



APPENDICES

**Kaunihera | Council Meeting
Under Separate Cover**

Thursday, 6 March 2025

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Who will manage Kāpiti Coast water services in the future?

*Mā wai ngā ratonga wai o Kāpiti
e whakahaere hei anamata?*



'Local Water Done Well' consultation document | 13 April 2025



Have your say!

Kōrero mai!

We're looking forward to hearing from you

E hīkaka ana mātou ki te rongō kōrero i a koe

This consultation document provides you with information about the Government's 'Local Water Done Well' policy and new legislative requirements for councils.

We're required to consult with you on two options for delivering your water services in the future. In anticipation of this, we spent several months in 2024 talking to neighbouring councils about the feasibility and options for combining our water services delivery operations. We started wide and have now shortlisted two options for you to consider and provide feedback on.

You can provide your feedback any time before **midnight Sunday 13 April 2025** by doing any of the following:

complete your submission online at haveyoursay.kapiticoast.govt.nz/LocalWater

email us at haveyoursay@kapiticoast.govt.nz

fill in a submission form and drop it into one of our libraries or services centres or post to:
**Local Water Submissions,
Kāpiti Coast District Council
Private Bag 60601
Paraparaumu 5254**

talk to us at our drop-in sessions in various locations around the district. Details are at: haveyoursay.kapiticoast.govt.nz/LocalWater – we're here to answer your questions.



For full details and more information, including digital copies of this document, go to: haveyoursay.kapiticoast.govt.nz/LocalWater

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For more information or to make a submission please go online to haveyoursay.kapiticoast.govt.nz/LocalWater or email us at haveyoursay@kapiticoast.govt.nz





Janet Holborow
Kāpiti Coast District Mayor

Who should **manage** and **make** decisions about Kāpiti Coast's water in the future?

That's the big question we need your feedback on by Sunday 13 April.

Under the Government's Local Water Done Well policy and associated legislation, all councils must consult with their communities on how they will manage and deliver their water services in the future.

Drinking water, wastewater, and stormwater are known collectively as the 'three waters'. Water supply, wastewater collection, treatment and discharge, and stormwater management are 'water services', and they're critically important to our community.

From water quality issues and aging infrastructure to rising construction, inflation and insurance costs, water services have become expensive and unaffordable for some councils.

Under new legislation being brought in by Government's 'Local Water Done Well' policy, we could keep our water services in-house as they are now, but with some changes to meet the new legislation. Or we could set up an independently run 'water organisation', which we would own – either by ourselves or jointly with other councils – to deliver our water services.

We've looked at all scenarios, and shortlisted two options for you to consider:

1. Keep our water services in-house but with some changes ('The One') – our preferred option.
2. A four council-owned water services organisation with Horowhenua, Palmerston North, and Manawatū ('The Four'). This option would require us to transfer our water assets to the new organisation of which Council would be a shareholder.

It's complex and there are many unknowns. Financial projections to support this decision require many assumptions that may or may not play out.

Kāpiti has invested significantly in our water services over the past decade. Our current arrangements have served us well and we see no need to make significant changes, at least in the short to medium-term.

That's why keeping our water services in-house is our preferred option for now.

But it's important to note there'll be increased costs regardless of what model we choose due to Government's additional regulatory requirements.

Our preferred in-house model provides the lowest average cost to customers (for example households and businesses with connections) until 2047. The average cost to customers is projected to be higher for a joint council-owned water services organisation due to establishment costs, additional costs for governance and management, and the level of revenue required to support debt.

Efficiencies of scale means we expect water charges will be about the same for both options by 2047.

We're now looking to respond to the Government within very short timeframes and while some of the legislation is yet to be confirmed. We must decide our final water services option by late May and submit a water services delivery plan to the Government by 3 September 2025. The plan will need to show how our water services delivery will be financially sustainable by 1 July 2028.

This is one of the most important decisions we'll make in the coming decades.

Elected members want to hear all perspectives to ensure our decision provides you with the best water services solution for the future.

We urge you to read this consultation document, come along to our drop-in sessions, and have your say by midnight on **Sunday 13 April 2025**.

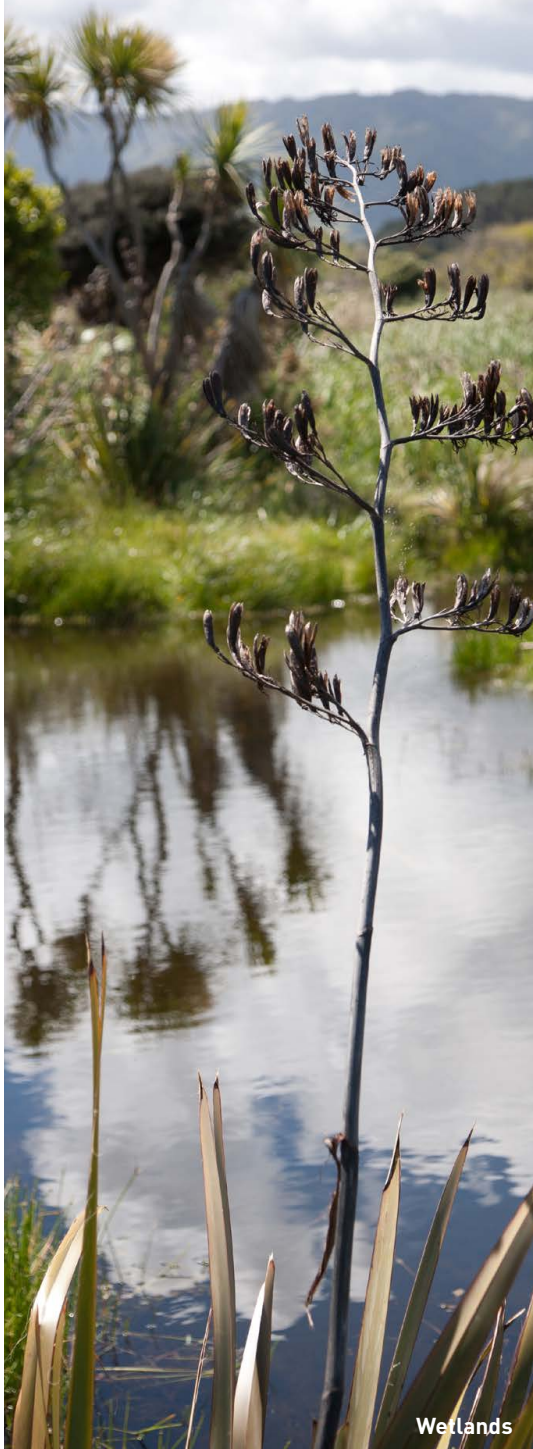


Janet Holborow
Kāpiti Coast District Mayor

We need your feedback by Sunday 13 April

Timeline

- **10 March 2025**
Consultation opens.
- **13 April**
Consultation closes.
- **Early May**
Hearings held.
- **22 May**
Council decision on water services delivery model.
- **June – July**
Council adopts water services delivery plan.
- **3 September**
Water services delivery plan due to Government.
- **November 2025**
Council to publish final water service delivery plan.
- **July 2028**
Government deadline for all new arrangements in place.



Iwi and hāpu engagement

We acknowledge water as an important taonga for mana whenua, iwi, and hapū. Their engagement and advice are critical to our community and the way we care for this precious resource. We believe iwi have a role to play in water management and how this will work depends on the model we choose for future water services delivery.

We've continued to keep our iwi partners involved through regular interactions and will continue to seek their feedback. This process needs to carefully consider how iwi interests, involvement, aspirations and tikanga Māori are incorporated into the way water services will be managed on behalf of our partners and communities.

If we keep our existing in-house model, our long standing partnership agreements with Ngāti Toa Rangatira, Āti Awa ki Whakarongotai, and Ngāti Raukawa ki te Tonga are likely to be retained as the appropriate avenues for meaningful engagement.

If we choose a joint council-owned water services organisation work would be needed to determine iwi aspiration's, cultural outcomes, and governance arrangements. We believe this would be part of the establishment work of any future organisation and expressed in the Statement of Expectation set out by shareholding councils on behalf of their communities.



Selecting our options

We believe Kāpiti wants a water services delivery model that serves local priorities and meets our community’s needs now, in emergencies, and for generations to come.

Council has identified six priorities to guide our decision on how our water services should be delivered.

 <p>Public ownership Our water assets remain in public ownership.</p>	 <p>Safe and reliable water services Our community continues to receive safe, reliable, efficient and effective water services.</p>	 <p>Mana whenua aspirations Mana whenua aspirations and concepts have meaningful influence in managing our water.</p>
 <p>Financially sound Our water services are financially sustainable and maintain affordable, fair and transparent charging for customers.</p>	 <p>Local priorities Our water services model recognises local priorities in planning for the future and catering for growth.</p>	 <p>Resilience Our water services model is resilient – it remains strong and functional in all circumstances.</p>

The legislation also requires our water services to:

1. meet all regulatory obligations and requirements,
2. be financially sustainable, and
3. be subject to more oversight and regulations on quality and cost.

There’s also legislation guiding how any future water services organisation operates.

Our preferred option is to continue with an in-house model to ensure we retain direct ownership of our assets and service delivery, and to provide the lowest average cost to our ‘customers’ – you our community – in the medium-term.

The options

Using Government’s criteria and our priorities as a guide, we assessed a number of options available to us.

We’ve looked at everything from our assets, work programmes, organisational structures, staffing impacts, mana whenua aspirations and involvement, community needs, legal aspects and financial implications. And we’ve talked with our neighbouring councils to the south and the north of our district.

We’ve landed on two options we’d like you to consider:

1. Keep our water services in-house but with some changes (‘The One’) – our preferred option; or
2. A joint council-owned water services organisation with Horowhenua District, Manawatū District and Palmerston North City Councils (‘The Four’).



What it's all about

Water reform has been a **hot topic** for close to a decade

In 2016, the Havelock North campylobacter outbreak raised concerns about water management in New Zealand and the high costs to communities to ensure safe drinking water.

The outbreak demonstrated the need for a dedicated new water services regulator, and in 2021 Taumata Arowai was established under the new Water Services Act. As part of their water reforms, the previous Government also proposed four large organisations to manage three waters services

across the country. That then changed to a proposed model of ten entities (the 'Affordable Water' reforms). The current Government has changed the approach again, set out in its 'Local Water Done Well' policy, and has brought in new legislation to deliver their policy.

What the new legislation requires

The new legislation requires us to consult with you on a minimum of two options. Councils can continue to directly provide water services in-house but with changes to meet the legislation. Alternatively, we could set up a consumer trust (an option we've discounted – see page 33), or we could establish a council-owned water services organisation to own the water assets and carry out water services functions. The water organisation can be either be owned by a single council or by multiple councils.

A council-owned water services organisation must be a limited liability company. It would be accountable to its shareholders – the owner council/s – but run independently, with independent management, governance, and finances.

The legislation also sets out how future water service providers (whichever model is adopted) must operate. This includes requirements for public ownership, governance, planning, reporting, financial arrangements and accountability.

Alongside the new legislation, the Department of Internal Affairs (DIA) and Local Government Funding Agency (LGFA) have jointly advised the borrowing limits that will apply to future water service providers.

Council-owned organisations will be able to borrow up to 500% of total revenue for water services, while council in-house water services will continue to be able to borrow up to 280% of total revenue, measured at a whole-of-council level (i.e. total council debt over total council revenue), as we do now.

Greater regulation

The legislation introduces more regulation of water supply and wastewater services. The intent is to protect consumers by ensuring their water services are healthy, safe, and financially sustainable.

Under all options, the water services provider would be monitored by the Water Services Authority, Taumata Arowai, (for water quality and environmental performance oversight) and the Commerce Commission (for water services performance and consumer protection).

Consumer protection

The Commerce Commission will ensure your water services provider is reinvesting enough of your water rates or charges on water infrastructure, and that its services are effective and efficient. The Commission will have a range of regulatory tools to do this, including mandatory information disclosure, and investment, service quality, and price regulation. The Commission will also be able to prevent water services providers from overcharging for water services.

Protection from privatisation

The legislation protects against privatisation, keeping water services in public ownership. Any new water services organisation will have to be the direct provider of water services – they are not allowed to enter into franchise or concession agreements. We know this is an important topic for our community. **Read more about this on pages 12–14.**

Future of stormwater services

Council will be able to choose whether to retain all, some, or none of its stormwater management; or transfer all assets and operations to the new water services organisation. If we choose option 2, our financial modelling assumes all assets and operations would be transferred to the new organisation.

Consultation requirements

The legislation has introduced a streamlined consultation option for 'Local Water Done Well'. It allows us to consult on a *minimum of two options* rather than *all reasonably practicable options* as we would in a normal consultation under the Local Government Act. One of the options has to be the model we're using now (in-house delivery) but with changes necessary to meet requirements in the new legislation, such as ring-fencing our water-related finances and operations.

We must provide information comparing the rates, debt, and levels of service for each option. We have modelled this based on current information and assumptions.



Our water story

Kāpiti snapshot

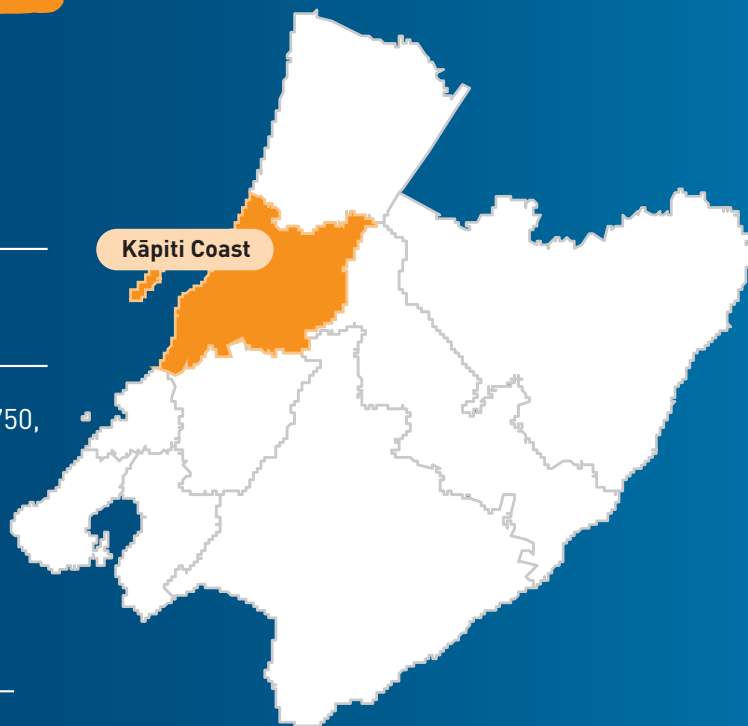
40 km of coastline

Covers just over **730 kilometres**

Almost **77 kilometres** is urban

Population of 58,750, expected to reach **80,924** by 2054

2 major waterways
Waikanae and Ōtaki Rivers





Water supply

Wai

We protect the health and wellbeing of our communities by supplying high-quality drinking water across four schemes: Ōtaki, Hautere/Te Horo, Waikanae/Paraparaumu and Paekākāriki, and water to fight fires when needed.

17.2 million litres of water supplied every day (about as much as 7 Olympic-size swimming pools)	2 river intakes	24,663 water connections	9 pump stations
	5 water treatment plants	15 groundwater bores	
	588 kilometres of water pipes (would reach from here to Auckland)		27.3 million litres of water storage in 18 reservoirs
			2,423 water hydrants



Wastewater

Wai para

Wastewater is collected through an underground pipe network and pump stations, and treated at treatment plants at Paraparaumu and Ōtaki. Wastewater is treated to an acceptable standard to be released into the environment under strict controls.

10.9 million litres of wastewater treated every day	354 kilometres of pipes (would reach from here to Taupō)	153 pump stations		21,057 service connections
		6,242 manholes	5 storage ponds	
2 wastewater treatment plants				2 biosolid treatment facilities



Stormwater and flood protection

Wai āwhā

We manage stormwater to protect the environment, ensure water quality, and reduce risks to people’s health and property from flooding.

216 kilometres of stormwater drainage pipes	52.7 kilometres of open waterways	18 pump stations		soakpits, ponds and wetlands form a major part of our stormwater network
		3,029 service lines		



Our water services are in reasonable shape



We've strategically invested in our water assets over past years.

Our three waters assets had a book value at June 2024 of \$499 million or 22% of our total asset value. Most of them are in fair to good condition, although many of our pipes underground are middle-aged.

We've invested in core infrastructure and put in place many elements that contribute to managing our water well such as: water meters, a river recharge system, rainwater and grey water tank requirements, new reservoirs, and upgrades to our drinking water and wastewater treatment plants and stormwater networks.

As a result, our district enjoys high quality drinking water and effective wastewater collection and treatment. Our work on water supply means we have consistently avoided water restrictions for over a decade. Our approach to managing water demand and the long-term supply of safe drinking water has been widely recognised, including by the Office of the Auditor General.

Water meters cut leaks

We started universal water metering and volumetric charging in 2014. Customers are charged a fixed charge plus an amount per cubic metre of water used. This regime has encouraged water conservation, improved our water management practices, and helped to identify leaks in the network.

Strong partnerships ensure healthy water

We work closely with local and central government agencies, mana whenua, and environmental groups on activities like Waikanae ki uta ki tai and Waikanae Jobs for Nature, which uphold and nurture 'te mana o te wai' ('the mana of the water') – referring to the importance of clean, healthy water for the benefit of people and the environment.

Our state-of-the-art lab improves water management

Seven days a week, our IANZ accredited water testing laboratory tests our drinking water quality and that we're meeting our resource consent conditions for managing stormwater and discharging treated wastewater back into the environment. Our specialist staff monitor leachates from the Otaihanga landfill and operate a commercial service checking the safety of private water supplies from bores and roofs around our district. Greater Wellington Regional Council contracts our lab to monitor our district's rivers and beaches for bacteria and toxic algae to check they're safe to swim in.

We're one of the few councils in Aotearoa to still operate our own lab. Having our own lab onsite means we can immediately check and respond to any unexpected results, improving our safety and water quality management.



We have challenges ahead

Future investment will be needed

Right now, our water services assets are in reasonable condition. We've continued to replace and upgrade some parts of our networks, and have assigned \$248 million for stormwater, \$609 million for drinking water, and \$275 million for wastewater renewals, replacements and upgrades as part of our Infrastructure Strategy 2024–54.

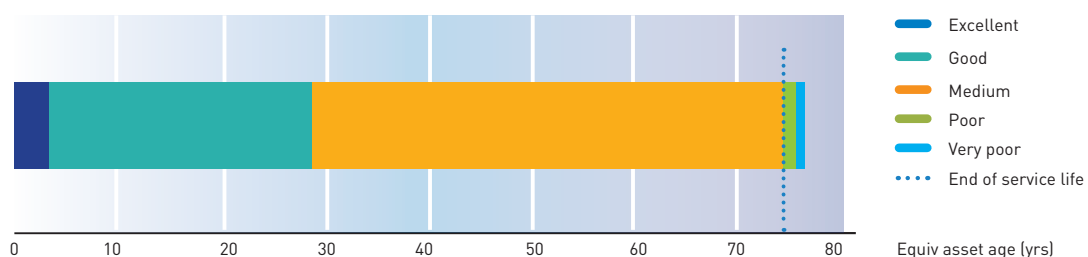
However, we recognise some of our water infrastructure will need significant renewal, replacement and upgrading over the next 20–50 years. Our Long-term Plan 2024–34, Financial Strategy 2024–34, and Infrastructure Strategy 2024–54 include long-range planning for investment in three water assets. This includes resource consent renewals for the Ōtaki bore water take and Paraparaumu wastewater discharge, new water storage reservoirs in 2050–2052, and asset renewals and network upgrades to maintain levels of service and build capacity for growth.

Key considerations

We're in a good position when it comes to our water services assets and delivery. But we still have plenty to think about for the future.

- We need to plan for an estimated population growth of 22,000 people by 2054.
- From about 2040 onwards as our water infrastructure ages, we'll need to start increasing our network renewals.
- We need to consider how we will mitigate the impact of climate change and continue upgrading our stormwater networks to cope with increased flooding.
- The water services model we adopt must continue to attract the right staff and contractors. This may be more difficult for a smaller organisation.
- Councils will incur increased costs. These include for developing a water services delivery plan by 3 September 2025, meeting increased monitoring, reporting and environmental regulatory requirements, paying new levies to fund the regulators, and costs of setting up a new entity (if that option is chosen).
- We must adopt a water services model that's financially sustainable for the future and able to fund investment requirements within applicable financing arrangements.

An overview of the age and condition of our water assets' Initial Cumulative Asset Service Life





Protecting water assets against privatisation

We're clear we want to keep water assets in public ownership, and that local priorities are met for the health, wellbeing, and resilience of our community.

Our water services referendum

When we started the water meters discussion in 2011, our community expressed strong concern that water metering was a step towards privatisation and that Council could lose control of its water services.

In recognition of this concern, we updated our standing orders at that time to say that any changes to the ownership, governance, or management of the district's water assets or services must be backed by a 75% majority of councillors and their decision should be informed by a (non-binding) referendum of the community.

These provisions were added as clause 9.16 of our standing orders (SO 9.16).

- Under the scenario of a joint water organisation (option 2), we would be transferring our water assets and liabilities, including water-related debt, to a council-owned organisation. We would retain a shareholding along with other participating councils. Shareholder councils must guarantee the debt of the organisation.
- Under the in-house scenario (option 1) our water assets, liabilities and operations would remain directly owned and managed by Council.

Read more about ownership and control of water assets under a joint water organisation on page 25.

Privatisation protections in place

The proposed legislation has embedded strong protections against privatisation of water assets. Water revenue is ring-fenced, will be regulated, and may only be spent on water services. These privatisation protections also say water organisations must:

- be owned by one or more territorial authority (council) or consumer trust
- not do anything other than provide water services or related activities
- have an independent competency-based board.

Additionally, franchise and concession contracts are expressly prohibited.



We fully support these legislative protections as they respond to the concerns raised by our community in 2011.

Options for the referendum

Given the possibility a referendum won't be needed if we decide to go with our preferred option of an in-house water services (option 1), Council has agreed to consider SO 9.16's referendum requirement when we determine our future water services delivery model in May. Should Council decide to progress option 2 (a joint council-owned water services organisation) we will have three options:

1. **Hold a referendum**, which we estimate will require four months and \$150,000 of ratepayer funding to complete. While it may be a duplication of consultation on the decision, this would provide you the opportunity to participate in a non-binding referendum to further inform the decision. This approach risks Council missing the Government's mandated deadline for submitting a water services delivery plan by 3 September 2025. It may also mean being excluded from joint arrangements with other councils who must press on with other partners.
2. **Update SO 9.16 to remove the referendum requirement.** This would retain the need for a 75% majority around the Council table. It resolves the timing issue and accepts this consultation as sufficient for gauging your views on transferring water assets to the new organisation without duplicating the process through a referendum.
3. **Remove SO 9.16 altogether.** This would acknowledge the new legislation contains existing protections against privatisation and this consultation has provided an adequate opportunity for you to express your views.

Tight timeframes must be met

The new legislation requires all councils to have decided and committed to their future delivery model and to have lodged a water services delivery plan with central government by 3 September this year. It also sets out the consultation process we must follow. This does not allow for our referendum requirements.

The need for a referendum

As we consult with you under the provisions in the new legislation, we want to ensure you're being given the same opportunity to express your views as you would in a non-binding referendum under SO 9.16 – without the time delay and added expense.



Titoku Stream

Our options

With the legislation, issues and our priorities in mind, we're seeking your feedback on two options:

Option 1

'The One'

Keep our water services delivery in-house as we do now, but with additional effort and resourcing required to ensure we meet regulatory requirements.

Option 2

'The Four'

A four council-owned water services organisation with Horowhenua, Palmerston North, and Manawatū. This option would require Council to transfer its water assets to the new organisation of which Council would be a shareholder.

Read the details of each option on pages 18–28.



Calculating future costs

We've modelled the costs of future water services delivery for our two shortlisted options. The modelling was jointly commissioned by the four councils involved and undertaken by an independent consultancy. The modelling considers many factors likely to impact future water services delivery. These include:

- the capital investment profile necessary to meet future requirements of water services delivery, including regulatory requirements, renewals and growth;
- estimated operating costs, including interest costs and depreciation;
- the level of additional cost required to establish and operate standalone council-owned organisations;
- the level of additional efficiency and benefits of scale that may be available to larger, standalone council-owned organisations;
- the effects of inflation on future construction and operating costs;
- the level of revenue required to fund operating costs and comply with borrowing limits under the different options; and,
- for the joint council-owned organisation option, the period of time over which current price differences across the combined area will transition towards standard average prices.

See page 21 for more on the financial comparisons of the options.

Access to funding

Rather than going it alone in the commercial finance markets, councils use their collective financial muscle to access funding for big infrastructure projects at preferential rates through the Local Government Funding Agency (LGFA). Government and the LGFA have announced water organisations that are joint council-owned or controlled will have higher debt limits (revenue x 500%) and therefore a greater ability to borrow, than individual councils (revenue x 280%). If we choose the joint council-owned organisation (option 2) the higher limit will apply to that organisation. If we choose our preferred

option of an in-house delivery model our current borrowing limit of revenue x 280% will continue to apply across council as a whole.

What any changes will mean for you

You're unlikely to notice any significant change in the day-to-day delivery of water services under either option. You will still get quality, treated water when you turn on your tap, your wastewater will be treated to the same high standard, and when the rain falls our stormwater network will channel the runoff. The changes will be more at an organisational level and will impact what you pay.

Our modelling shows regardless of what option we choose, the cost will need to go up to meet increased compliance, monitoring, reporting and regulation requirements. Projected future water charges will also vary as communities pay different amounts for water across the country.

Our preferred in-house model provides the lowest average cost to customers up until 2047. The average costs to customers are projected to be higher for a joint council-owned water services organisation due to establishment costs, additional costs for governance and management, and the level of revenue required to support debt.

A joint council-owned organisation might choose to maintain each district's different water charges for a period to mitigate the initial impact on customers, or they may look to harmonise the charges at some point, which means charging everyone the same amount.

Councils could have some influence on this, possibly through the new organisation's constitution or through the shareholders' statement of expectations.

At around 2047, water charges are modelled to be about the same for both options as joint council-owned organisations are assumed to achieve efficiencies of scale. Government regulation will set limits on future water charges.



Option 1

'The One'

Keep our water services in-house, but with some changes

Our preferred option

Current number of connections: **24,663**

Current population: **58,750**

Modelled average cost to customer for all three water services:

2025 **\$1,645** per annum

2034 ***\$2,023** per annum

2054 ***\$2,749** per annum

**including inflation*

Meeting Kāpiti Coast's priorities



Public ownership

Our water assets remain in public ownership.

- Council retains direct ownership of assets and service delivery.



Financially sound

Our water services are financially sustainable and maintain affordable, fair and transparent charging for customers.

- Provides the lowest financially sustainable average cost to customers until 2047.



Safe and reliable water services

Our community continues to receive safe, reliable, efficient and effective water services.

- The performance of water services delivery is required to be within bounds set by national regulators.



Local priorities

Our water services model recognises local priorities in planning for the future and catering for growth.

- Council retains direct control of the priorities and delivery of water services.



Mana whenua aspirations

Mana whenua aspirations and concepts have meaningful influence in managing our water.

- Our existing iwi relationship arrangements are maintained.



Resilience

Our water services model is resilient – it remains strong and functional in all circumstances.

- There are vulnerabilities due to smaller scale.

KEY ● good ● some challenges ● significant challenges ● serious challenges



Your water services would be delivered directly by Council 'in-house' much as they are now.

We would need to make some organisational changes as the legislation introduces new monitoring, reporting and financial sustainability requirements.

Council would direct the priorities and delivery of water services through a water services strategy, similar to what we already have. This would be like a Long-term Plan for water services and would include half yearly and annual reports and standalone financial statements.

Income would continue to be generated through a combination of general and targeted rates and development contributions issued by Council.

Advantages of keeping water services in-house

- We would continue to direct strategies, investment and service levels according to local priorities.
- We would continue to operate our existing in-house water services delivery systems.
- We could use existing resources, like governance support and financial and administrative systems, to help set up and manage any changes needed to meet the new laws.
- We would retain direct ownership of the water services assets.
- Our financial modelling indicates we can fund future investment requirements within Council's usual borrowing limits (revenue x 280%). It's noted the Board of the Local Government Funding

- Agency (LGFA) has discretion to approve bespoke debt limits for high growth councils (which includes Kāpiti) up to a maximum of 350% of revenue. This offers a potential pathway to access further debt funding if we need it in the future.
- Our Financial Strategy 2024–34 positions us to fund everyday operations from everyday revenue and to actively reduce our debt while also providing the financial capacity to effectively manage our existing assets and to build new assets.
- We might be able to set up alternative shared services arrangements with other councils to achieve benefits of scale.

Disadvantages of keeping water services in-house

- A small business unit could be stretched in terms of staff and financial resources, and the ability to attract skilled staff.
- We wouldn't get the resilience and efficiency benefits that may come with economies of scale.
- We wouldn't be able to access the elevated levels of debt funding (revenue x 500%) from

- the LGFA, available to joint council-owned water services organisations.
- If we face significant unplanned capital investment requirements in the future, our ability to fund these requirements could be constrained.



What this option means for rates, debt and levels of service

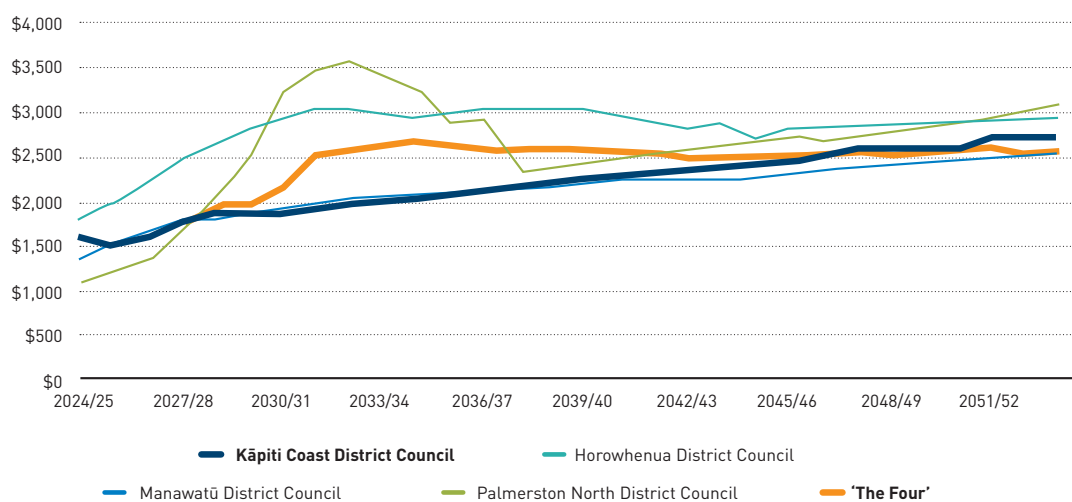
What would your charges look like?

Up until 2047, the average cost to Kāpiti Coast customers is projected to be lower under the in-house model than the four council option. This is because the four council-owned organisation requires establishment costs, additional costs for governance and management, and a higher level of revenue required to support debt.

Significant capital investment in its early years will also require high levels of borrowing.

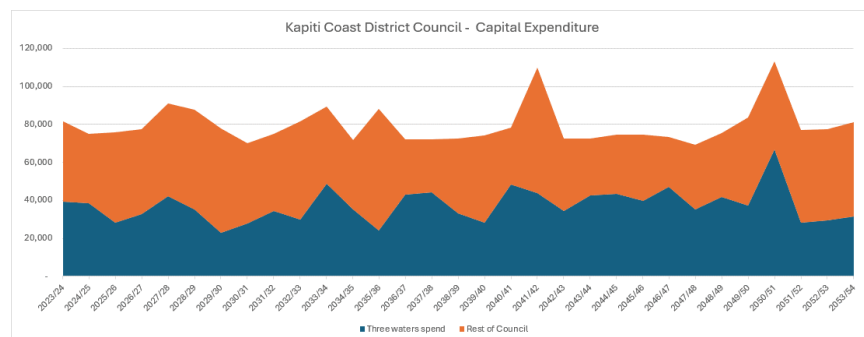
In the longer term, the larger council-owned organisation is expected to achieve efficiencies of scale and beneficial financing arrangements that are modelled to be at a slightly lower cost to customers by around 2047.

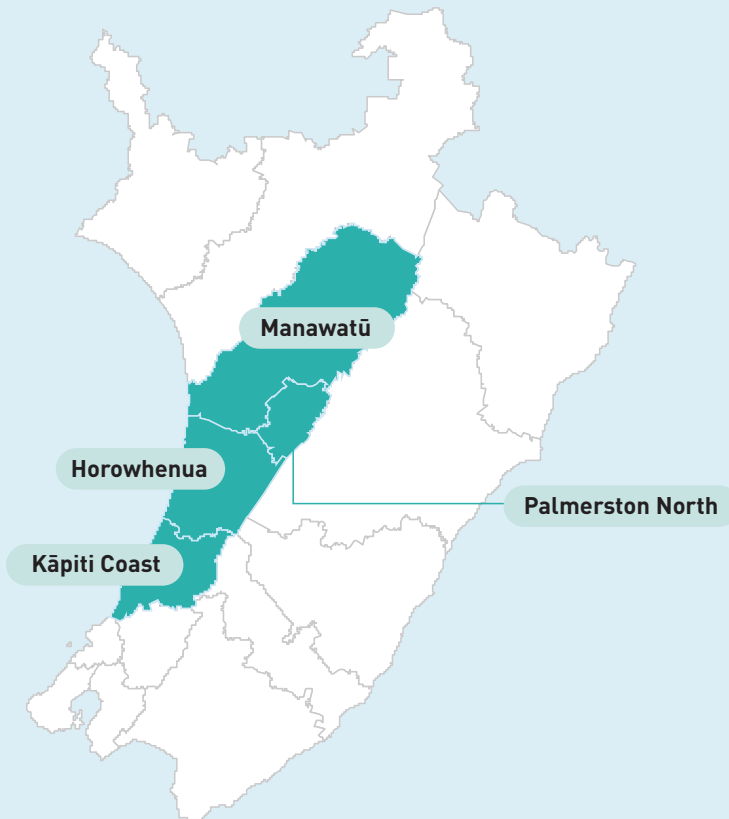
Councils' average customer water charges comparison – 30 years



Our future water spend

The graph (right) shows a relatively consistent forecast capital expenditure due to our past and ongoing investment in water infrastructure.





Option
2

‘The Four’

A joint council-owned water services organisation with Kāpiti Coast, Horowhenua, Manawatū, and Palmerston North

Current number of connections: **71,212**

Current population: **223,750**

Modelled average cost to customer for all three water services:

2034 ***\$2,656** per annum

2054 ***\$2,594** per annum

**including inflation*

This option would require us to transfer our water assets to the new organisation of which Council would be a shareholder.

Meeting Kāpiti Coast's priorities



Public ownership

Our water assets remain in public ownership.

- Water assets would be transferred to a joint council-owned water organisation in which participating Councils, such as ours, would have a shareholding.



Financially sound

Our water services are financially sustainable and maintain affordable, fair and transparent charging for customers.

- The average cost to customers is projected to be higher due to establishment costs, additional costs for governance and management, and the level of revenue required to support debt.



Safe and reliable water services

Our community continues to receive safe, reliable, efficient and effective water services.

- The performance of water services delivery is required to be within bounds set by national regulators.



Local priorities

Our water services model recognises local priorities in planning for the future and catering for growth.

- The direction and strategic priorities would be set in conjunction with other shareholder councils' priorities.



Mana whenua aspirations

Mana whenua aspirations and concepts have meaningful influence in managing our water.

- Iwi relationships relating to water services would be with the joint council-owned organisation.



Resilience

Our water services model is resilient – it remains strong and functional in all circumstances.

- There would be greater long-term organisational resilience in a larger delivery organisation.

KEY ● good ● some challenges ● significant challenges ● serious challenges



We would partner with all willing councils from Horowhenua, Manawātū and Palmerston North to establish a joint council-owned water services organisation.

Each council is required to consult with their community then decide who they partner with if this option is chosen. It's possible one or more of the other councils may decide not to join this council-owned organisation. If this happens our Council would need to decide whether we want to still go ahead with this option.

Our water-related assets and debt would transfer to the new council-owned water services organisation.

The organisation would be able to access higher levels of debt funding (up to 500% of debt to income) from the LGFA.

The average cost to customers is projected to be higher for a joint council-owned water services organisation due to establishment costs, additional costs for governance and management, and the level of revenue required to support debt. Efficiencies of scale means water charges are assumed to be about the same as the in-house model (option 1) by 2047.

A joint council-owned organisation might decide to maintain each district's different water charges, or look to charge everyone the same amount in the future.





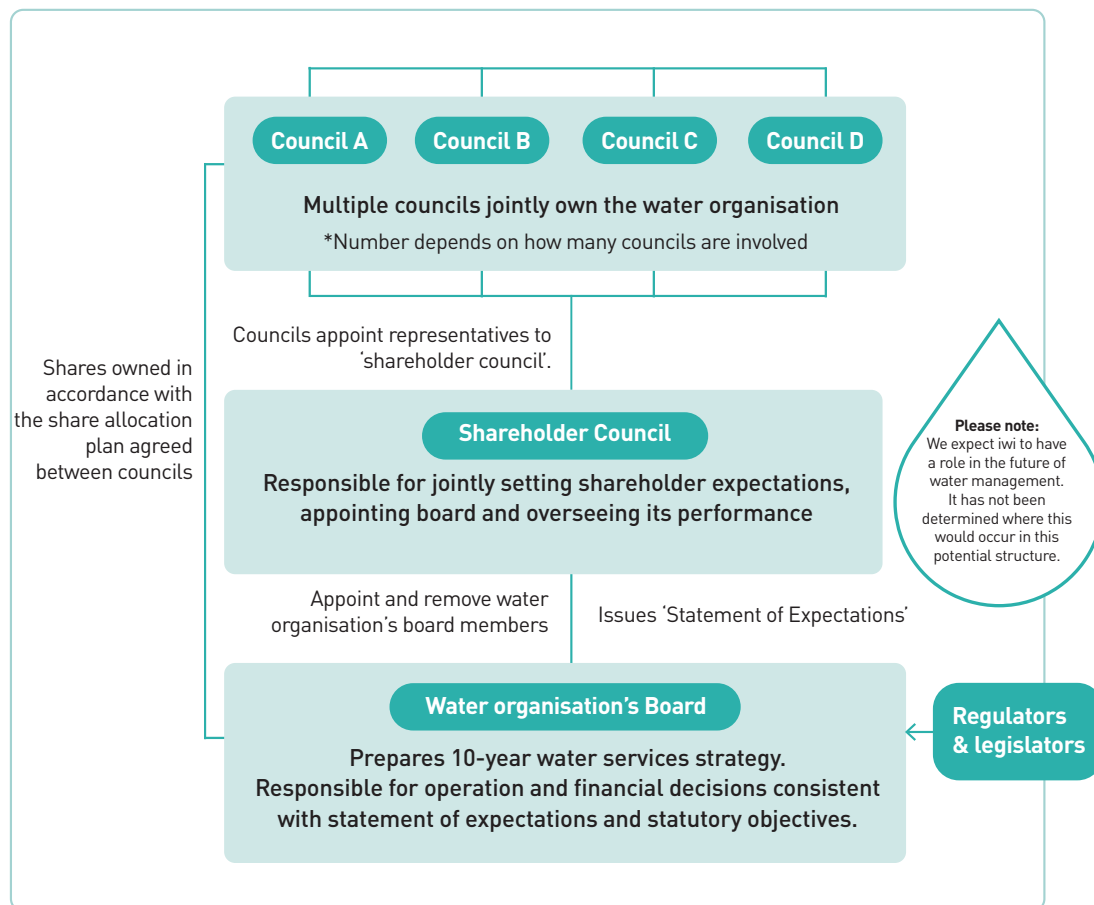
How it might work

A new organisation would be owned by participating councils, have an independent competency-based board, and shareholders would issue a Statement of Expectations. The final structure and processes are as yet undetermined. Below is a how a joint council-owned water organisation could be structured.

Regardless of the governance structure, the new organisation would be independent of Council.

No council staff or elected members would be involved in the organisation’s daily decisions; however, all four councils may have some influence as shareholders. The community would not be directly involved in decisions, although you may be consulted from time to time.

The organisation would be responsible for its own funding, for all levels of service, and for charging customers.



Advantages of a joint council-owned water organisation with 'the four'

- This option would offer greater opportunities for economies of scale and streamlined systems and processes.
- A larger organisation presents improved operational resilience and opportunities for staff.
- A council-owned water services organisation would be able to access higher levels of debt funding (revenue x 500%) from the LGFA.

Disadvantages of a joint council-owned water organisation with 'the four'

- It requires independent governance, which means a further layer of administration, monitoring, compliance, and reporting costs. As a result, the set up and operational costs for a joint council-owned water services organisation are greater than for an in-house unit.
- Financial modelling projects the average cost per customer under this option to be higher than an in-house delivery model up until 2047.
- Our needs would be assessed against those of the joint service area and may slip down the list of priorities.
- Horowhenua is planning and implementing water metering and considering volumetric charging, while Palmerston North uses meters for commercial water users and to measure properties' water usage. This may introduce difficulties in charging between areas that may disadvantage Kāpiti Coast customers.
- Our district may have to compete for resources in a bigger region.



What this option means for rates, debt and levels of service

What would customer charges look like?

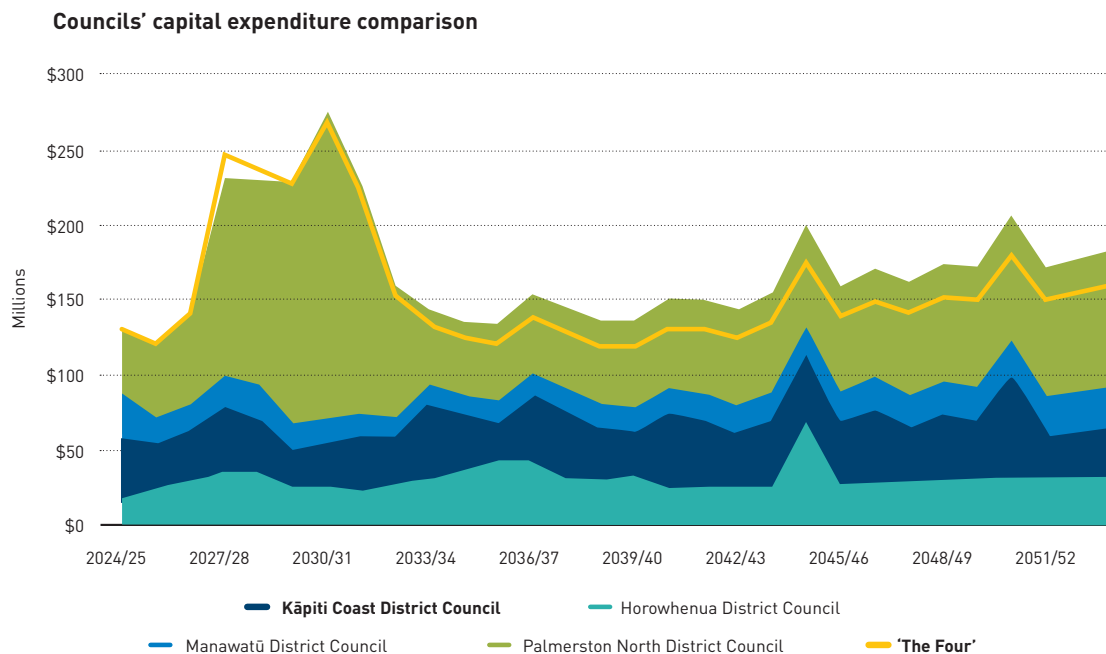
The average cost to Kāpiti Coast customers is projected to be higher under the joint council-owned organisation option than for an in-house business unit up until 2047. This is because the four council-owned organisation has additional set up and operating costs, and significant capital investment requirements initially – requiring high

levels of borrowing and therefore higher levels of revenue to sustain this. In the longer term, the joint council-owned organisation is expected to achieve efficiencies of scale and have access to more favourable financing arrangements than the in-house option, resulting in slightly lower average costs to customers after 2047.

The graph on page 21 (under option 1) also shows the projected costs for ‘The Four’ (option 2) over 30 years.

What would our water spend look like?

The chart below shows the combined capital expenditure programmes for the four participating councils:



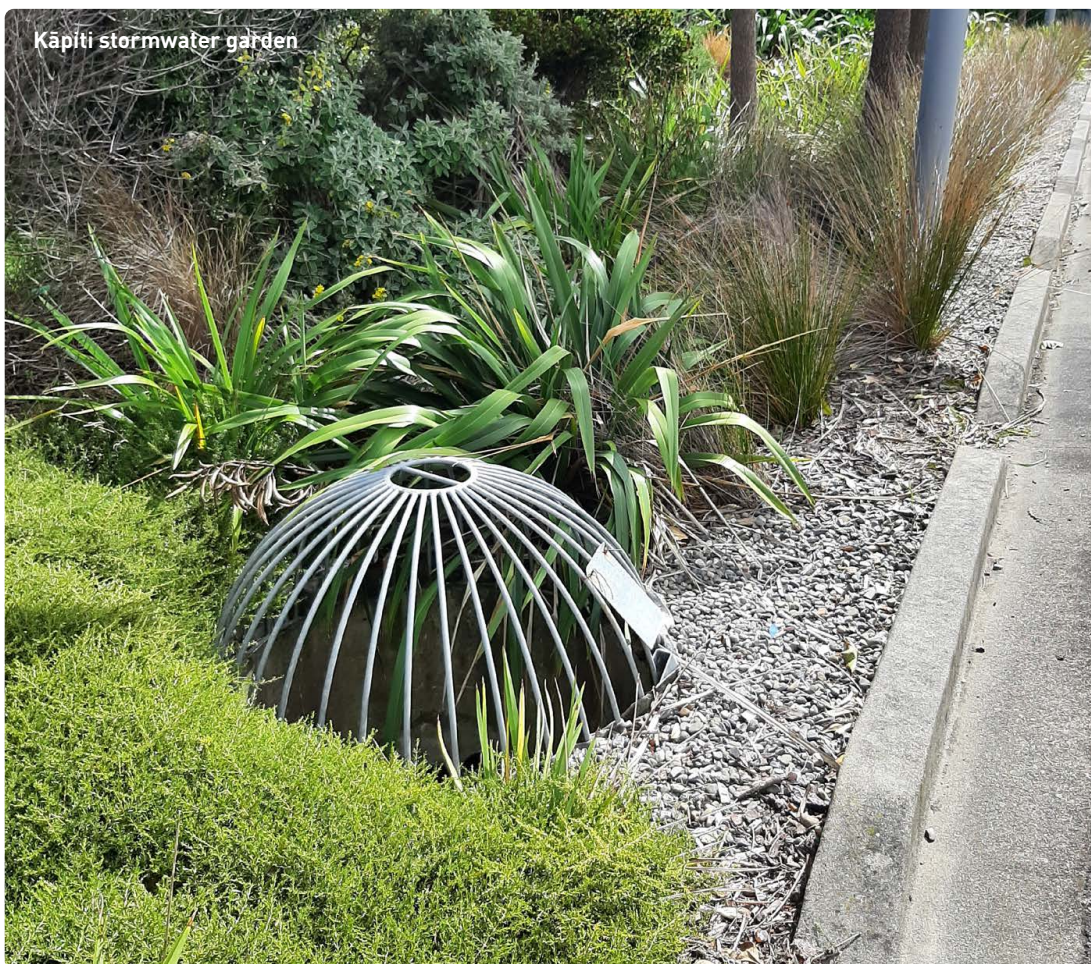


The chart shows some large peaks of expenditure coming up for the four councils. These represent significant renewal, replacement and/or upgrade projects:

- Palmerston North City Council – the ‘Nature Calls’ project to upgrade the city’s wastewater treatment system.
- Horowhenua District Council – growth-related upgrades to the Levin Wastewater Treatment Plants and renewals for the Shannon, Foxton, and Waitare Beach Wastewater Treatment Plants in 2044/45.

- Kāpiti Coast District Council – new water storage reservoirs from 2050 through to 2052.
- Manawatū District Council – has recently undertaken major upgrade projects so no further peaks show over this period.

In the short to medium-term, capital expenditure and debt is higher for the joint council-owned water services organisation because of initial establishment costs and investment requirements across the combined region. In the longer term, debt under the joint water organisation is lower because of both capital efficiencies and lower borrowing costs.





Other things to consider

Water is going to **cost more** in the future

Water is going to cost all communities more in the future regardless of which option we go with due to:

- compliance with new standards, e.g. drinking water
- increased resourcing to respond to the new economic regulations
- mitigating and adapting to climate change
- population and industrial growth, and
- replacing or upgrading aging infrastructure.

The joint council-owned organisation option carries additional set-up and ongoing costs for governance, staffing, and information technology infrastructure and systems.

Because of the level of capital investment required – and in particular Palmerston North City Council's

'Nature Calls' wastewater treatment plant project – this option requires a higher level of debt in the short to medium-term. This in turn requires a higher level of revenue to meet the necessary funding ratios.

The in-house delivery model, which deals only with Kāpiti Coast's investment requirements, does not face the same significant spikes. Our projected capital investment programme is more consistent and can be managed within council funding limits.

These factors combined mean average prices are projected to be higher for the joint council-owned organisation option for about 22 years, before becoming slightly lower in the longer term as efficiencies of scale are achieved.

Key metrics for our two options are summarised in the following table:

	'The One' (Option 1)	'The Four' (Option 2)
Connections	24,663	71,212
Set up costs	N/A	\$14.2 million
Additional annual operating costs	\$1.4 million	\$15.3 million
Debt / revenue limit	280%	500%
Average customer price 2034	\$2,023	\$2,656
Average customer price 2054	\$2,749	\$2,594



New levies are coming our way

Cost recovery for water services regulation

Government is proposing the water services regulator Taumata Arowai will recover most of its costs from public water services providers through a new levy from 1 July this year. It will be up to water services providers to determine how to recover this cost from customers. The levy for Kāpiti is expected to be about \$230,000 a year.

Cost recovery for Commerce Commission

Under the new legislation, the Commerce Commission will have a role monitoring water services providers' performance. Government is proposing to fund this activity by levying the water services providers. The levy for Kāpiti is expected to be about \$73,000 a year.

Councils may not agree on a joint option

Going into consultation, Horowhenua District and Palmerston North City Councils' preferred option is option 2, the joint council-owned organisation ('The Four': Horowhenua, Manawatū, and Kāpiti Coast District and Palmerston North City Councils). Manawatū District Council's preferred option is to go it alone.

There's a risk that the other councils may not choose to pursue a joint arrangement, or that they may opt for a model that doesn't include Kāpiti. All councils face this risk. We are continuing to talk to each other.

It takes a lot to set up a new model

Ring-fencing and changing our in-house system to meet the legislation is a big job, but setting up a joint arrangement with other councils is another level again and may take years – all while delivering your water services as usual. It will involve separating

our waters asset, debt, costs, and revenues from other council activities, dealing with impacts on staff, and modelling the financial impacts on the rest of Council.

