will need to comprise the plan for how a future delivery model would be established in Phase 3. The detail of the plan will be driven by the delivery model selected by councils. Initial planning will need to be on the assumption that the selected model will be a WSCCO as outlined in DIA guidance in August 2024. The details of what this entails, its powers and funding arrangements will not be known until the Bill 3 is released in late 2024. Pending this, it is expected that the implementation plan will include:

- The preconditions that need to be met before the establishment of the entity can commence.
- Governance arrangements during both the establishment period and steady state, including arrangements for establishing an appointments panel, the role of Iwi/Māori, a Board constitution, shareholder agreements, and clear timelines and decision points for the establishment and transfer of decision-making rights to the establishment Board and Chief Executive.
- Entry and exit rights of shareholders and the timing and process for this including potential review point after 3-5 years.
- The structure, accountabilities, decision-making rights and resourcing for an establishment entity (potentially comprising a Chief Executive, selected functional leads and specialist support). This would include clear handover points between the project team and the establishment entity.
- The strategy, processes and principles for:
 - debt and asset transfer
 - financing for new WSCCO
 - pricing
 - contract transfer
 - people transition
 - customer experience and billing.
- A high-level operating model and organisational design.
- Service delivery model and local service locations.
- Change process and strategy.
- Information systems requirements.
- Legal requirements, including merger and acquisition, incorporation, banking and tax.
- Costs, budget and funding.
- Procurement strategy.

39. Engagement and consultation

To meet legislative requirements, and understand the position of partners, stakeholders and the community, it is assumed that councils will undertake communications, engagement and formal consultation on at least part of the WSDP (relating to the proposed service delivery model) during Phase 2.

Further details on required public consultation are set out in the Preliminary Arrangements Act, including a simplified consultation and decision-making process. It is assumed that councils will

confirm a regionally coordinated approach to consultation and engagement and a key question for Phase 2 is the optimal timing for consultation. Any consultation process will still be based on individual decision making by each council.

The scope and approach of this will be confirmed as part of the establishment of Phase 2 based on the legislative requirements of the LGA and the Preliminary Arrangements Act.

This process is likely to include:

- early engagement with key partners and stakeholders – from September 2024,
- confirmation of consultation approach and alignment with LTP amendment processes – by March 2024, and
- formal consultation process on the WSDP and WSCCO linked to consultation on an amendment to the LTP - April/May 2024.

40. Indicative time and cost for Phase 2

The issues considered during Phase 2 are significant, relating to investment planning for billions of dollars of investment in water assets and operations. Implementation planning will consider the potential establishment of a large, full-service, multi-council-owned WSCCO. This will have a significant impact on councils, including future role, operating model, financial arrangements and scale.

This is a challenging, complex and highly political process in the context of evolving legislation and is made more challenging due to the need to work across multiple councils, Iwi/Māori partners, central government, statutory consultation with the public and input from other stakeholders.

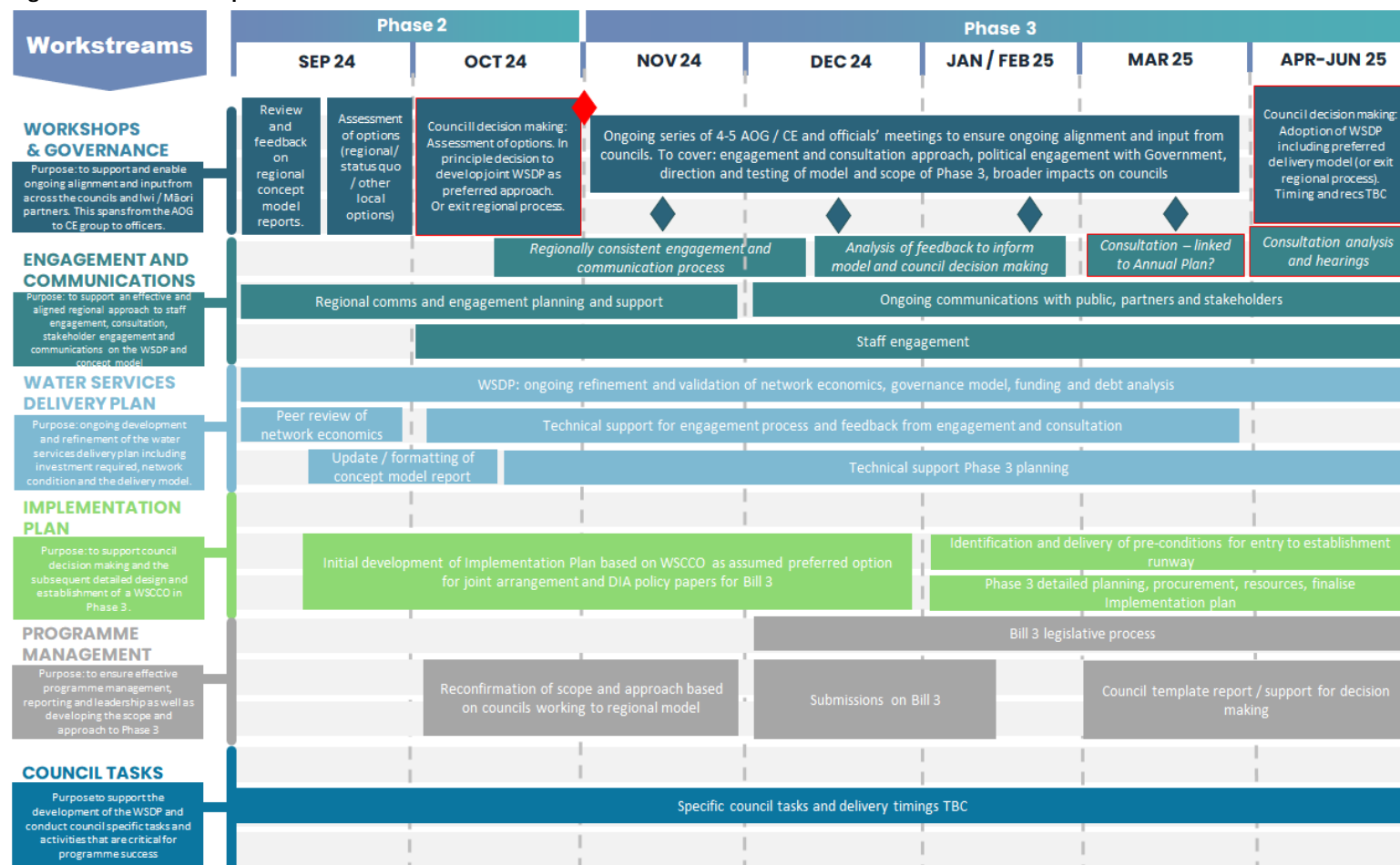
This will be challenging to complete in the 12-month period required by Bill 3 and is highly contingent upon the timing of Bill 3 and ability of councils to align consultation processes with LTP amendments.

Indicative costs to complete this work will depend on a range of factors including number of councils, timeline, consultation requirements, and guidelines from DIA. At this point the indicative cost range to complete Phase 2 for all ten councils on the timeline above is in the order of \$2-\$3 million⁶². This cost would need to be split across participating councils on an agreed basis.

The indicative timeline and key workstreams to enable delivery of a joint WSDP by September 2025 is shown below. This is a work in progress and will continue to be refined and confirmed by late 2024 informed by decisions by councils on whether to remain part of the regional WSDP process.

⁶²This is an indicative cost estimate and will be further refined and confirmed by the end of October 2024.

Figure 11: Workstream phases



41. Indicative timeline and cost for Phase 3 – establishment of a WSCCO

Implementation costs and timeline will be developed during Phase 2 and are highly contingent on the model, scale, and day one requirements of a WSCCO.

It is assumed at this point that the best-case scenario for time required to fully establish a WSCCO once councils adopt a WSDP is 12 months. This is based on the modelling and timeline developed by DIA to establish the proposed 10-entity structure. A tentative 'go live' date for a new WSCCO is therefore assumed to be by early 2026 with some ongoing transitional handover from councils to the WSCCO through to 2027. This may include a staged process to manage resourcing and risks.

Phase 3 costs are expected to increase markedly, as this phase involves establishment of a new entity, including set up of systems and processes. This will require a larger and more dedicated team and budget.

During Phase 2, the potential option of an early drawdown on the new WSCCO funding facilities to cover the costs of Phase 3 will be explored. It is anticipated that the entity's funding facilities would be provided by the LGFA with any early drawdown guaranteed by the owner councils.

Phase 3 establishment of a large regional WSCCO entity is estimated to cost somewhere in the order of \$75 million to more than \$125 million. The wide range is due to the costs for establishment of a new delivery model depending on many factors (scale, timing, resourcing model etc). These costs would need to be staged over time and in large part are driven by the costs of fit for purpose IT systems and processes.

42. Key transition principles

The transition process from existing delivery models to a new delivery model will be very challenging. Through the key requirements, councils have identified some issues that will need to be successfully navigated during the transition phase. These will help complete the transition in a fair and equitable manner and have been captured as key transitional principles. These will need to be reviewed and reconfirmed as part of the next phase of work to develop a WSDP and implementation plan.

People

- **People are at the heart:** The region has a team of highly committed people with irreplaceable expertise who deliver the region's water services and who have remained dedicated through an extended period of uncertainty within the water sector. The region has a values-based duty to water service teams and people to resolve the uncertainty, establish a high-quality future entity and make the staff transition as smooth and seamless as possible.
- From an operational perspective, the region cannot deliver high-quality water services without the support of these teams and people. The water sector currently has a **significant skills deficit**, and the region can ill-afford to lose valuable staff due to a poorly executed transition.
- **Job guarantee and pathway:** An intention to provide water services staff with certainty as quickly as possible. Accordingly, the new WSCCO would need to consider putting in place a job guarantee and pathway for all water staff from Level 3 down (Level 1 and 2 being Chief Executive and senior executive levels respectively).

- **Clear communication and dialogue:** There is a need to open clear communications and dialogue channels with all affected employees as soon as there is a way forward.

Financial transition principles

- **Equitable debt transfer:** The amount of debt that each council transfers to the new water entity will have a major bearing on the financial health of both the water service entity and each council. Agreeing a fair and equitable debt figure with each council will be a complex exercise.
- **Independent expert:** The standard practice for this type of 'merger transaction' is to appoint an independent financial expert to establish the accounting principles for preparing the settlement accounts, including the debt figure.
- **Review of accounts:** The external financial expert reviews each party's settlement accounts to ensure that they have been prepared in accordance with the specified principles. If the expert deems that the accounting principles have not been equitably and consistently applied, then they are empowered to issue a determination as to the final figures to appear in the settlement accounts. This approach provides all parties with confidence that the debt figures will be determined on a fair, consistent and equitable basis.
- **Equitable asset transfer:** A number of councils have experienced very large changes in their water asset valuations in recent years (for example, Wellington City Council saw an 88% uplift in 2022 and Hutt City Council approximately 300% in 2024). The valuation of assets is likely to be less contentious than debt, but accounting standards require a consistent and current valuation at the date of transfer. Accordingly, an independent valuer will be retained to provide a consistent and up-to-date valuation at the date of transfer.
- **Primary purpose:** Assets whose primary purpose is to enable the provision of water services will transfer to the new entity. During the transition phase, a principle-based framework will be designed and applied to determine the treatment of shared assets.
- **GWRC:** It is noted that GWRC has stated that the Hutt and Wainuiomata conservation/catchment land will not be transferring, and that the new entity will be granted the necessary rights to continue using and accessing the catchments and land identified for future storage, for water supply purposes.
- **Share allocation:** The shareholdings will be allocated between councils. A potential approach is based on pro rata of the value of net assets transferred. This would ensure that the value of shares received by a council matches the net asset value of the water services balance sheet it transfers. As a result, the transfer should have a neutral impact on a council's P&L account (i.e. it should not generate a profit or loss for the transferring council).

Consumer transition principles

- **Three-year price differential lock in period:** A common concern raised by councils in workshops was the need to ensure that ratepayers did not receive a major price shock on joining a regional entity, as a result of price harmonisation or price rises to cross subsidization of adjacent regions. To alleviate this concern, during the first three years, the potential price rises outlined in the section above on local delivery, customer service and price will be applied evenly to residential charges across the region, thereby maintaining existing residential price differentials. (Note: This is subject to existing revenues being sufficient to cover the full costs of water service provision, i.e. the council

having set the existing revenue at a sufficient level to fully fund the costs of water service provision per the water services Financial Impact Statement).

- **Revenue and pricing** will be a very complex area given the diverse pricing structures that exist across the region. For example, there are very diverse charging structures for non-residential services such as developer contributions. These are likely to require simplification and alignment to avoid over complicating the new entity's systems on day one. This is the reason for applying the "differential lock in" principle to residential charges only.

Contract and relationship transition principles

- **Contract transfer:** To smooth the transition and continuity of service provision, the baseline principle will be to roll over existing contracts and relationship agreements, by way of novation or assignment to the new entity. A clear detailed framework and rules for shared contracts or unusual contracts will be developed during the detailed design phase.
- **Te Tiriti obligations:** The transition will pay particular care to ensure that any Te Tiriti undertakings are not only legally transferred, but that Iwi/Māori have a clearly identified relationship structure to work with the new entity. The aim is to ensure that both the legal agreement and personal relationships are seamlessly transitioned (noting that it will take time to nurture new relationships and trust).

43. Next steps

Based on the requirements of legislation, councils will each need to make decisions on whether to develop a joint WSDP with other councils in the region with joint delivery arrangements, for example, across drinking water, wastewater and stormwater services; and whether to establish a joint delivery model.

It is expected that councils will make this in-principle decision by late 2024 in order that work can be progressed. Councils may choose to continue to develop other options in parallel.

The evidence in this report confirms the need for change. The status quo cannot continue and, under the requirements for developing a WSDP, councils will need to make some difficult choices about how to fund and deliver the urgent work needed on the three waters network.

The recommended regional model is considered well aligned with the key requirements set by councils and the emerging legislative framework that gives effect to Local Water Done Well. This recommended model will need to be assessed in relation to the status quo and any alternative arrangements that councils might choose to identify and assess.

Significant aspects of the recommended model will require further development and decision making in line with the requirements of Bill 3. This will require ongoing input and discussions with DIA to ensure that there is alignment.

Completion and decision making in relation to a joint WSDP and WSCCO in the 12 months required by the Preliminary Arrangements Act across multiple councils will be challenging. This will be a complex process in the context of evolving legislation working across multiple councils, Iwi/Māori partners, central government, statutory consultation with the public and input from other stakeholders. It will therefore be imperative that councils work effectively together and with the Government to maintain momentum and ensure analysis and further phases of work support effective decision making.

Councils can maintain momentum by:

- considering the recommended regional model and deciding to whether to develop a joint WSDP with other councils and the extent of any joint arrangements,
- assessing the status quo, alternative CCO model (may or may not be the recommended model) and, if they choose, other service delivery options,
- making in-principle decisions on the proposed model by late 2024 in order that this can be further developed,
- consulting on the draft WSDP (at least the part containing the proposed model) from late 2024 and into 2025,
- considering the implications for council, including the need to amend the LTP,
- adopting the WSDP (and any LTP amendment that may be required), and
- planning for implementation of the WSDP in 2025 (especially if a new model is to be adopted).

Appendices

Note: A separate document containing detailed appendices is available, including:

Appendix A: Clarification of the alignment with the requirements of a WSDP

Appendix B: Detailed key requirements

Appendix C: Key assumptions, sources of information and levels of confidence

Appendix D: Council profile summaries (separate document)

Appendix E: Network condition information

Appendix F: Key compliance issues

Appendix G: Types of entity model options

Appendix H: Network economics approach

Appendix I: Investment, price and debt scenarios

Appendix J: Financial projections

Appendix D: Council profiles

The following pages provide an overview of water service delivery for each council. These overviews were initially prepopulated with information from the Entity C working draft asset management plan appendix A, the AECOM Asset Management Plans, council websites, and the Long-term Plans. Councils reviewed the prepopulated information and corrected or updated where possible*. The table below summarises the sources of information for each section.

Section	Information source	Notes
Council overview	<ul style="list-style-type: none"> Council websites, reviewed and adjusted by council staff ArcGIS, Statistics NZ WWL Stormwater Management Strategy 	
Population	<ul style="list-style-type: none"> The Wellington Regional Leadership Committee regional dashboard Census 2023 	
Projected population for 2054	<ul style="list-style-type: none"> The Wellington Regional Leadership Committee regional dashboard: WRLC Housing Data 	
Water asset information	<ul style="list-style-type: none"> AECOM Asset Management Plan V1.0 	<ul style="list-style-type: none"> Note that Kāpiti Coast District Council provided updated information from 2024 Asset Management Plan.
Water asset condition	<ul style="list-style-type: none"> AECOM Asset Management Plan V2.0 WWL Addendum supplied as part of the MVP Asset Management Plan material for the 2024-34 LTP 	<ul style="list-style-type: none"> Note that Kāpiti Coast District, Hutt City, Masterton District and Greater Wellington Regional Councils provided updated asset condition information.
Water challenges and projects	<ul style="list-style-type: none"> Largely from AECOM Asset Management Plan V1.0, some councils provided additional information out of LTPs 	<ul style="list-style-type: none"> Note that Kāpiti Coast District Council provided updated information from 2024 Asset Management Plan.
Compliance issues	<ul style="list-style-type: none"> Entity C working draft AMP council summaries were used as the base with updates provided by councils 	
Planned pipe replacement	<ul style="list-style-type: none"> All information provided by councils 2024-34 Investment Planning and Advice, Porirua City Council 	

* Note – no information was received from Carterton District Council.

Appendix D: Council profiles, from the report: Recommended Wellington regional approach to a joint WSDP and delivery model

Water service delivery overview – Horowhenua District Council



Council overview

- The Horowhenua District offers a stunning natural environment on the lower west coast of the North Island. Kilometres of unspoilt beaches, forest walks and a hinterland that is rich in both Māori and European history. Bound by the Tasman Sea to the west and the bush-clad Tararua Ranges to the east, Horowhenua is blessed with superb natural assets, treasured historical heritage and a thriving cultural life, all within easy reach of New Zealand's capital city Wellington.
- Horowhenua encompasses an area of **106,400 hectares**.
- Major waterways** are Ōhau and Manawatū rivers, Lake Horowhenua, Koputaroa Stream, Tokomaru River, Mangahao River.



POPULATION
36,693 (Census 2023).

- Projected population of **65,589** for **2054**.



Water asset information (current state)



RETICULATION
428km of water supply pipes
351km of wastewater pipes
182km of stormwater pipes



TREATMENT ASSETS
5 water treatment plants
6 wastewater treatment plants

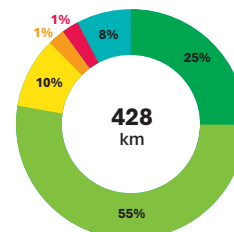


STATIONS
1 water supply
53 wastewater
19 stormwater pump stations

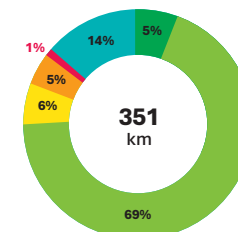


REPLACEMENT VALUE
Combined replacement value **\$635m**

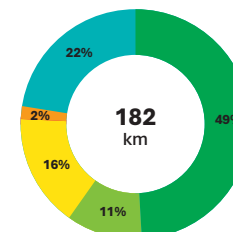
Water asset condition (current state)



WATER SUPPLY



WASTEWATER



STORMWATER

● Excellent
 ● Good
 ● Average
 ● Poor
 ● Very Poor
 ● Not assessed

Water service delivery overview – Horowhenua District Council



Water challenges and projects

Type	Key water risks, issues and challenges for the next ten years
3W general	<ul style="list-style-type: none"> Ageing infrastructure – treatment plants like the Levin Wastewater Treatment Plant. Resilience in managing aging infrastructure during a natural disaster. Growth predictions impact infrastructure capacity. Climate change – increased weather events and stormwater impacts on wastewater infrastructure. Data quality and reliability, including assumed condition.
Water services	<ul style="list-style-type: none"> Ageing infrastructure of water supply assets. A major challenge Council faces is securing a sustainable source of water supply for growth, specifically in Levin. There are quantity issues that need addressing to ensure Council can secure water supply to existing and future communities.
Wastewater	<ul style="list-style-type: none"> A major challenge is the increasing age of Council's wastewater assets especially within the Levin reticulation and treatment plant. Poor pipe condition is a major cause of groundwater infiltration which adds unnecessary volume to the amount of wastewater collected during wet weather events. Meeting with growth demand. Anticipated growth is leading to increased residential, commercial and industrial demand. Sludge treatment and disposal over recent years been challenging for Council including the increased cost for disposal. Resource consent process and complying with consent conditions can be expensive, particularly with increased expectations from the public and stakeholder groups.
Stormwater	<ul style="list-style-type: none"> Localised flooding and drainage issues. Stormwater quality issues especially around Lake Horowhenua (Punahau). Another challenge faced by Council is that the quality of freshwater in streams, river systems, and water catchments in general is affected by water runoff, erosion, and contaminants (whether chemical or solid waste) which can be present in stormwater.

Type	Top priority projects / key planned investments in water for the next ten years
3W general	<ul style="list-style-type: none"> Any activities concerning Lake Horowhenua (Punahau). This is a community asset and culturally significant. An unwavering commitment has been made with iwi and stakeholders to restore the mauri of the wai.
Water services	<p>Levin</p> <ul style="list-style-type: none"> Installation of state of the art Water Demand Management system. <p>Foxton</p> <ul style="list-style-type: none"> Installation of steel reservoir (500m³) in 2018 at the Foxton Water Treatment Plant. Removal of manganese in sand filters at the Foxton Water Treatment Plant in early 2017 to supply aesthetically acceptable water to consumers. <p>Foxton Beach</p> <ul style="list-style-type: none"> Installation of green sand filters in Foxton Beach water treatment plant in 2017. <p>Tokomaru</p> <ul style="list-style-type: none"> Construction of new timber reservoir (200m³) in 2017 to increase the total storage capacity of the treated water to 677m³. <p>Other</p> <ul style="list-style-type: none"> Further improvement work on Water Demand Management in Levin, Shannon, and Foxton areas, but not Foxton Beach. Increasing water storage capacity in Levin. Finding an alternative water supply source for Levin, including a supplementary sustainable water supply. The requirements for a reticulated water supply to growing smaller settlements, such as Waitāre Beach and Ōhau, which will only be considered once a long-term water source for Levin has been secured. Strategic upgrade of the Levin Water Treatment Plant to increase capacity of the clarifiers, filters, and chemical dosing plant, increase treated water storage capacity and to improve the backwash water process and re-use. The Levin (Poads Road) Water Supply Reservoir – build a new large-scale water reservoir. Roll out the water meters project.
Wastewater	<ul style="list-style-type: none"> Levin Wastewater Treatment Plant upgrades. Plant Inlet and Headworks. This is required to increase hydraulic capacity at the head of plant, reduce grit carryover to downstream systems, prepare for future upgrades, and tie in with planned work such as the septage screening facility and new inlet line. Sludge Dewatering Plant. This is required due to lack of capacity, resiliency, and excessive operating demands. Sludge Balance Tank. The sludge balance tank has been identified as structurally unsound. Extension and re-consenting of irrigation of treated effluent.
Stormwater	<ul style="list-style-type: none"> District wide stormwater improvement works. Including: <ul style="list-style-type: none"> Foxton Drainage Resilience Project Foxton Beach Global Consenting Program Lake Horowhenua Master Plan Levin Stormwater Consents projects Makerua Drainage Scheme



Planned pipe replacement
To be confirmed



Compliance issues



DRINKING WATER STANDARDS



WASTEWATER STANDARDS

- Abatement Notice 1428 – Tokomaru Wastewater Working Party – non-compliance.
- Capacity to meet consenting conditions is limited.



STORMWATER STANDARDS

Water service delivery overview – Kāpiti Coast District Council



Council overview

- Kāpiti Coast District has an area of **731.52km²** of which **76.7km²** is urban and **654.8km²** is rural. It is **50kms** north of Wellington City. The population of the district is concentrated in the chain of coastal settlements along SH1: Ōtaki, Te Horo, Waikanae, Paraparaumu, Raumati Beach, Raumati South and Paekākāriki. Paraparaumu is the most populous of these towns and the commercial and administrative centre for the district.
- Kāpiti Coast encompasses an area of **731,520 hectares**.
- 4 major waterways** Waikanae, Ōtaki, Waimeha, Mangaone which all to the Tasman Sea.



POPULATION
58,744 (2024).

- Projected population of **80,924** for **2054**.



Water asset information (current state)



RETICULATION

588km of water supply pipes, including
110km of service laterals
18 water supply service reservoir sites
354km of wastewater pipes
5 wastewater storage ponds
233km of stormwater pipes
52km of open waterways



TREATMENT ASSETS

17 water bores
2 surface water intakes
5 water treatment plants
2 wastewater treatment plants



STATIONS

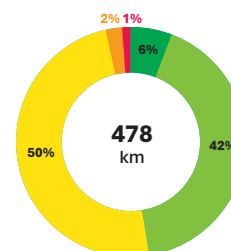
9 water supply pumping stations
153 wastewater pumping stations
18 stormwater pumping stations



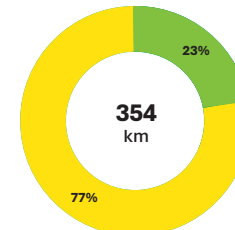
REPLACEMENT VALUE

Combined replacement value
\$1,132m

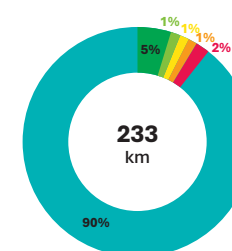
Water asset condition (current state)



WATER SUPPLY



WASTEWATER



STORMWATER

● Excellent
 ● Good
 ● Average
 ● Poor
 ● Very Poor
 ● Not assessed

Water service delivery overview – Kāpiti Coast District Council



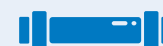
Water challenges and projects

Type	Key water risks, issues and challenges for the next ten years	Top priority projects / key planned investments in water for the next ten years
3W general	<ul style="list-style-type: none"> Meeting population growth demand - growth – capacity. Climate change impacts. Affordability of levels of service – funding. Seismic hazards. Government changes to three waters services. Regulatory changes. 	<ul style="list-style-type: none"> Developing long term solutions with Iwi partners. Water treatment plant resilience programme. Strategic water supply network and storage upgrades. Wastewater treatment plant consent renewal and treatment plant upgrades. Wastewater septage reception facility and strategic network upgrades. Prioritised stormwater network upgrades programme.
Water services	<ul style="list-style-type: none"> Extension of existing water supply network to unserved rural areas. Compliance to meet new regulatory requirements. Waitua Recommendations (Impacts on Water Allocation). 	<ul style="list-style-type: none"> Treatment plant resilience upgrades – Waikanae, Ōtaki and Hautere. Ōtaki reservoirs. Strategic Network Upgrades.
Wastewater	<ul style="list-style-type: none"> Resource consents for Paraparaumu wastewater treatment plants expired in 2022. Application for renewal of consent submitted in Dec 2021. Proposed upgrades likely to meet future consent requirements. Iwi partners' support for developing long-term, sustainable delivery. The rise of the water table. Condition data for linear network assets. Waitua Recommendations (Impacts on Wastewater discharges). 	<ul style="list-style-type: none"> Wastewater consent renewals. Proposed treatment plant upgrades both at Ōtaki and Paraparaumu. Wastewater network emergency storage pond lining completed. Inlet works upgrade, concept design complete. To develop long-term sustainable solutions with iwi partners. Septage collection facility. Strategic Network Upgrades
Stormwater	<ul style="list-style-type: none"> Flood hazards in 30% of urban properties. 50% of piped network is under capacity for a 1:10 year event. 30-40% cost increases impacting on what can be delivered. Inflow infiltration issues. Privately owned SW assets (ponds, soak pits, down pipes etc.) not maintained. Increased urbanisation (Intensification). Emergency response. Open drain/stream maintenance. Waitua recommendations. 	<ul style="list-style-type: none"> Major projects assets upgrades and renewals programme. Minor projects assets upgrades and renewals programme. IAF Ōtaki Growth Project – ANZAC Road stormwater upgrades. IAF Ōtaki Growth Project – Rangiuru Road stormwater upgrades.



Planned pipe replacement

1km/year is adequate over the next 10 years for potable water



Compliance issues



DRINKING WATER STANDARDS



WASTEWATER STANDARDS

- Securing new consent for the Paraparaumu Wastewater Treatment Plant
- Increasing nitrogen levels in the discharge from the Ōtaki Wastewater Treatment Plant



STORMWATER STANDARDS

- Securing the renewal of the global stormwater discharge consent

Water service delivery overview – Porirua City Council



Council overview

- The Porirua District covers about **175km²** and is formed around the two arms of Te Awarua-o-Porirua Harbour and the coastline. The Porirua City Centre was developed in the 1960s, and much of the residential areas were developed between the 1940s and 1960s.
- Porirua is centrally located in the Wellington Region and is connected to Kāpiti Coast and Wellington City via commuter rail, to the Hutt Valley by SH58, and to the rest of the North Island by SH1.
- Porirua encompasses an area of **175km²**, with about **61km²** being urban and **114km²** classed as urban rural.
- The city is built around Te Awarua-o-Porirua Harbour, with many waterways flowing into it. There are seven sub-catchments and over **275km** of streams in Te Awarua-o-Porirua Whaitua.



POPULATION
59,445 (Census 2023).

- Projected population of **83,000** for **2054**.



Water asset information (current state)



RETICULATION
344km of water supply mains
427km of wastewater pipes
294km of stormwater pipes



TREATMENT ASSETS
1 wastewater treatment plant
Water is supplied via a bulk water main from treatment facilities owned by the Greater Wellington Regional Council.

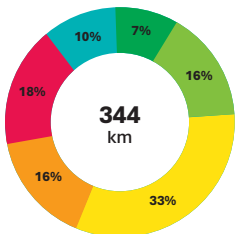


STATIONS
15 water supply
67 wastewater pump stations

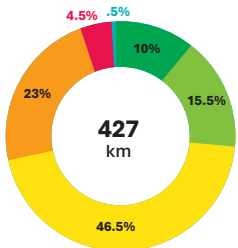


REPLACEMENT VALUE
Combined replacement value **\$906m**

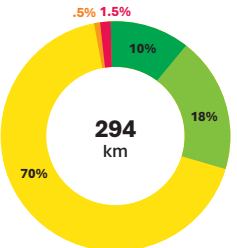
Water asset condition (current state)



WATER SUPPLY



WASTEWATER



STORMWATER

● Excellent ● Good ● Average ● Poor ● Very Poor ● Not assessed

Water service delivery in the Wellington region – Porirua City Council

porirua city

Water challenges and projects

Type	Key water risks, issues and challenges for the next ten years	Top priority projects / key planned investments in water for the next ten years
3W general	<ul style="list-style-type: none"> Significant and growing renewals backlog in water and wastewater due to age profile of pipe materials. Population growth is ahead of three waters infrastructure. 	<ul style="list-style-type: none"> For drinking water, we will continue with our plan to install residential water meters. This will help identify where our major leaks are, so they can be fixed. It will also help raise awareness around water usage. For wastewater, we will continue to support Kāinga Ora's significant Bothamley Park project. We will also continue the Central City Storage Tank and the Know Your Pipes initiatives (where we help identify wastewater leaks – mostly on private pipes). These initiatives will lead to better sanitation and environmental outcomes, particularly for the health of our harbour. There is limited capacity for investment in stormwater. So, our approach here is to improve our modelling and identify where to invest our limited resources, to combat the more intense flooding and slips we anticipate from more intensive weather events. Projects that improve the health of Te Awarua-o-Porirua Harbour are a priority for Te Rūnanga O Toa Rangatira and Porirua City Council.
Water services	<ul style="list-style-type: none"> Water demand for Porirua City is outstripping supply due to water loss in the network and growth. Networks are not optimised in accordance with Te Mana o te Wai. The condition of our reservoirs makes them vulnerable to contamination. 	<ul style="list-style-type: none"> Universal metering (smart network). Low level (Aotea) reservoir. Whitby high-level trunk water main.
Wastewater	<ul style="list-style-type: none"> The Council is reliant on landfills accepting sludge from wastewater treatment plants. 	<ul style="list-style-type: none"> Wastewater network overflow consents. Wastewater treatment plant consent renewal. Paremata Wastewater Trunk Upgrade Stage 2. Porirua Central City wastewater storage tank.
Stormwater	<ul style="list-style-type: none"> Streams, rivers and harbours contain coliforms and other contaminants e.g. heavy metals and microplastics. 	<ul style="list-style-type: none"> Stormwater consents. Taupo Stream stormwater catchment improvements. Karehana stormwater catchment. Commit to the health of Te Awarua-o-Porirua Harbour and its catchment through investment, advocacy and regulation.



Planned pipe replacement

15km of pipe renewals are required per year for 30 years to address the current backlog



Compliance issues



DRINKING WATER STANDARDS



WASTEWATER STANDARDS

- Some overflows during storm events



STORMWATER STANDARDS

- None (some overflows during storm events)

Water service delivery overview – Wellington City Council

Absolutely Positively
Wellington City Council
Me Heke Ki Pōneke

Council overview

- Wellington is New Zealand’s centre of government and the world’s southernmost capital city. It is also the country’s cultural capital and the third most populous urban area in New Zealand. The city is situated alongside Wellington Harbour and surrounded by natural beauty, including Zealandia, an award-winning eco-attraction just minutes from the central business district.
- Wellington City encompasses an area of **44,400 hectares**.
- 9 major waterways** (Karori, Mākara, Ohariu, Opau, Oteranga, Owhiro, Kaiwharawhara, Ngauranga and Porirua Streams).



POPULATION
213,269 (2024).

- Projected population of **271,288** for **2054**.



Water asset information (current state)

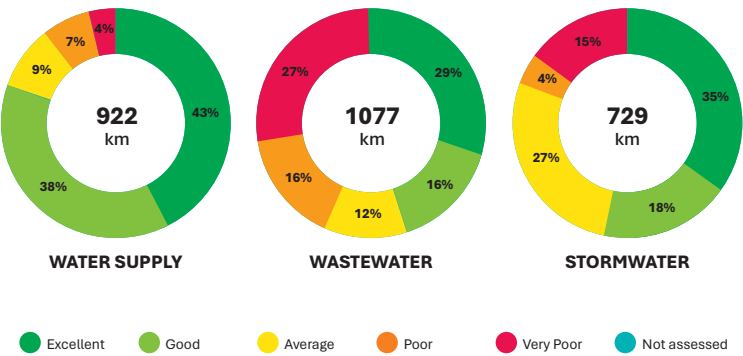
RETICULATION
922kms of water supply mains
1077kms of wastewater pipes
729kms of stormwater pipes

TREATMENT ASSETS
2 wastewater treatment plants
Water is supplied via a bulk water main from treatment facilities owned by the Greater Wellington Regional Council.

STATIONS
34 water supply stations
69 wastewater stations
2 stormwater pump stations

REPLACEMENT VALUE
Combined replacement value
\$7,186m

Water asset condition (current state)



Water service delivery overview – Wellington City Council

Absolutely Positively
Wellington City Council
Me Heke Ki Pōneke

Water challenges and projects

Type	Key water risks, issues and challenges for the next ten years	Top priority projects / key planned investments in water for the next ten years
3W general	<ul style="list-style-type: none"> Significant and growing renewals backlog in water and wastewater due to age profile of pipe materials. Population growth is ahead of three waters infrastructure. 	<ul style="list-style-type: none"> Fix water infrastructure and improve health of waterways.
Water services	<ul style="list-style-type: none"> Water demand for Wellington City is outstripping supply due to water loss in the network and growth. Reservoirs condition means they are vulnerable to contamination. 	<ul style="list-style-type: none"> Seismic improvements at Wrights Hill drinking water reservoir. Critical assets reservoir water quality renewals (all 64 water reservoirs identified as very high criticality assets). Investigate and install water meters. Reactive maintenance to clear the backlog of leak repairs in Wellington before summer 2024/2025.
Wastewater	<ul style="list-style-type: none"> Moa Point condition is leading to ongoing compliance issues. 	<ul style="list-style-type: none"> Renewals of critical wastewater assets at Moa Point and Western Wastewater Treatment Plants. Remedial work on Karori effluent pipelines. Eastern Trunk Wastewater Main, stage 1 cargo area pipe. Airport wastewater interceptor contingency pipe. CBD Pump Station 01-07 rising main replacement including Taranaki Street Pump Station.
Stormwater	<ul style="list-style-type: none"> Our streams, rivers and harbours contain coliforms. Coastal stormwater outfalls experiencing sea level risk resulting in increased sedimentation and need for more frequent clearing. 	<ul style="list-style-type: none"> Prioritise investment in stormwater filtration and flood protection in conjunction with or ahead of transport infrastructure investment.



Planned pipe replacement

194kms of pipes to be replaced over the next 10 years



Compliance issues



DRINKING WATER STANDARDS



WASTEWATER STANDARDS

- Moa Point condition is leading to ongoing compliance issues.



STORMWATER STANDARDS

Water service delivery overview – Hutt City Council



Council overview

- Hutt City is located approximately 15kms north-east of Wellington CBD. It is also adjacent to Wellington, Porirua, Upper Hutt and the South Wairarapa District. The city stretches from Petone in the west, Stokes Valley in the north, and down to Cape Palliser in the south.
- The floor of the Hutt Valley is the most densely populated flood plain in New Zealand and the central area of Hutt City serves as the main urban centre of the Hutt Valley.
- Hutt City encompasses an area of **37,600 hectares**.
- **3 major waterways** (Orongorongo River, Hutt River and Wainuiomata River).



POPULATION
114,006 (2024).

- Projected population of **150,237** for **2054**.



Water asset information (current state)



RETICULATION
711km of water supply mains
680km of wastewater pipes
454km of stormwater pipes



TREATMENT ASSETS
13 water supply stations
48 wastewater stations
12 stormwater pump stations

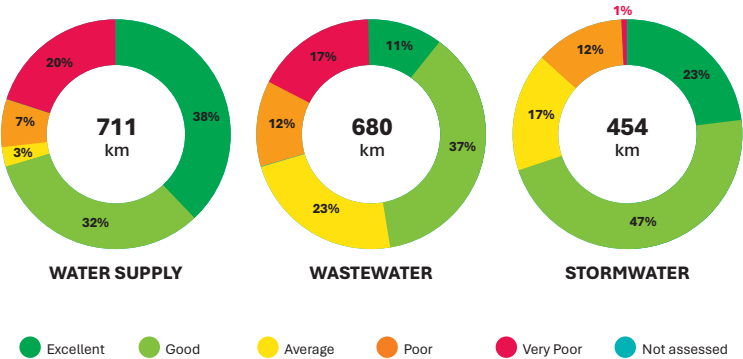


STATIONS
1 wastewater treatment plant
5 stormwater detention dams
Water is supplied via a bulk water main from treatment facilities owned by the Greater Wellington Regional Council.



REPLACEMENT VALUE
Combined replacement value **\$6-7b**

Water asset condition (current state)



Water service delivery overview – Hutt City Council



Water challenges and projects

Type	Key water risks, issues and challenges for the next ten years	Top priority projects / key planned investments in water for the next ten years
3W general	<p>In summary, despite the increasing investment Council has and will make in water network renewal, current water storage constraints as well as capacity constraints in the regional water infrastructure workforce will impact the level of increased system and network capacity that can be achieved in the short to medium term. In combination with the need for Council to operate with fiscal prudence, this means there are two potentially unavoidable future risks:</p> <ul style="list-style-type: none"> The likelihood of ongoing and potentially increasing water shortages across the Wellington Region. Council will be unable to provide infrastructure support in all areas of housing development or renew ageing water infrastructure on a lifecycle basis in Te Awa Kairangi ki Tai. <p>Our greatest water infrastructure challenge is a rapidly ageing water network. Council's strategic approach to investing in water infrastructure, namely:</p> <ul style="list-style-type: none"> Keeping the water in the pipes by investing in finding and fixing leaks, managing water loss, and replacing ageing infrastructure. Minimising the future cost of water infrastructure by exploring ways of reducing the demand for water and influencing water use behaviour. Building additional water storage capacity. 	<p>1. Address ageing water infrastructure:</p> <ul style="list-style-type: none"> Three waters network renewals. Seaview Wastewater Treatment Plant renewals. Petone Stormwater improvements. Petone Collecting Sewer renewal. <p>2. Meeting growth demand</p> <ul style="list-style-type: none"> Eastern Hills Reservoir and outlet main. Implementing universal smart meters. <p>3. Building network resilience</p> <ul style="list-style-type: none"> Black creek stormwater improvements.
Water services	<ul style="list-style-type: none"> Water supply reliability over summer is at risk and a new water supply is needed. Reservoirs condition means they are vulnerable to contamination. Water demand for Hutt City is outstripping supply due to water loss in the network and growth. Current 10-year LTP investment is well short of what is required to renew ageing parts of the network (estimated that only 50% of what is required). 109kms of galvanized water pipe that is failing and requires urgent replacement along with significant amount of AC pipe that is failing earlier than expected. 	<ul style="list-style-type: none"> Approximately 60km of pipe renewal has been planned for the next 10 years in the LTP. New water reservoir on Eastern Hills planned to meet growth and improve resilience.
Wastewater	<ul style="list-style-type: none"> Current 10-year LTP investment is well short of what is required to renew ageing parts of the network (estimated that only 10% of what is required). Main outfall pipe working at around 50% capacity needs renewing or upgrading with no budget provision for physical works expected to be around \$700m. Erosion occurring on the Hutt River potentially undermining 825mm bulk wastewater pipeline adjacent Taita rock. Sludge dryer at Seaview WWTP is nearing end of life. The redundancy of Seaview WWTP is inadequate for major maintenance while ensuring compliance can be met. 	<ul style="list-style-type: none"> Investment of over \$200m is earmarked for renewing much of the working plant and equipment at the Seaview Wastewater Treatment Plant over the next 1-5 years. The sludge dryer is the most significant of these expected to cost \$85m.
Stormwater	<ul style="list-style-type: none"> Streams, rivers and harbours contain coliforms. Coastal stormwater outfalls experiencing sea level rise resulting in increased sedimentation and need for more frequent clearing. Growth Study notes that approximately \$800m of investment is required to upgrade stormwater across the City to meet growth and achieve target standards. This is not currently funded. 	<ul style="list-style-type: none"> Approximately 10km of pipe renewal has been planned for the next 10 years in the LTP.



Planned pipe replacement

Renew approximately **175kms** of pipe network over the next 10 years



Compliance issues



DRINKING WATER STANDARDS

The Waterloo Water Treatment Plant is non-compliant with bacterial compliance rules around chlorine contact time, which affects around 700 households. While this issue does not affect drinking water safety, work is currently underway to achieve compliance by reconfiguring the network.



WASTEWATER STANDARDS

The Seaview Wastewater Treatment Plant has had recent issues with a failure to comply with both water effluent and air quality consent requirements, largely due to ageing plant and equipment. A major capital renewals programme over the next three years has been included in the LTP to overcome these issues.



STORMWATER STANDARDS

Water service delivery overview – Upper Hutt City Council



Council overview

- Upper Hutt enjoys the character of a small city, while having the second largest land area of a city council in New Zealand. Easy access to an expansive natural environment featuring Te Awa Kairangi/Hutt River, regional parks and hills surrounding the city is part of our identity.
- Upper Hutt is a family-oriented city, with spacious suburban housing development occupying around 3.24% of the land area, encompassed by treasured open spaces. Traditionally a commuter city with over half of the people working outside the city, the local economy is growing and diversifying including new commercial developments and niche industry hubs.
- Upper Hutt encompasses an area of **54,000 hectares**
- 5 major waterways** The Whakatikei, Akatārawa, Pākuratahi and Mangaroa rivers feed Te Awa Kairangi/Hutt River, which flows into Te Whanganui-a-tara Wellington Harbour.



POPULATION

48,240 (2024).

- Projected population of **64,238** for **2054**.



Water asset information (current state)



RETICULATION

281km of water supply mains

226km of wastewater pipes

155km of stormwater pipes



STATIONS

9 water supply pipes

17 wastewater pipes

7 stormwater pump stations



TREATMENT ASSETS

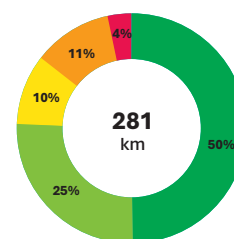
- All wastewater is collected and treated via the Hutt Valley joint venture system.
- Water is supplied via a bulk water main from treatment facilities owned by the Greater Wellington Regional Council



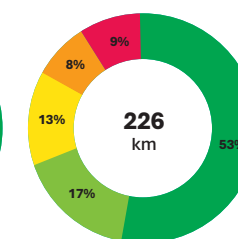
REPLACEMENT VALUE

Combined replacement value
\$1.464b ORC (30 June 2024)

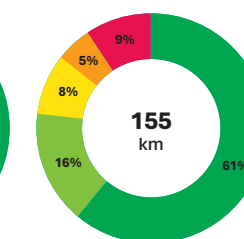
Water asset condition (current state)



WATER SUPPLY



WASTEWATER



STORMWATER

● Excellent
 ● Good
 ● Average
 ● Poor
 ● Very Poor
 ● Not assessed

Water service delivery overview – Upper Hutt City Council



Water challenges and projects

Type	Key water risks, issues and challenges for the next ten years	Top priority projects / key planned investments in water for the next ten years
3W general	<ul style="list-style-type: none"> Significant and growing renewals backlog in drinking water and wastewater. New environmental quality standards require very high investment to achieve wastewater and stormwater consent compliance. Population growth is ahead of three waters infrastructure provision. Major investment is needed, especially in the wastewater network to enable growth to occur. 	<p>Critical assets: 7 pump stations</p> <ul style="list-style-type: none"> Our pipes are critical assets in the three waters network – approximately 661,700 metres of which around 40% (by length) need replacing in the next 30 years to keep the network operating. Due to the size, type and age of pipes, the wastewater pipe network renewals are the most critical focus area.
Water services	<ul style="list-style-type: none"> Water demand and use is outstripping supply due to water loss in the network and growth. As a bulk water purchaser, Council is a cost and service taker with limited influence over these aspects. 	<p>Critical assets: All 16 reservoirs have been identified as high criticality assets and based on condition some require a level of short-term remedial works.</p> <ul style="list-style-type: none"> All planned water reservoir upgrades and renewals. New storage to address level of service deficits and to enable growth. Pipe renewals.
Wastewater	<ul style="list-style-type: none"> Major shared assets need upgrades, including sludge dryer at Seaview WWTP nearing end of life. Network infiltration and inflows. Wet weather overflows. 	<p>Critical assets: 2km wastewater pipes</p> <ul style="list-style-type: none"> Wastewater network overflow consents and subsequent improvements. Hutt Valley shared asset projects including bulk sewer interceptor improvements (at Petone) and Seaview WWTP and outfall upgrade. Pipe renewals
Stormwater	<ul style="list-style-type: none"> Contamination and overflows into waterways. 	<p>Critical assets: 24km stormwater</p> <ul style="list-style-type: none"> The Pinehaven Stream Improvements Project. Global stormwater consents and subsequent improvements.



Planned pipe replacement
To be confirmed



Compliance issues



DRINKING WATER STANDARDS



WASTEWATER STANDARDS



STORMWATER STANDARDS

Water service delivery overview – South Wairarapa District Council



Council overview

- The South Wairarapa District is situated at the southernmost corner of the North Island and has an area of approximately 248,455 hectares (2,484km²). In the south, the district boundary follows the coastline from the western end of Palliser Bay in Cook Strait to Honeycomb Rock, east of Martinborough. The western boundary follows the main divide of the Remutaka and Tararua Ranges to Mount Hector, from which the boundary runs south-east across the Wairarapa Plains to the coast. The district includes the towns of Featherston, Greytown and Martinborough, which are the main population centres.
- The South Wairarapa District encompasses an area of **248,455 hectares**
- 4 major waterways** (Ruamāhanga, Huangarua, Tauwharenikau, and Waiohine Rivers) and Wairarapa Moana which has been handed back to iwi under a settlement agreement and is Ramsar protected.



POPULATION

11,811 (Census 2023).

- Projected population of **16,606** for **2054**.



Water asset information (current state)



RETICULATION

118km of water supply mains
75km of wastewater pipes
15km of stormwater pipes



TREATMENT ASSETS

4 water treatment plants
4 wastewater treatment plants



STATIONS

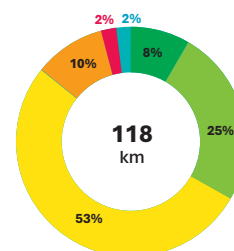
11 wastewater pump stations



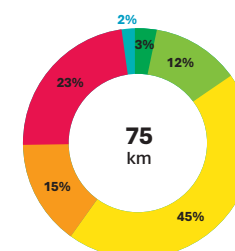
REPLACEMENT VALUE

Combined replacement value **\$133m**

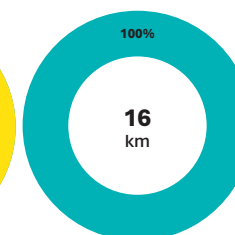
Water asset condition (current state)



WATER SUPPLY



WASTEWATER



STORMWATER

● Excellent
 ● Good
 ● Average
 ● Poor
 ● Very Poor
 ● Not assessed

Water service delivery overview – South Wairarapa District Council



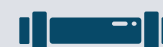
Water challenges and projects

Type	Key water risks, issues and challenges for the next ten years	Top priority projects / key planned investments in water for the next ten years
3W general	<ul style="list-style-type: none"> An ageing network results in asset failure and requires an increase in renewal. Population growth is ahead of three waters infrastructure. Emissions from three waters are not reducing. 	
Water services	<ul style="list-style-type: none"> There is a lack of redundancy in critical systems (source, treatment, network) to provide safe drinking water in accordance with the Water Services Act. Featherston / Greytown / Martinborough water system resiliency is compromised due to poor condition of assets. Boar Bush Gulley Road and Boar Bush reservoir and inlet/outline pipe scour damage. 	<ul style="list-style-type: none"> Featherston security of supply – single compromised pipeline (Tauherenikau). Featherston Waiohine WTP Stage 3 upgrades. Martinborough Water Treatment Plant – New water source upgrade.
Wastewater	<ul style="list-style-type: none"> Inability to comply with resource consents. Condition and resiliency of the Martinborough / Featherston wastewater networks is deteriorating. Featherston wastewater network has very high inflow of groundwater. No new wastewater connections are available in Martinborough or Greytown. 	<ul style="list-style-type: none"> Martinborough WWTP compliance upgrade programme. Featherston WWTP – Major plant upgrade - Stage 2. Greytown WWTP stage 2 of land disposal programme upgrades. Featherston pipe renewals – rising main.
Stormwater	<ul style="list-style-type: none"> Streams and rivers contain coliforms. Flooding. 	<ul style="list-style-type: none"> Stage 1 global stormwater consents. Stormwater flood modelling. Infiltration and Inflow modelling and investigations, particularly Featherston.



Planned pipe replacement

To be confirmed



Compliance issues



DRINKING WATER STANDARDS



WASTEWATER STANDARDS



STORMWATER STANDARDS

Water service delivery overview – Masterton District Council



Council overview

- Masterton District has an area of **2,295km²**. It is located between the Tararua Range to the west and the Pacific Ocean to the east. The main urban area is Masterton located on the Wairarapa valley between the Ruamāhanga, Waipoua and Waingawa Rivers.
- Masterton encompasses an area of **229,500 hectares**
- 5 major waterways** Waipoua, Waingawa, Tauweru all flow into the Ruamāhanga that flows down the valley to the south coast. The Whareama is the largest of the rivers flowing from the eastern hill country to the east coast.



POPULATION
29,894 (2024)

- Projected population of **42,984** for **2054**



Water asset information (current state)



RETICULATION
218km water supply pipes
214km wastewater pipes
55km stormwater pipes



TREATMENT ASSETS

2 water treatment plants (1 is a small plant supplying 20 properties in Tinui)
4 wastewater treatment plants (Homebush, Riversdale, Castlepoint, Tinui)
Localised stormwater assets (Masterton, Riversdale, Castlepoint)
3 rock weirs at Waipoua river

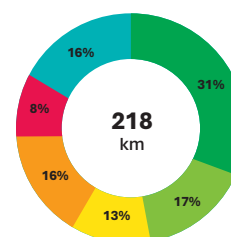


STATIONS
1 water supply boost pump station
13 wastewater pump stations

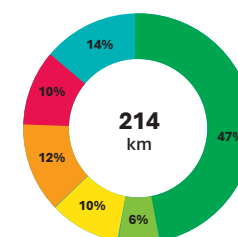


REPLACEMENT VALUE
Combined replacement value **\$390m**

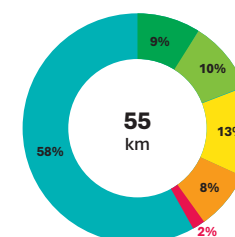
Water asset condition (current state)



WATER SUPPLY



WASTEWATER



STORMWATER

● Excellent
 ● Good
 ● Average
 ● Poor
 ● Very Poor
 ● Not assessed

Water service delivery overview – Masterton District Council



Water challenges and projects

Type	Key water risks, issues and challenges for the next ten years	Top priority projects / key planned investments in water for the next ten years
3W general	<ul style="list-style-type: none"> Meeting population growth demand. Resource consent renewals. Climate change impacts. Affordability of levels of service. 	
Water services	<ul style="list-style-type: none"> Raw water storage dam construction. Trunk main renewals. Meet compliance with new regulatory requirements. Improve supply pressure in some suburbs. Increase treated water storage. Transition to charging by metered usage. 	<ul style="list-style-type: none"> Water storage dam (raw water) and additional reservoir. Water Trunk Main replacement. Reticulation renewal programme.
Wastewater	<ul style="list-style-type: none"> Understanding current state. Resource consents for Masterton Wastewater Treatment Plant expire in 2034. Upgrades will need to meet new consent requirements as per NPS Freshwater – which are uncertain. Network capacity, ingress and infiltration reduction. 	<ul style="list-style-type: none"> Sewer reticulation renewals (ingress and infiltration reduction). Homebush land-based irrigation system upgrade.
Stormwater	<ul style="list-style-type: none"> Areas of flooding across the district. History of extreme weather events. Consideration of increasing design standards to meet climate change challenges. 	<ul style="list-style-type: none"> Enhanced operations and maintenance for stormwater to prevent localised flooding.

Planned pipe replacement

Stormwater 6km in 10 years (0.6km/year) (new and renewals)

Note – there is very low confidence in the long term spend profile and needs relating to stormwater. The expenditure required is expected to be significantly higher than reflected in LTP. Work is under way at present to attempt to quantify this but it will take some time.

Water 24km in 10 years (2.4km/year)

Wastewater 20km to 30km in 10 years (2km to 3km/year)

Compliance issues



DRINKING WATER STANDARDS

Treatment plant monitoring regime in place.



WASTEWATER STANDARDS

Significant compliance requirements relating to wastewater treatment, land disposal and discharge to river (Homebush).



STORMWATER STANDARDS

Global stormwater consent. Compliance with to be determined.

Water service delivery overview – Greater Wellington Regional Council



Council overview

The region makes up the southern reaches of the North Island comprising the Kāpiti Coast, Porirua-Tawa, Wairarapa South, Te Awa Kairangi ki Uta/Upper Hutt, Te Awa Kairangi ki Tai/Lower Hutt, and Pōneke/Wellington councils. Its northern boundary extends from north of Ōtaki on the west coast across to north of Castlepoint on the east coast. The nonurban environment comprises approximately 80% of the region, with 320km of rivers and waterways, and a coastal marine area of 7,867km². Wellington is the most populated city, however over 50% of our regional population lives outside of the capital in cities and smaller towns.

The Greater Wellington Regional Council (GWRC) drinking water network supplies water to four surrounding cities: Lower Hutt, Porirua, Upper Hutt and Wellington. The water provided by GWRC goes to reservoirs owned by each city. From there, city council infrastructure conveys the drinking water from the reservoirs to local residents and businesses.

- Wellington Region encompasses 811,100ha. 16,000ha are managed as Water Collection Areas.
- 5 regional catchment areas, known as Whaitua: Kāpiti Coast, Te Awarua-o-Porirua, Te Whanganui a Tara, Ruamāhanga, and Eastern Wairarapa.




POPULATION
549,841 (2024).


- Projected population of 724,906 for 2054.




Water asset information (current state)



RETICULATION
187km of water supply pipes
3 water supply reservoirs and tanks (total volume of 40 million litres)



TREATMENT ASSETS
15 water supply pump stations

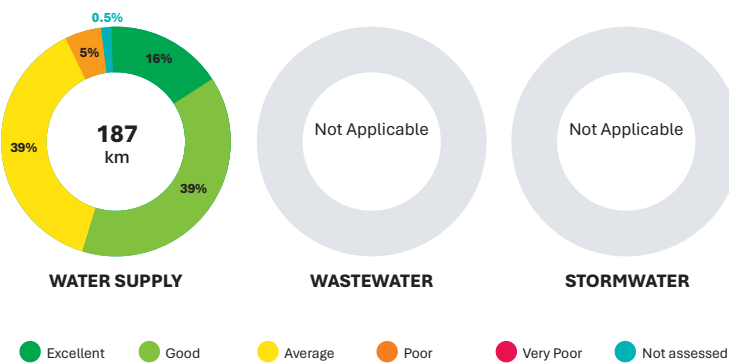


STATIONS
4 water treatment plants



REPLACEMENT VALUE
Combined replacement value @ 2021
\$1,300m

Water asset condition (current state)

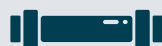


Water service delivery overview – Greater Wellington Regional Council



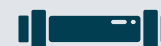
Water challenges and projects

Type	Key water risks, issues and challenges for the next ten years	Top priority projects / key planned investments in water for the next ten years
3W general	<ul style="list-style-type: none"> An ageing network results in asset failure and requires an increase in renewal. Population growth is ahead of water infrastructure. Water demand for the metropolitan councils is outstripping supply due to water loss in the network. Current demand is highlighting that GWRC may not be able to meet its duty of care obligations as an asset owner under the Water Services Act in the long term. Waterloo Treatment Plant is subject to liquefaction in the event of high ground shaking. 	
Water services	<ul style="list-style-type: none"> Current demand is placing the existing assets at risk due to lack of headroom to allow major assets to be taken off-line, compromising the resilience of the bulk water supply. Maintenance and replacement of bulk water meters, treatment plant clarifiers and reservoirs are examples of the issues. Seismic resilience of the bulk water assets does not meet the required earthquake resiliency standard for ensuring provision of safe drinking water following a significant earthquake event. The system is not yet able to reliably meet regulatory requirements for fluoride due to lack of redundant systems and asset reliability. Waste stream at Wainuiomata Water Treatment Plant lacks redundancy and capacity. A failure of the plant, prior to completion of Wash Plant Capacity and Quality Upgrade in 2031/32, would impact the performance of the Water Treatment Plant and would eventually cause failure of provision of water. 	<ul style="list-style-type: none"> Kaitoke main on Silverstream Bridge. Te Marua WTP Capacity optimisation. Kaitoke Flume Bridge. New Gear Island and Waterloo Wells – Part 2+3. Water Storage Lakes (Te Marua Water Treatment Plant Scheme Expansion Stage 1 (Pakuratahi Lakes 1 and 2) – Pre-construction). Regional Fluoridation Improvement Stage 2. Relocation of Te Marua/Ngauranga pipeline. Wainuiomata Water Treatment Plant – Washplant Capacity and Quality Upgrade. Wellington Metro Water Treatment Plant Planned Renewals (Continuous programme). Water Supply Pump Station Renewals.
Wastewater	Not Applicable.	Not Applicable.
Stormwater	Not Applicable.	Not Applicable.



Planned pipe replacement

30kms of pipes being replaced (based on 40% of 180kms needed to be replaced in the next 30 years)



Compliance issues



DRINKING WATER STANDARDS

Currently, water supplied from the Waterloo Treatment Plant is not compliant for up to 800 Lower Hutt households.



WASTEWATER STANDARDS

Not Applicable.



STORMWATER STANDARDS

Not Applicable.

Local Water Done Well Elected Member Briefing

Water services delivery plan and
delivery model update

14 November 2024



Purpose of this briefing

- Recap of Local Water Done Well Legislation
- Summary of the Regional WSDP Project status
- Overview of various delivery models
- What is important to Kapiti
- Delivery Model Shortlisting
- High-level assessment of options
- Next steps



Local Water Done Well Legislation

- Local Government (Water Services Preliminary Arrangements) Act 2024
 - Requires a binding **Water Service Delivery Plan** by 2 September 2025.
 - The WSDP must include:
 - **Information disclosure:** current delivery arrangements, state of assets and regulatory compliance, estimate of investment required to meet new regulatory standards (asset condition, public health and environmental regulation). This does not change whatever option is adopted.
 - **Delivery model:** description of proposed arrangements, assessment of revenue, investment and financing sufficiency and the implementation plan process, timelines and milestones.
 - Provides for simpler alternative consultation and decision-making methods
 - Stormwater services options with Council retaining responsibility
 - Commerce Commission as economic regulator
 - Taumata Arowai strengthened
 - Minister may appoint a Crown Facilitator/Specialist

More legislation, Bill 3, by Dec 2024 – enduring settings

Status Quo is not an Option

The requirements will likely include that all water services providers:



Will be subject to economic, environmental and water quality regulation – further information on economic, environmental and water quality regulation is available in the related factsheets: Economic regulation of water services (refer to the economic regulation factsheet for more information), Drinking water quality regulation, and Standards to help reduce water infrastructure costs.



Will be subject to a new planning and accountability framework for water services, including the need to produce stand-alone financial statements for water supply, wastewater, and stormwater – further information outlined in the factsheet: Planning and accountability for local government water services.



Must be financially sustainable – legislation will include an enduring objective for water service providers to be financially sustainable, including a requirement for the ringfencing of water services, an expectation of revenue sufficiency, and accommodating for maintenance, renewals and growth.

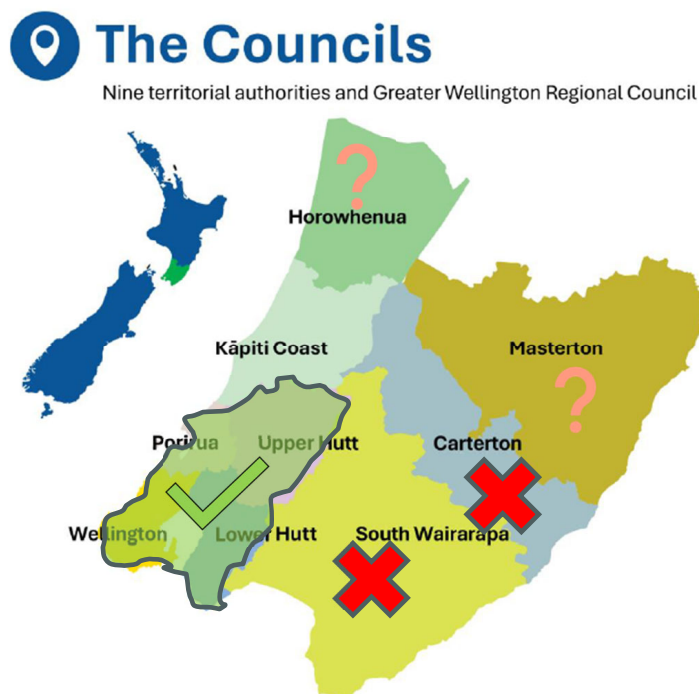


Must act consistently with statutory objectives – legislation will set out a list of statutory objectives that will apply to all water service providers. There will also be several additional statutory objectives that apply to water organisations.



Will be subject to restrictions against privatisation – legislation will include prohibitions on losing control, selling or disposing of significant infrastructure. Further, water services assets cannot be used as security.

Regional Project Status



Collaborative and non-binding approach

- 10 councils signed an MoU in May 2024 to examine options to prepare a joint WSDP and joint delivery model
- A joint full-breadth council-owned water utility company vested with ownership of all regional water assets, revenues and liabilities was recommended as the “best for region” delivery model.
- Porirua, Upper Hutt, Lower Hutt, and Wellington City Councils and Greater Wellington Regional Council have chosen to continue developing a joint WSDP based on the recommended delivery model.
- Masterton will include the option in consultation
- Carterton and South Wairarapa have exited the regional project.
- Horowhenua has yet to decide.

What is important to Kapiti?

- Relationships and trust
 - Water assets remain in public ownership
 - Iwi / Maori te mana o te wai, has meaningful influence
 - Ability to influence local priorities and build on work to date
- Financial
 - Financially sustainable future investment, revenue levels, and financing arrangements
 - Transparent and equitable customer charging
- Cost of service
 - Average cost to customer
- Levels of service
 - Safe, reliable and regulatory-compliant water services.
 - Efficient and effective water service delivery
- Strategy
 - Responsive to housing growth demands
 - Environmentally sustainable water services
- Operational
 - Resilient operations model
 - Transition arrangements – Fair and seamless

5

Delivery Model Types

- NEW Council In-house Business Unit
 - Establish a fully ringfenced and resourced Internal Business Unit
- Council-owned - Service and advisory organisation
 - Stand alone Kapiti Coast District Council WSCCO
 - Joint WSCCO – Northern Councils
- Council-owned – Full-service and asset-owning organisation
 - Single Council - Kapiti Coast District Council WSCCO
 - Multi Council – Joint WSCCO
 - Kapiti Coast / Horowhenua
 - Kapiti Coast / Horowhenua / Manawatu / Palmerston North
 - Wellington Regional + Horowhenua
- Consumer Trust
 - Mixed Council and Consumer trust
 - Full Consumer Trust ownership

Delivery Model Shortlisting

Model type	Key Advantages	Key Disadvantages	Recommendation
NEW In-house Business Unit	<ul style="list-style-type: none"> Ability to leverage council revenue for borrowings Council retains control within legislative requirements Potential for shared services for scale benefits 	<ul style="list-style-type: none"> Constrained by levels of Council debt No requirement for competency based governance Market attractiveness for staff and contractors 	Shortlist for consideration
Advisory and services only WSCCO (similar to WWL)	<ul style="list-style-type: none"> Allows for benefits of organisational scale Competency-based governance board 	<ul style="list-style-type: none"> Unable to access LGFA elevated lending. Constrained by levels of Council debt No ability to set revenue to meet statutory obligations 	Not recommended for shortlist.
Full service / asset-owning WSCCO	<ul style="list-style-type: none"> Allows for benefits of scale Competency based board Increase in potential LGFA funding limit 500% Transfer of assets and liabilities 	<ul style="list-style-type: none"> Requirement to increase revenue immediately to meet debt/revenue Inability to leverage Council revenue 	Shortlist for consideration
Consumer Trust	<ul style="list-style-type: none"> Direct relationship to consumer maintained Financially fully independent 	<ul style="list-style-type: none"> Exposed to open lending market Significant setup complexity and timeline. Loss of Council input. Representative based board. 	Not recommended for shortlist.

Delivery Model Options

- NEW Council In-house Business Unit
 - Establish a fully ringfenced and resourced Internal Business Unit
 - Option for a referendum as per standing orders not required
- Single Council WSCCO – Full service/asset-owning organisation
 - Option for a referendum as per standing orders becomes a consideration
- Joint Council WSCCO – Full service/asset-owning organisation
 - Option for a referendum as per standing orders becomes a consideration
 - Kapiti Coast / Horowhenua
 - Kapiti Coast / Horowhenua / Manawatu / Palmerston North
 - Wellington Region + Horowhenua

NEW In-house Business Unit

Under this option, water services would be delivered directly by the council 'inhouse' through an internal business unit or division, with planning and budgeting integrated into council planning and budgeting processes. This option will be subject to new ring-fencing and financial sustainability requirements, and economic regulation.

This option represents a continuation of the existing inhouse service delivery model used by many councils.

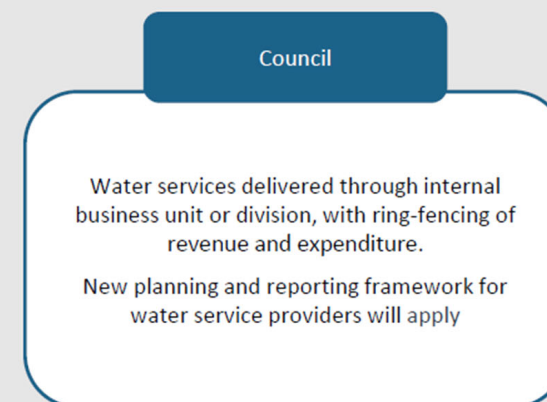
Revenue continues to be generated through a combination of general and targeted rates and financial/development contributions.

Water service delivery is fully integrated into council strategy, planning, and service delivery.

Key features	
Ownership	<ul style="list-style-type: none"> 100% council owned as a business unit or division within the organisation No new organisation is established
Governance	<ul style="list-style-type: none"> Internal business unit or division responsible to the elected council members, with other usual council governance oversight
Strategy	<ul style="list-style-type: none"> Councils will need to prepare a Water Services Strategy
Accountability	<ul style="list-style-type: none"> Water division reports to council per established internal processes Water service delivery will be accountable to the public through usual local democracy practices Water-focused annual report and stand-alone financial statements on water will be completed to enhance current requirements
Borrowing	<ul style="list-style-type: none"> Borrowing undertaken by council with water activity groups meeting their share of financing costs (on internal and any external borrowing)

9

Illustrative example



Single Council WSCCO

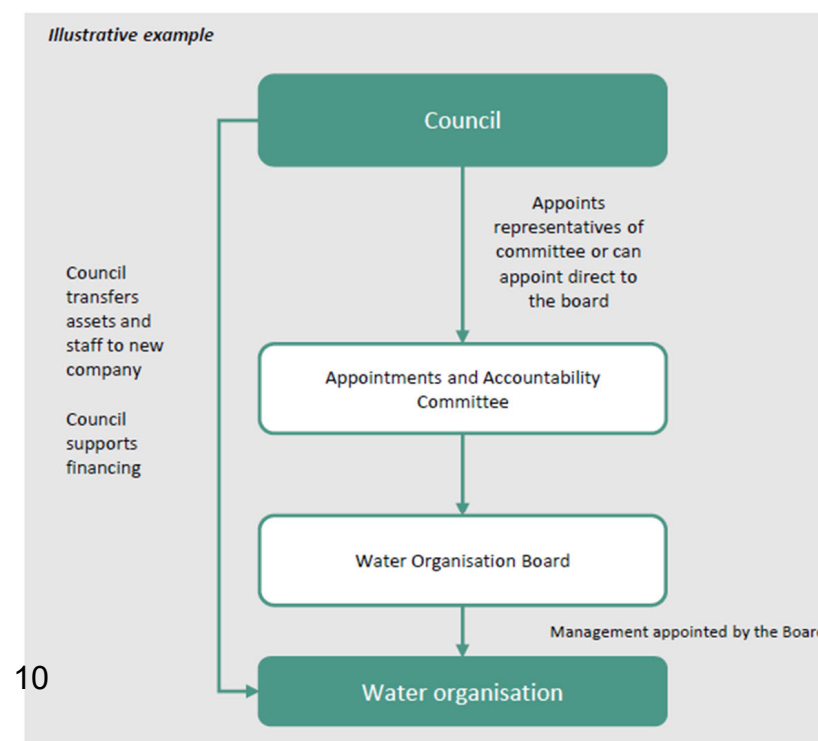
New company established to deliver water services, with ownership by a single council. Council can transfer or retain ownership of assets, subject to transfer of asset use rights.

The council has flexibility to design governance and appointment arrangements, including to consider whether and how they involve mana whenua, consumers or community representatives (for example via an appointments and accountability body). The council can also choose to appoint board members directly without roles for other groups.

The council would provide financing to the water organisation or provide financial support to enable it to borrow from Local Government Funding Agency

Key features	
Ownership	<ul style="list-style-type: none"> Limited liability company, 100% owned by the council Ownership rights spelled out in a constitution, subject to compliance with legislation
Governance	<ul style="list-style-type: none"> Appointments made directly or via an Appointments and Accountability Committee (or similar body) Board comprised of independent and professional directors
Strategy	<ul style="list-style-type: none"> Shareholding council issues Statement of Expectations Water organisation prepares Water Services Strategy and consults the council
Accountability	<ul style="list-style-type: none"> Water organisation reports regularly to shareholding council on performance (for example quarterly) Water organisation prepares annual report containing audited financial statements, including reporting on actual performance, and other matters outlined in the water services strategy. Water organisation required to act consistently with statutory objectives
Borrowing	<ul style="list-style-type: none"> Borrowing via council or from Local Government Funding Agency directly supported by council guarantee or uncalled capital

Illustrative example



Joint Council WSCCO

Under this option, two or more councils would establish a jointly-owned water organisation.

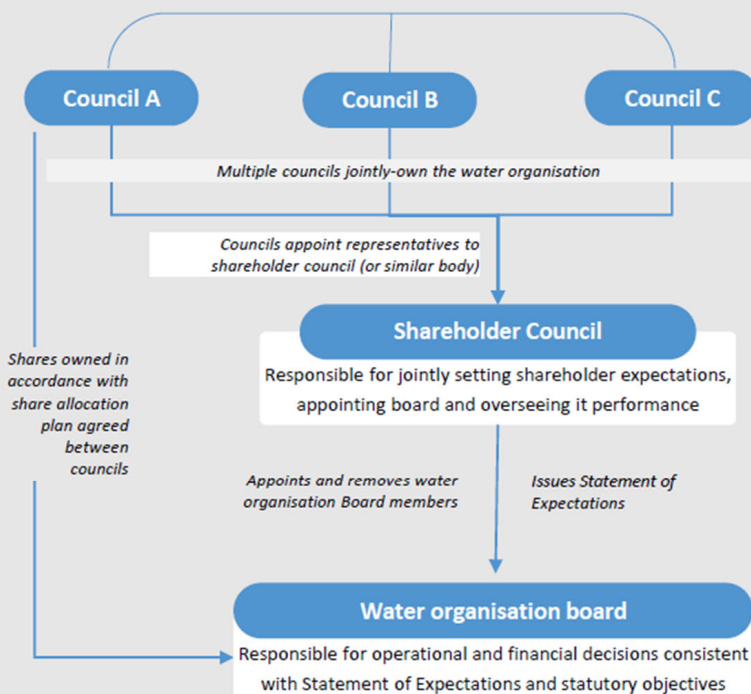
Councils will have flexibility to establish shareholder rights and interests through a company constitution and/or shareholder agreement, subject to compliance with the legislation.

Financing options and credit rating impacts will be dependent on whether shareholding councils choose to provide financial support or not.

Key features	
Ownership	<ul style="list-style-type: none"> Limited liability company owned by two or more councils Ownership arrangements and rights set out in a constitution and/or shareholder agreement, subject to compliance with the legislation
Governance	<ul style="list-style-type: none"> Councils agree how to appoint and remove directors, for example through a shareholder council or similar Board comprised of independent and professional directors
Strategy	<ul style="list-style-type: none"> Shareholding councils agree the process for issuing a combined Statement of Expectations Water organisation prepares Water Services Strategy and consults shareholding councils
Accountability	<ul style="list-style-type: none"> Water organisation reports regularly to shareholding councils on performance (for example quarterly) Water organisation prepares annual report containing audited financial statements, including reporting on actual performance and other matters outlined in the Water Services Strategy. Water organisation required to act consistently with statutory objectives
Borrowing	<ul style="list-style-type: none"> Borrowing arrangements and credit rating implications dependent on whether shareholding councils provide financial support

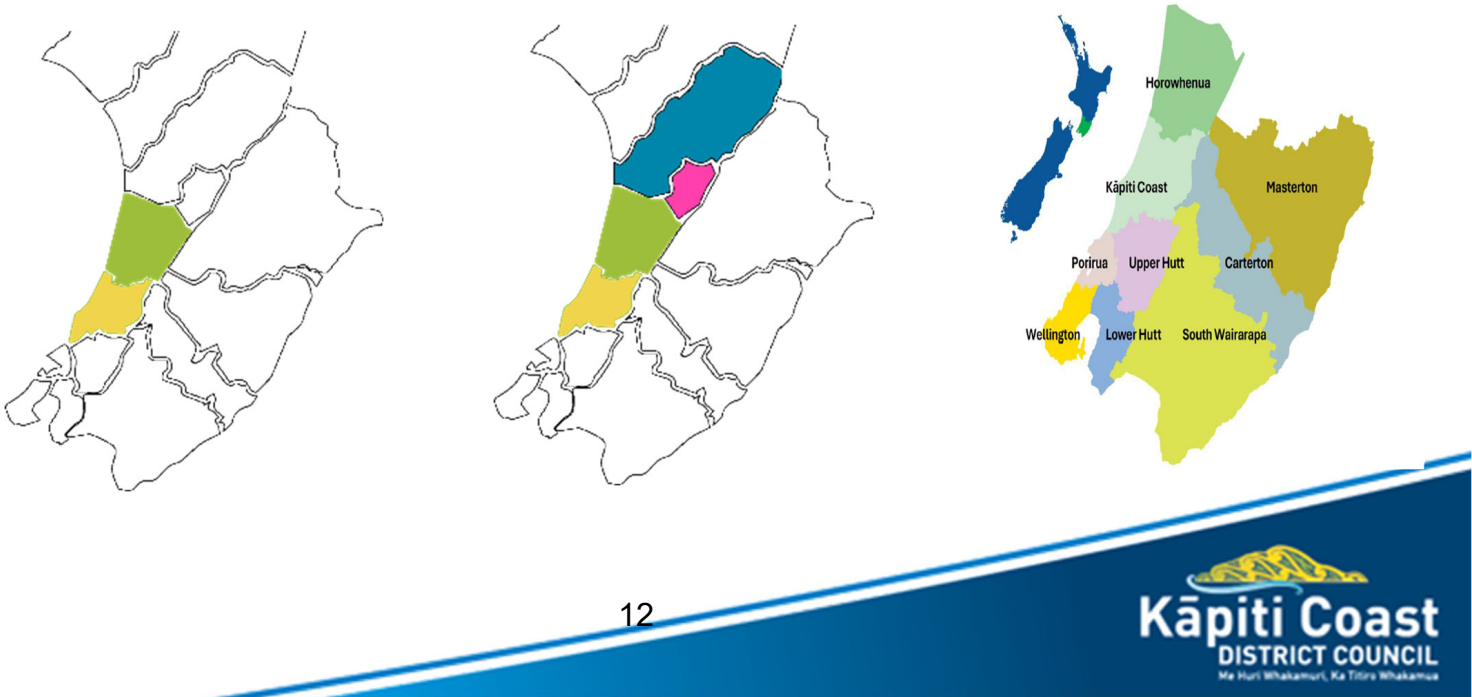
11

Illustrative example:



Joint WSCCO options

	KCDC / HDC	KCDC, HDC, MDC & PNCC	Regional + HDC
Connections	34,825	71,212	256,307
Pop density	53	46	65



High Level Assessment of options

	New Council IBU	KCDC only WSCCO	Joint WSCCO – KCDC / HDC	Joint WSCCO – HDC/MDC/ PNCC	Joint Regional WSCCO
Relationships and trust	<ul style="list-style-type: none"> Direct control 	<ul style="list-style-type: none"> Local service delivery focus 	<ul style="list-style-type: none"> Local service delivery focus 	<ul style="list-style-type: none"> Minimal influence on local outcomes 	<ul style="list-style-type: none"> Negligible influence on local outcomes
Financial	<ul style="list-style-type: none"> Finance balanced across all of council revenue and debt. 	<ul style="list-style-type: none"> Additional WSCCO costs Revenue driven by high debt 	<ul style="list-style-type: none"> Additional WSCCO costs Revenue driven by high debt 	<ul style="list-style-type: none"> Greater opportunity for benefits of scale and efficiencies 	<ul style="list-style-type: none"> Driven by regional works programme
Levels of service	<ul style="list-style-type: none"> Local priorities direct service levels 	<ul style="list-style-type: none"> Determined by WSCCO Local service delivery 	<ul style="list-style-type: none"> Determined by WSCCO Localised focus on services 	<ul style="list-style-type: none"> Determined by WSCCO Influenced by wider area need 	<ul style="list-style-type: none"> Effected by poor regional asset condition
Strategy	<ul style="list-style-type: none"> Localised strategies 	<ul style="list-style-type: none"> Opportunity for localised strategies 	<ul style="list-style-type: none"> Opportunity for localised strategies 	<ul style="list-style-type: none"> Wider strategic focus and priority setting 	<ul style="list-style-type: none"> Wider strategic focus and priority setting
Operational	<ul style="list-style-type: none"> Existing resilience vulnerabilities due to small-scale 	<ul style="list-style-type: none"> Existing resilience vulnerabilities due to small-scale 	<ul style="list-style-type: none"> Additional resilience from scale 	<ul style="list-style-type: none"> Larger resource pool improved resilience Optimal systems and processes 	<ul style="list-style-type: none"> Larger resource pool improved resilience Optimal systems and processes

13

Financial sustainability

- A WSDP needs to demonstrate how water services will be financially sustainable by 30 June 2028.
- This requires confirmation of:
 - Investment sufficiency (Water Systems)– the projected level of investment is sufficient to meet levels of service, regulatory requirements and provide for growth;
 - Revenue sufficiency – there is sufficient revenue to cover the costs (including servicing debt) of water services delivery; and
 - Financing sufficiency - funding and financing arrangements are sufficient to meet investment requirements.

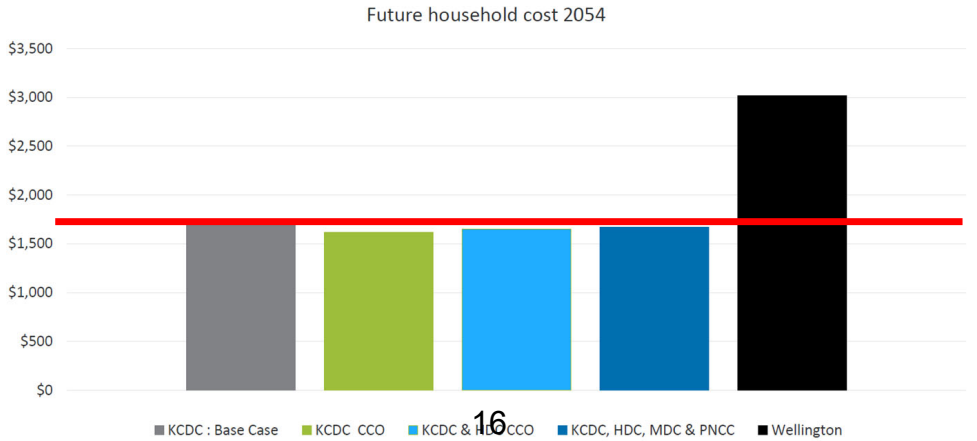
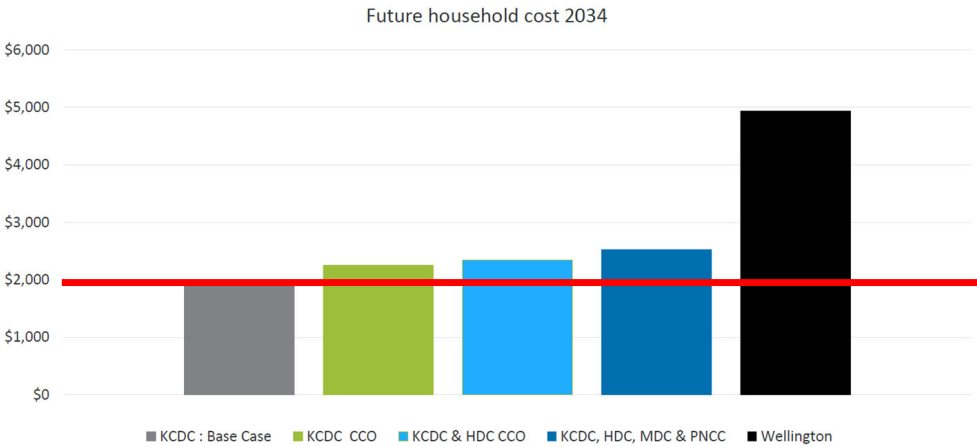
Financial Overview

	New Council IBU	Stand alone WSCCO	Joint WSCCO HDC	Joint WSCCO HDC/MDC/PNC C	Wellington Regional WSCCO
Revenue sufficiency*	Council revenue is used to meet Debt / Revenue ratio. Revenue can be increased over time	Requires an early increase in water revenue to achieve Debt / Revenue limits.	Requires an early increase in water revenue to achieve Debt / Revenue limits	Requires a progressive increase in revenue to maintain Debt / Revenue limits	Regional Revenue increases required to address catch-up works
Investment sufficiency*	Enhanced LTP investment based on KCDC priorities	WS Strategy based on KCDC priorities enhanced LTP investment	WS Strategy investment based on areas priority needs	WS Strategy investment based on areas priority needs	WSS based on regional priorities driven by catchup works.
Financing sufficiency*	Debt / Revenue ratio remains below LGFA 280%** limit over all of Council.	Initial debt level exceeds LGFA 500% Debt / Revenue ratio.	Operates within LGFA 500% Debt to revenue ratio.	Operates within LGFA 500% Debt to revenue ratio.	Operates within LGFA 500% Debt to revenue ratio.
Price (Ave cost to customer) 2034	\$1,890	\$2,250	\$2,350	\$2,520	\$4,930
Price (Ave cost to customer) 2054	\$1,720	\$1,620	\$1,650	\$1,670	\$3,020

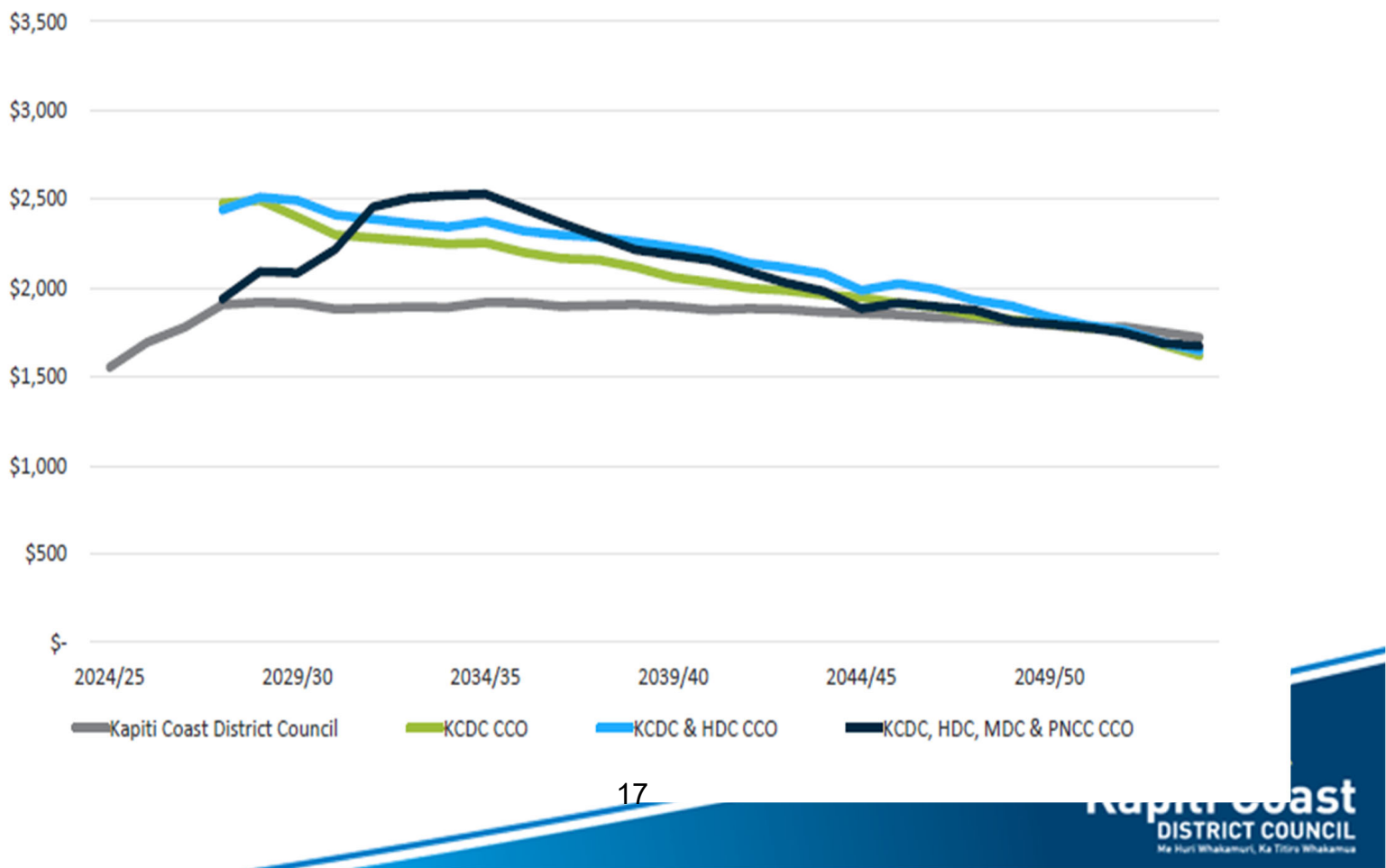
*Economic performance will be regulated by the Commerce Commission

** Potentially for 350% Debt / Revenue ratio for high-growth councils

Cost to customer



Cost to customer over time



Next steps

- 28 November decision to continue or exit the regional project.
- From December begin the development of consultation documents including Council briefings through to March 2025
- Communications planning
- Consulting on the draft delivery model around April 2025
 - Option to use the streamlined consultation process in the Water Services Preliminary Arrangements Act.
 - Option to run within the Annual Plan process through April.
 - The inclusion of a referendum increases costs, extends the timeline closer to elections, and likely exceeds the September 2025 WSDP submission deadline.
- The Water Services Delivery Plan and Implementation Plan must be lodged with DIA by 3 September 2025

Discussion and questions

Local Water Done Well Options

FINAL REPORT - Kapiti District Council

November 2024



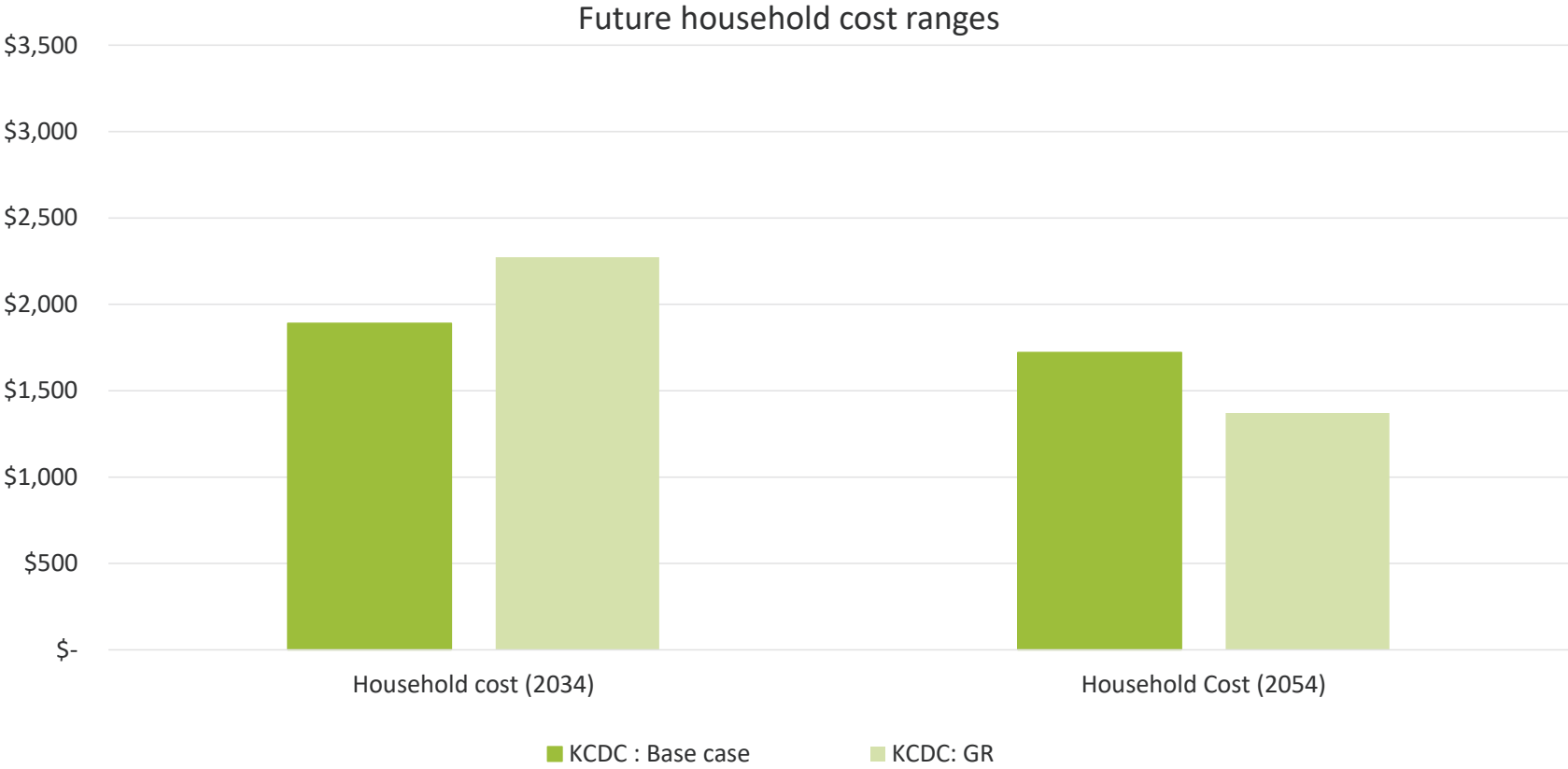
Contents

- Introduction
- Options
 - Description
 - Key information
 - Comparison of options
- Initial observations
- Modelling approach

Introduction

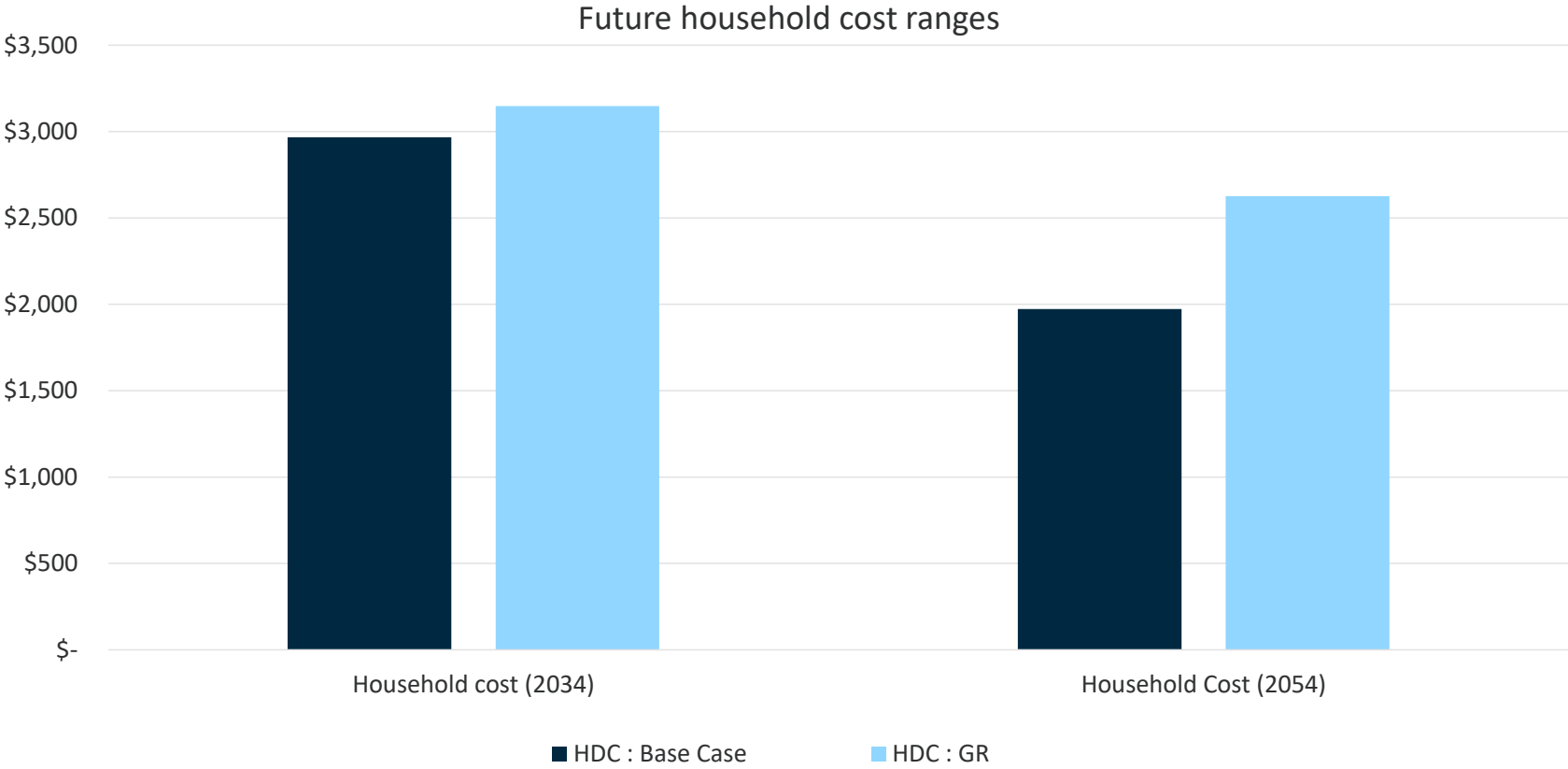
- There are two base case comparisons provided initially for context:
 - Both KCDC and HDC Morrison Low base case projections are compared with Gravel road (Wellington). These generally show a degree of consistency with Council LTPs projections showing the councils understand their assets and the investment requirements associated with them
- The second comparison provided for context is KCDC continuing to provide services under the current delivery model and a KCDC CCO:
 - This highlights the impact of KCDC transferring water debt to any water CCO and the immediate impact that has on household costs
 - Currently the wider revenue of the Council supports water debt (as is the case for many councils) but the extent of that at KCDC would mean the transfer of water debt would require a water CCO to increase its charges to create the revenue that would support that level of borrowing covenants. Over that time, that impact is reduced and is partly why a CCO would have lower costs over the longer term.

Base case comparisons – KCDC



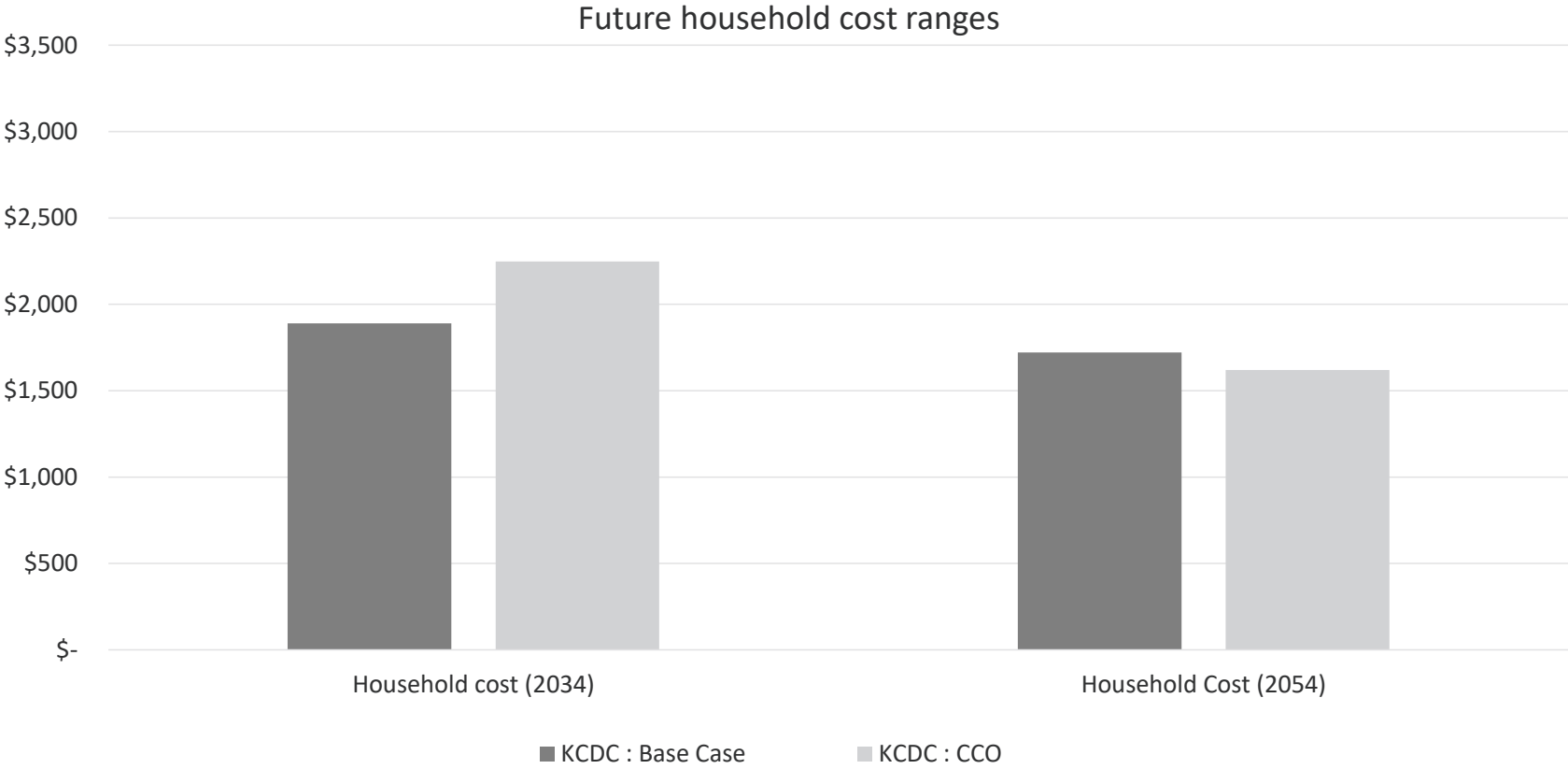
© Morrison Low

Base case comparisons – HDC

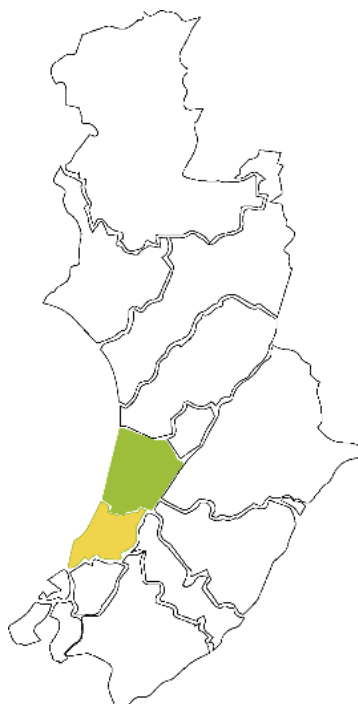


© Morrison Low

Base case comparisons – KCDC V KCDC CCO



KCDC & HDC (CCO)

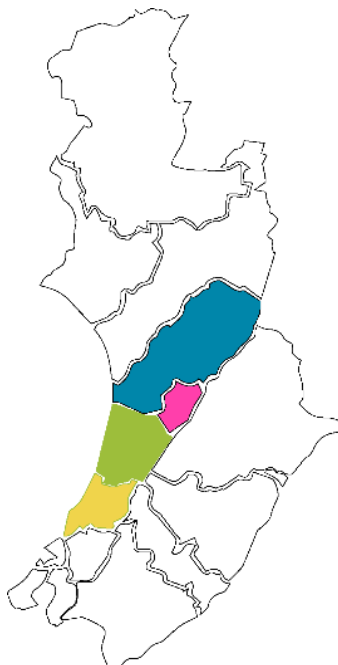


- Connections: 34,825
- Population density: 53
- Key features/risks
 - Smaller scale, efficiencies primarily around the 'model' rather than from scale
 - Overtime household cost beneficiaries ebb and flow
 - HDC capital investment falls beyond year 10 to well below the average of the first 10 years. To address the impact of this being under forecast we have used the mid-point between initial capex projections and continued investment at the average of the first 10 years
 - Including Electra in a community trust model has little benefit as the only opportunity is around 'shared services' for management

© Morrison Low

8

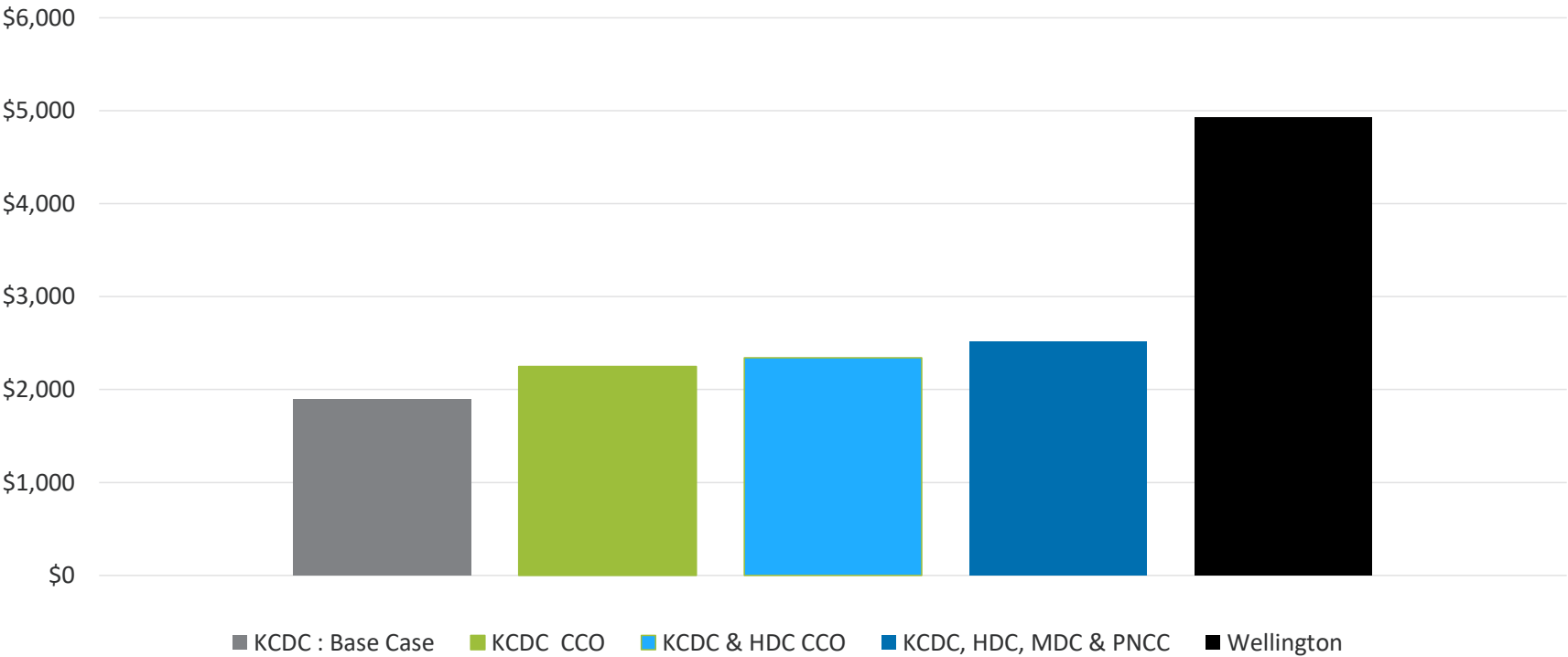
KCDC, HDC, MDC AND PNCC (CCO)



- Connections: 71,212
- Population density: 46
- Key features/risks
 - Investment built up from council LTPs, plans and estimates
 - Moderate scale, moderate influence over establishment and ongoing, some efficiencies generated from model change and scale
 - Includes nature calls investment
 - HDC capital investment falls beyond year 10 to well below the average of the first 10 years. To address the impact of this being under forecast we have used the mid-point between initial capex projections and continued investment at the average of the first 10 years
 - Requires all four councils to agree

Options comparisons

Future household cost 2034

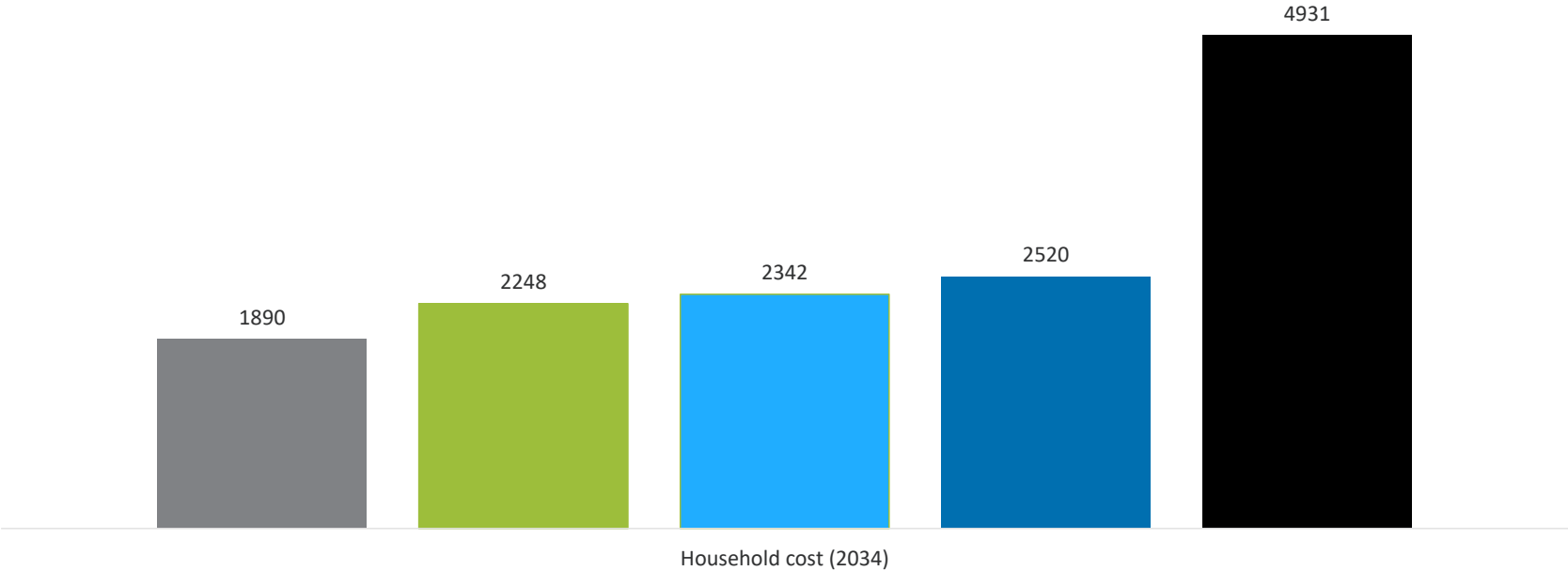


© Morrison Low

Options comparisons

Future household cost 2034

■ KCDC : Base Case ■ KCDC CCO ■ KCDC & HDC CCO ■ KCDC, HDC, MDC & PNCC ■ Wellington

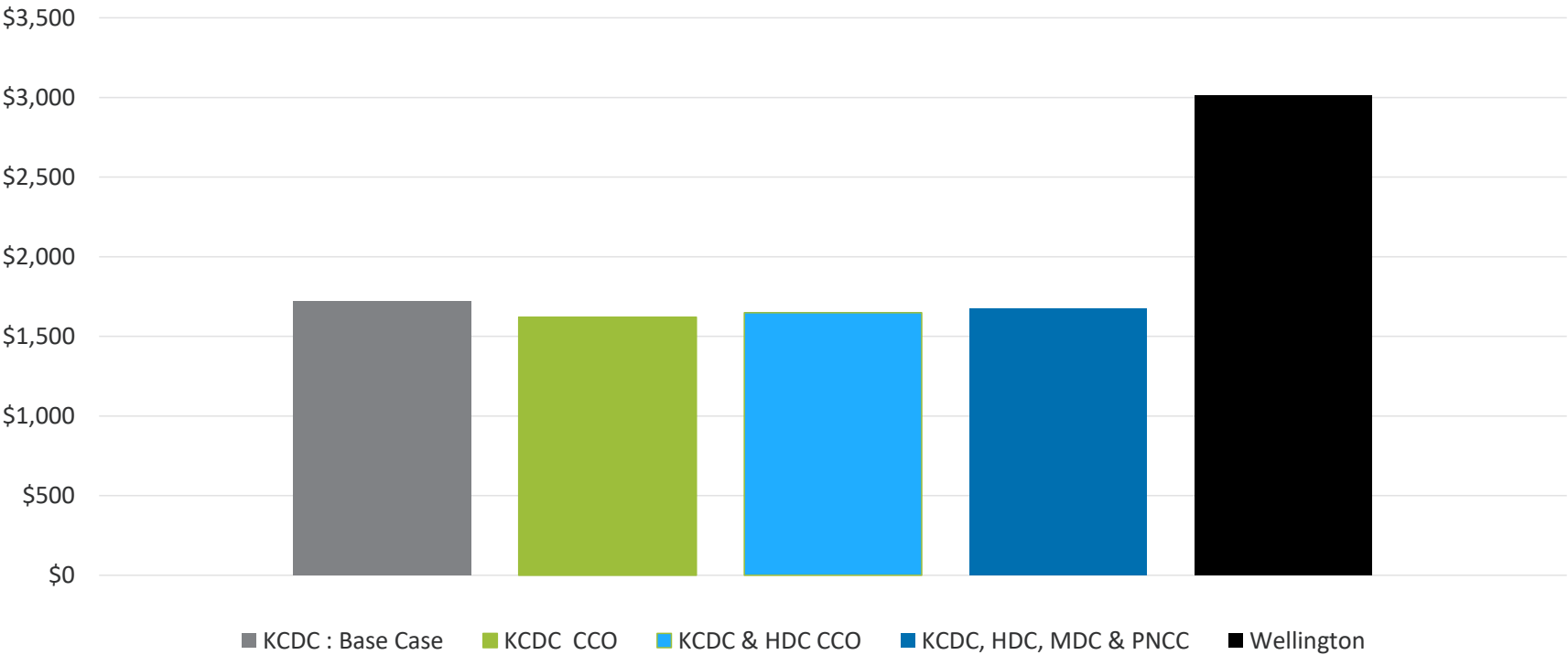


© Morrison Low



Options comparisons

Future household cost 2054

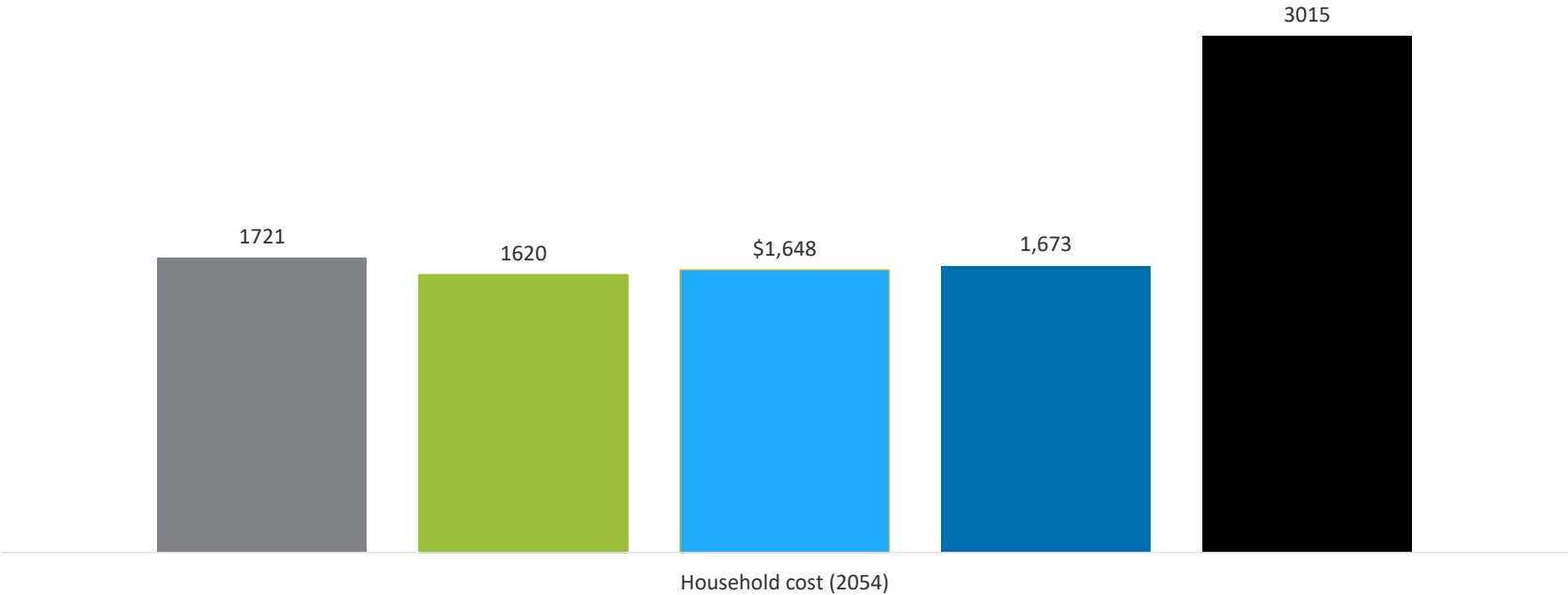


© Morrison Low

Options comparisons

Future household cost 2054

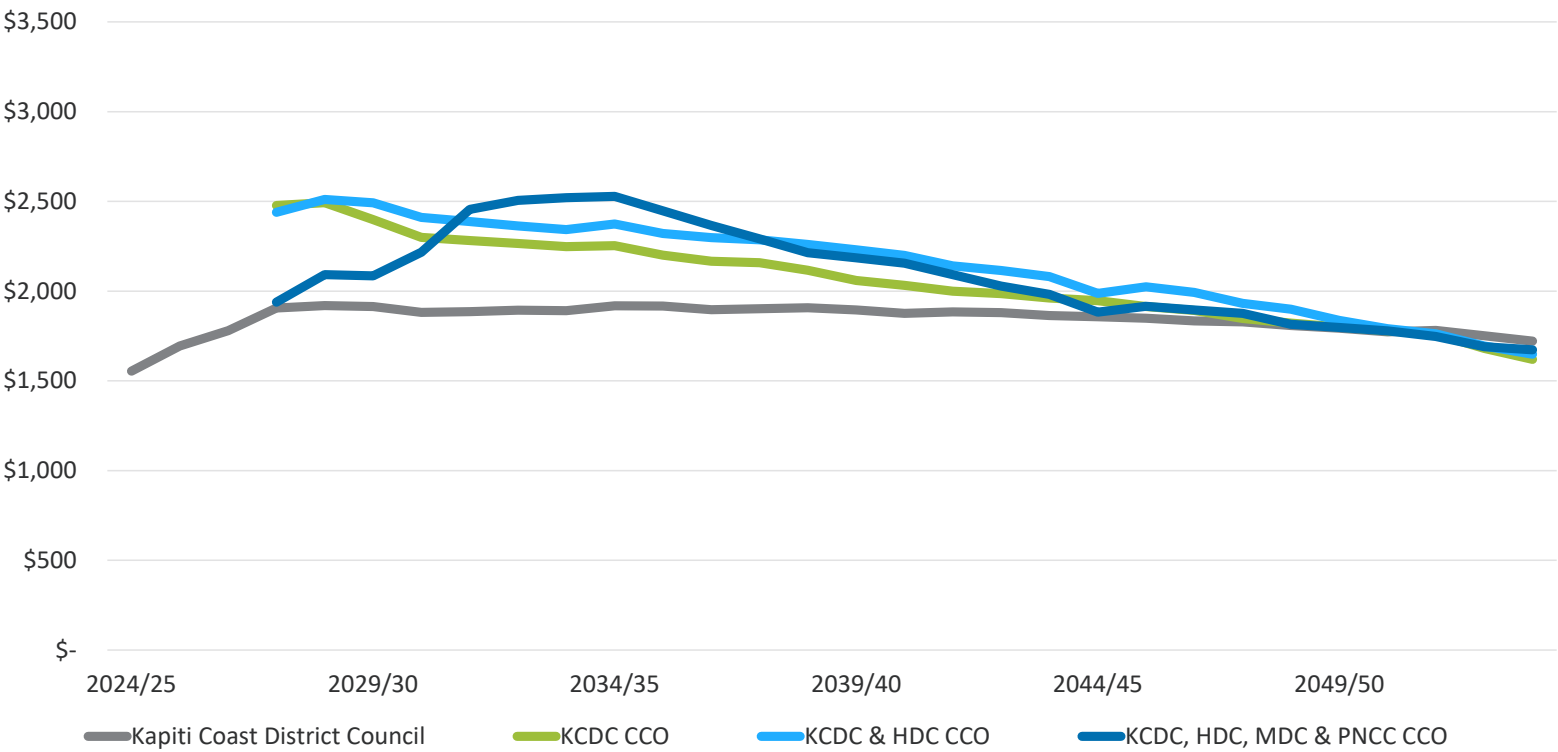
■ KCDC : Base Case ■ KCDC CCO ■ KCDC & HDC CCO ■ KCDC, HDC, MDC & PNCC ■ Wellington



© Morrison Low



Three waters household charges over time



© Morrison Low

Observations

- Projections over 30 years should be treated with some caution.
- The high-level modelling suggests that future household costs for KCDC three waters customers are projected to be higher under either the KCDC and HDC CCO and the KCDC, HDC, MDC & PNCC CCO initially, and consistently through the modelling until about year 25 when household costs are projected to be lower under both of the CCO models. However, the differences between all three projections over the long term are so small as to be essentially the same.
- The high-level modelling suggests that future household costs are similar under both the KCDC and HDC CCO and the KCDC, HDC, MDC & PNCC CCO and that these are significantly lower than the Wellington CCO option. Projected household costs:
 - At 10 years under the KCDC and HDC CCO and the KCDC, HDC, MDC & PNCC CCO are half the cost of the Wellington CCO
 - At 30 years under the KCDC and HDC CCO and the KCDC, HDC, MDC & PNCC CCO are 45% less than the cost of the Wellington CCO
- While we acknowledge that costs under the Wellington Region approach are not intended to be regionalised and compared like this, there is a 33% difference between the base case for KCDC and the Gravel Road base case for KCDC and a 160% difference between the base case for KCDC and the regionalised cost figure. Assuming that some costs would be regionalised then even under a cost to serve approach in the Wellington model the costs for KCDC three waters customers are likely to be higher, and significantly higher under that model.

Modelling approach

Costs and Benefits of CCO models

Costs

- Transition costs estimated using a population based sliding scale, derived from NTU estimates for national transition costs. That estimate was halved to account for local transitions being more cost effective. This approach results in estimates that are broadly consistent with costs allowed for in Wellington
 - KCDC : \$9M
 - KCDC and HDC : \$15M
 - KCDC, HDC, MDC & PNCC : \$35M
- Ongoing addition costs allowed for based on corporate costs, governance, additional resources, IT infrastructure & systems
 - KCDC : \$4M
 - KDCD and HDC : \$7M
 - KCDC, HDC, MDC & PNCC : \$15M
- All models include additional costs for complying with new regulatory regime

Modelling approach

Costs and Benefits of CCO models

Benefits

- Benefits allowed for are from improvements in asset management, programming and delivery of capital works, procurement and scale. These are estimated using a population based sliding scale, derived from WICS estimates for potential benefits from large scale water utilities.
- Morrison Low have assumed only 10% - 20% of that amount is achievable in NZ context based on comparison with other estimates in previous work and considering the scale of the CCOs proposed:
 - KCDC : 3% of opex, 3% of capex
 - Begins in years 3 and progressively introduced until year 12
 - KCDC and HDC : 8% of opex, 8% of capex
 - Begins in years 3 and progressively introduced until year 12
 - KCDC, HDC, MDC & PNCC : 14% of opex, 13% of capex
 - Begins in years 3 and progressively introduced until year 12

Modelling approach

Debt

- All options utilise significant debt to fund three waters investment and manage household costs so comparing debt/revenue or other ratios has no value to making decisions:
 - Council options stay within debt/revenue ratio of 250%
 - CCO options stay below a conservative FFO ratio of 10% (approx. 400% - 450% debt/revenue)

Comparison with other work

- To make the results consistent we have adjusted the outputs of the Wellington results as set out below:
 - Wellington
 - Add GST
 - We note that the Gravel Road model includes an additional \$125M investment for HDC & \$17 million less investment for KCDC over the first 10 years