Te Kaunihera o Te Tairāwhiti
GISBORNE
DISTRICT COUNCIL

24-348

Title:	24-348 Local Water Done Well - Delivery Options Business Case
Section:	Chief Executive's Office
Prepared by:	Jade Lister-Baty - Principal Advisor to Chief Executive
Meeting Date:	Thursday 12 December 2024

Legal: Yes	Financial: Yes	Significance: High

Report to COUNCIL/TE KAUNIHERA for decision

PURPOSE - TE TAKE

The purpose of this report is to provide a strategic case for adopting a change in approach to water services delivery and recommend for approval a short-list of two options for public consultation in the first quarter of 2025.

SUMMARY - HE **WHAKARĀPOPOTOTANGA**

This report seeks to:

- Provide an overview of the statutory requirements of Local Water Done Well (LWDW),
- Summarise the requirements for Water Services Delivery Plans (WSDP) that have been set by the Government,
- Establish a strategic case for adopting a change in approach to water services delivery,
- Identify the longlist of water service delivery model options that the Council could consider adopting,
- Analyse these options and recommend a short-list of two options for public consultation in the first quarter of 2025 and identify a preferred approach for approval in principle by Elected Members.

The attached Business Case analyses the various water service delivery options available to Council and recommends two options for public consultation in the first quarter of 2025 and recommends a preferred approach.

A decision to progress consultation is required by December 2024 so that there is sufficient time for the development of the Water Services Delivery Plan and an accompanying Implementation Plan which is required to be submitted to the Minister of Local Government by 3 September 2025.

The decisions or matters in this report are considered to be of High significance in accordance with the Council's Significance and Engagement Policy.

RECOMMENDATIONS - **NGĀ TŪTOHUNGA**

That the Council/Te Kaunihera:

1. Agrees that Council consult on two options, being:
    a. the status quo of in-house delivery of water services, with changes to meet new legislative requirements; or
    b. a new single-council Water Services Council Controlled Organisation.
2. Adopts, in principle, as its preferred option for consultation, the modified status quo of in-house delivery via a stand-alone business unit.

Authorised by:

Nedine Thatcher Swann - Chief Executive

Keywords: water services delivery, water services, council controlled organisation, local water done well

BACKGROUND - HE **WHAKAMĀRAMA**

1. The LWDW initiative is the government's strategic response to New Zealand's enduring water infrastructure challenges. It emphasizes the importance of local decision-making and provides flexibility for communities and councils to determine the future delivery of their water services. The initiative ensures a strong focus on meeting economic, environmental, and water quality regulatory requirements.
2. Legislative changes enacted through the Local Government (Water Services Preliminary Arrangements) Act 2024, seeks to address long standing water infrastructure challenges.
3. The Government intends to introduce further water services legislation in December 2024, to be enacted in mid-2025, that will establish the enduring settings for the new water services system.
4. Key components of LWDW include the development of fit-for-purpose service delivery models and financing tools, ensuring the financial sustainability of water services, and introducing greater central government oversight and regulation.
5. The development of WSDPs, either individually or jointly with other councils, is mandated and Council is required to submit a Water Services Delivery Plan to the Secretary for Local Government by 3 September 2025. This plan will be binding.
6. On 5 November 2024 Council considered the long list of water services delivery option in a multi-criteria analysis decision conference and agreed that a shortlist of options comprising the modified status quo of in-house delivery and single-council Water Services Council Controlled Organisation be assessed further via a Single Stage Business Case, and that the business case be brought to Council for consideration.
7. The business case dated 25 November 2024 - Single Stage Business Case: Local Water Done Well - (Attachment 1) is the result of the work so far on determining the model to be adopted for the delivery of water services.

DISCUSSION and OPTIONS - WHAKAWHITINGA **KŌRERO** me **ngā KŌWHIRINGA**

8. The Local Government (Water Services Preliminary Arrangements) Act 2024 provides alternative decision making and consultation arrangements that councils must use when considering the future water services delivery model.
9. Under these arrangements Council must consider and consult on the (enhanced) status quo and one other model and may consider and consult on additional options if it chooses to.
10. The option to establish a water services Council Controlled Organisation would involve transferring the ownership of water assets to an independent water entity.
11. The consultation on the options to establish a new water services entity, will take place in early 2025.
12. Attachment 1 - Single Stage Business Case: Local Water Done Well, 25 November 2024 analyses the various water service delivery options available to Council and recommends two options for public consultation in the first quarter of 2025 and recommends a preferred approach.

13. The business case identified that the preferred option for water services delivery is the modified status quo of in-house delivery via a stand-alone business unit.

14. The business case recommends that Council consult on both the status quo of in-house delivery of water services and the establishment of a new single-council Water Services Council Controlled Organisation.

ASSESSMENT of SIGNIFICANCE - AROTAKENGA o **NGĀ** HIRANGA

15. This report is part of a process to arrive at a decision that will/may be of High level in accordance with the Council's Significance and Engagement Policy

TREATY COMPASS ANALYSIS

16. A Treaty Compass analysis has been included in the attached business case.

17. Implications and outcomes for Māori have been identified in the Strategic Case and each of the long-list of options has been assessed in terms of its repose to Kāwanatanga, Rangatiratanga, Oritetanga, Whakapono.

TANGATA **WHENUA/MĀORI** ENGAGEMENT - **TŪTAKITANGA** TANGATA WHENUA

18. Iwi governance considered the long-list of options for Council decision in December. There was agreement that the preferred options be consulted on, and iwi would seek to engage further in that process to outline their definitive position.

COMMUNITY ENGAGEMENT - **TŪTAKITANGA** HAPORI

19. The decision report seeks endorsement of options for public consultation in 2025.

CLIMATE CHANGE – Impacts / Implications - **NGĀ REREKĒTANGA ĀHUARANGI** – **ngā** whakaaweawe / **ngā** ritenga

20. Preferred options would continue to be aligned with Council goals and strategies including the development of climate changes policy.

CONSIDERATIONS - HEI WHAKAARO

Financial/Budget

21. The attached business case outlines the financial impacts of each option.

Legal

22. The development of Council's preferred approach needs to be aligned to timeframes and new legislative requirements including the Local Government (Water Services Preliminary Arrangements) Act 2024 and a new Bill to be introduced in December 2024, which will establish the enduring settings for the new water services system.

POLICY and PLANNING IMPLICATIONS - KAUPAPA HERE me **ngā** RITENGA WHAKAMAHERE

23. The outcome following consultation for the options will inform the direction of future asset management planning for the Council.

RISKS - **NGĀ TŪRARU**

24. A decision to progress consultation is required by December 2024 so that there is sufficient time for the development of the Water Services Delivery Plan and an accompanying implementation plan which is required to be submitted to the Minister of Local Government by 3 September 2025.

NEXT STEPS - **NGĀ** MAHI E WHAI AKE

Date	Action/Milestone	Comments
March / April 2025	Community consultation	
26 June 2025	Decision report to Council	
3 September 2025	Submit water service delivery plan to the Minister	

ATTACHMENTS - **NGĀ TĀPIRITANGA**

1. Attachment 1 - LWDW Indicative Business Case v1 1 [24-348.1 - 79 pages]

GISBORNE DISTRICT COUNCIL

Indicative Business Case: Local Water Done Well

25 November 2024

Prepared by: Scott Consulting and Morrison Low

GISBORNE DISTRICT COUNCIL

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Distribution List

Organisation	Position	Name/s
GDC	Elected Members	All
GDC	Te Ranga Whakahau	All
GDC	Project Sponsor	Nedine Thatcher Swann
GDC	Business Owner	Tim Barry

Approval

Name	Role	Signature
Tim Barry	Business Owner	
Nedine Thatcher Swann	Project Sponsor	

Revision History

Date	Version	Modified By	Changes Made, Review History
30 Oct 24	0.1	Kevan Scott	Initial Draft
12 Nov 24	0.2	Kevan Scott	Strategic, commercial and management cases
21 Nov 24	1.0	Kevan Scott	Near Final Draft
25 Nov 24	1.1	Kevan Scott	Final

Executive Summary

This business case seeks Council's approval in principle of a shortlist of water services delivery options and the preferred approach to be consulted with the public and Treaty partners in the first quarter of 2025.

The business case follows the Better Business Case process and is organised around the five-case model to systematically ascertain that the proposal:

- is supported by a robust case for change - the 'strategic case',
- optimises value for money - the 'economic case',
- is commercially viable - the 'commercial case',
- is financially affordable - the 'financial case', and
- is achievable - the 'management case'.

An Indicative Business Case is normally followed by a Detailed Business Case seeking Council's approval to commit to the selected course of action. In this instance the Water Services Delivery Plan will take the place of the Detailed Business Case.

Strategic Case – Making the Case for Change

Strategic Context

Councils across New Zealand are grappling with significant challenges in funding and delivering essential water services, including drinking water, wastewater and stormwater infrastructure. Major reviews, such as the Havelock North Drinking Water Inquiry (2016-17) and the Three Waters Review (2017-19), have highlighted the difficulties councils face in maintaining and renewing ageing infrastructure. The Government's *Local Water Done Well* (LWDW) policy aims to address these challenges by emphasizing local decision making, financial sustainability and regulatory compliance.

Gisborne District Council's water services are managed by the Water Team within the Community Lifelines Hub. The team operates a hybrid model with Council staff managing treatment plants and contractors handling network works. The Council plans significant investments in water infrastructure, funded primarily by targeted rates on service users.

The strategic challenges and considerations facing the Council include:

- Asset condition: Water infrastructure is ageing, with many assets past their peak performance. Materials like asbestos cement and earthenware pipes are prone to failure and infiltration.
- Network performance: Ageing assets lead to increased maintenance costs and reduced performance. Issues like tuberculation in cast iron pipes and stormwater infiltration into wastewater systems are significant concerns.
- Environmental and public health impacts: Excessive rainfall can overwhelm wastewater systems, leading to untreated discharges into rivers, posing public health risks and environmental damage.
- Community expectations: There is a growing demand for better environmental protection, affordable rates and greater community involvement in decision making.

- Regulatory environment: New standards for water quality, wastewater, and stormwater are being introduced, requiring additional investment to comply.
- Population growth and housing: The region's population is expected to grow, increasing the demand for water services and necessitating infrastructure upgrades.
- Climate change: Climate change poses risks to water availability and infrastructure resilience, with increased droughts, flooding and rising temperatures.
- Treaty commitments: Ensuring compliance with Treaty obligations to tangata whenua.
- Financial constraints: Balancing investment needs with ratepayer affordability and debt limits.

The Council has proactively implemented several initiatives to tackle these challenges. One significant effort is the DrainWise Programme, which focuses on reducing inflow and infiltration in the wastewater network. This initiative has already made substantial progress in enhancing the system's efficiency.

In addition, the Council has made asset management improvements by enhancing condition assessments and adopting risk-based planning. These measures ensure that the infrastructure is maintained effectively, and potential issues are identified and addressed promptly.

Recognising the importance of maintaining the water network, the Council has also increased the budget for renewals. By allocating more funds for pipe renewals, they aim to improve the overall performance and reliability of the network.

To ensure a resilient water supply, the Council is building redundancy into the water supply system. This includes managing the surrounding land to prevent erosion and subsidence, which could otherwise compromise the water infrastructure.

Lastly, the Council has launched public education campaigns to promote water conservation and proper wastewater management. These campaigns aim to raise awareness and encourage the community to adopt practices that support the sustainability of water resources.

Despite these efforts, the Council faces ongoing challenges due to external factors like climate change and economic pressures. A change in approach is necessary to ensure sustainable water service delivery.

Economic Case – Exploring the Preferred Way Forward

Longlist Options

The Government has provided guidance on the water service delivery models available to councils. These include:

1. Internal business unit or division: Continuation of the existing in-house service delivery model with new ring fencing and financial sustainability requirements.

2. Single council-owned water organisation: Establishing a new company, 100% owned by the council, with strengthened governance and management.
3. Multi-council-owned water organisation: A jointly owned company by multiple councils, offering potential economies of scale.
4. Mixed council/consumer trust-owned: A water organisation part-owned by councils and a consumer trust, enabling financial independence while retaining some council ownership.
5. Consumer trust-owned: A wholly consumer trust-owned water organisation, independent of council control.

The options were assessed against a set of objectives and critical success factors using a Multi-Criteria Analysis (MCA). This methodology evaluates the effectiveness of different options in achieving stated objectives against multiple criteria, both quantitative and qualitative.

The investment objectives developed for the future water services delivery model are:

- Financial sustainability: Ensuring sufficient revenue and investment to meet regulatory standards by 2028.
- Compliant water services: Meeting water quality, economic, and environmental regulations.
- Improved service delivery: Achieving economies of scale, efficiency savings, and supporting strategic goals.
- Meeting partner and community expectations: Ensuring meaningful mana whenua and tangata whenua involvement and community accountability.

The critical success factors for evaluating the deliverability of the options include:

- Independence: Ensuring independent governance and decision making on a water services strategy, investment, financing, revenue, service delivery and operations.
- Affordability: Assessing whether the establishment and implementation costs are affordable.
- Complexity: Evaluating the complexity, difficulty and time required for establishment, including staff and asset transfers.
- Timeliness: Determining if the option can be implemented in a timely manner to meet statutory deadlines for financial sustainability.
- Flexibility: Ensuring the option can evolve to meet changing circumstances over time and support future transitions into alternate delivery models.

Assessment of the Longlist

Option 1: Internal business unit or division

This option is the simplest to implement and incurs the lowest costs. It allows for direct council control, ensuring alignment with council goals and maintaining relationships with mana whenua and tangata whenua. However, it has limited access to additional debt headroom, which could lead to a potential credit rating downgrade. There is also upward pressure on rates and fewer opportunities for economies of scale.

Option 2: Single council-owned water organisation

This option provides access to additional debt headroom and features strengthened governance, which can lead to potential efficiency savings. It also maintains council influence over water services. On the downside, it involves higher initial costs and could impact the Council's credit rating. The pool of skilled directors available for appointment is limited, and the price path is less affordable in the short to medium term.

Option 3: Multi-council-owned water organisation

This option offers economies of scale, improved financial metric, and the potential for significant efficiency savings. However, it is complex and expensive to implement. Individual councils would have limited influence, and relationships with mana whenua could be diluted.

Option 4: Mixed council/consumer trust-owned

This option ensures total balance sheet separation from the Council, community ownership and strengthened governance. Nevertheless, it lacks access to Local Government Funding Agency (LGFA) debt funding, leading to high debt servicing costs and limited economies of scale.

Option 5: Consumer trust-owned

This option provides total independence from the Council, community ownership, and strengthened governance. However, similar to Option 4, it lacks access to LGFA debt funding, resulting in high debt servicing costs and limited economies of scale.

Shortlist Options

Based on this analysis, the recommended shortlist for further assessment is:

- Option 1: Internal business unit or division (modified status quo).
- Option 2: Single council-owned water organisation.

Economic Assessment of Shortlist

The economic assessment involves detailed financial modelling of the two shortlisted options, focusing on several key factors. These include the transitional costs associated with establishing a single council-owned water organisation, the financial capacity to deliver planned capital works programmes, potential delivery efficiencies and the costs to water consumers in Gisborne.

Monetary benefits are anticipated from operating and capital expenditure efficiencies. Operating expenditure efficiencies are projected at 0.13% of total capital expenditure per year, reaching a cumulative maximum of 1.28% after 10 years. Similarly, capital expenditure efficiencies are estimated at 0.13% of total operating expenditure per year, reaching a cumulative maximum of 1.35% after 10 years.

In addition to monetary benefits, several non-monetary benefits are expected. The removal of three waters debt from the Council's balance sheet will create additional borrowing capacity for other community outcomes. A dedicated water entity will have the autonomy to set charges necessary to meet capital works and service expectations. The establishment of a dedicated Board of Directors will ensure a focused and efficient delivery of water services. Furthermore, the new entity will face fewer barriers to future aggregation compared to an in-house business unit.

The risk assessment identifies several key risks, including potential disruption to staff during implementation, inadequacy of arrangements described in the Water Services Delivery Plan (WSDP), legislative changes that could undermine the feasibility of the preferred option, lack of financial independence, loss of staff or expertise, impact on other council activities, and potential conflicts between regulatory priorities and elected members' priorities. These risks will need to be carefully managed to ensure the successful implementation of the chosen option.

Identifying the Preferred Option

The choice between the modified status quo and a single-council council-controlled organisation (CCO) is driven by the economic and financial analysis. The modified status quo (Option 1) is the preferred option, due to its affordability, ability to meet financial sustainability and regulatory compliance standards and lower household charges in the short to medium term.

Commercial Case – Preparing for the Potential Deal

The commercial case outlines the proposed deal for the preferred option, which is continued in-house delivery of water services. Given this preference, no significant procurement is required, and thus, a detailed commercial case is not necessary. However, if the Council ultimately decides to establish a single-council CCO (Option 2), a comprehensive commercial case or procurement plan will be developed in the next phase of the LWDW project.

Financial Case – Affordability and Funding Requirements

The financial case aims to determine the funding requirements of the preferred option and demonstrate that the recommended deal is affordable. The analysis is based on financial modelling of the two shortlisted options.

The financial analysis uses a cost-based model to ensure the financial sustainability of three waters services. Key assumptions include:

- All operating costs, including depreciation and interest, are fully funded through operating revenue.
- Capital works are funded from debt or surplus cashflows from operations.
- Borrowing limits are monitored, with additional revenue generated as needed to stay within limits imposed by LGFA.

Key Findings

- Revenue requirements: Option 1 (in-house) has lower revenue requirements compared to Option 2 (single-council CCO).
- Household charges: Option 1 results in lower household charges in the short to medium term. Option 2 may result in lower charges over the long term (20+ years).
- Debt levels: Option 1 reaches $321 million in three waters debt by 2034, supported by $46 million of annual operating revenue. Option 2 requires higher initial charges to maintain financial ratios, impacting affordability in the short term.
- Affordability: Option 1 is more affordable over the next 10-20 years, with lower expected household charges and revenue requirements. Option 2 may offer lower borrowing requirements and household charges in the long term.

The financial analysis indicates that the modified in-house model (Option 1) is more affordable in the short to medium term, while the single-council CCO (Option 2) may offer benefits in the long term. The choice between the two options depends on balancing immediate affordability with potential long-term savings.

Management Case – Planning for Successful Delivery

The management case confirms the feasibility of the proposal and outlines the necessary arrangements to ensure successful delivery and manage project risks. It focuses on the implementation plan for the in-house delivery model, which is relatively straightforward and requires limited changes.

Project management arrangements will be established by forming a project team responsible for planning and executing the required changes.

Governance arrangements will be provided through standard oversight and reporting to the Infrastructure Operations Committee. Consideration could be given to forming a specific water services committee of the Council to oversee delivery under the LWDW legislative framework.

Roles and Responsibilities

- Project Manager: Leads the project, responsible for delivery, risk management, communications and stakeholder engagement.
- Financial Lead: Manages planning and implementation of ring fencing water services revenue and expenditure.
- Change Lead: Oversees the organisational change required to establish water services delivery as a separate business unit.

Schedule and Milestones

The project will be conducted in three phases over six months:

1. Preparation & Planning Phase: Organisational design and change management planning and overall project planning, including benefits management, risk management and post-investment review planning.
2. Establishment Phase: Executing the transition to the in-house model, ensuring all processes and systems are in place.
3. Steady State Phase: Finalising the establishment of the in-house model, developing the Water Services Strategy and Annual Report and delivery water services as business as usual.

A comprehensive risk management strategy will be developed, including a risk register to identify, analyse and evaluate risks.

Strategic Case – Making the Case for Change

This part of the business case confirms the strategic context for the investment proposal and makes a compelling case for change.

Strategic Context

Councils around New Zealand are facing significant challenges to meet the investment needed for drinking water, wastewater and stormwater infrastructure.

The need for change to how water services are funded and delivered has been the subject of several major reviews, policy processes and legislative reform since at least 2016. Successive major reviews (the Havelock North Drinking Water Inquiry 2016- 2017 and the Three Waters Review - 2017-2019) have concluded that councils were struggling to maintain and renew their ageing water infrastructure.

Treaty Commitment

When considering options for the region, Council was cognisant of its strategic and legislative Treaty commitments to Māori landowners, whānau, hapū and iwi. Regardless of the future water service delivery arrangements, existing responsibilities, commitments and obligations between tangata whenua and the Crown will continue to apply.

Local Water Done Well

Local Water Done Well (LWDW) 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 LWDW include:

- Fit-for-purpose service delivery models and financing tools,
- Ensuring water services are financially sustainable,
- Introducing greater central government oversight, economic and quality regulation, and
- The development of Water Services Delivery Plans (WSDP), either individually or jointly with other councils by 3 September 2025.

Legislative Change

In February 2024 the Government introduced and passed legislation to repeal all legislation relating to the last Government's Affordable Water[1] reforms. The Water Services Acts Repeal Act repealed the Water Services Entities Act 2022, Water Services

[1] Previously called Three Waters Reform

Legislation Act 2023 and the Water Services Economic Efficiency and Consumer Protection Act 2023. This Act reinstated previous legislation related to the provision of water services (including local government legislation). This restored continued council ownership and control of water services and responsibility for service delivery.

The Local Government (Water Services Preliminary Arrangements) Act 2024 establishes the LWDW framework and the preliminary arrangements for the new water services system. The legislation was enacted on 2 September 2024. This Act lays the foundation for a new approach to water services management and financially sustainable delivery models that meet regulatory standards.

The Government will introduce a third LWDW Bill in December 2024 that will establish the enduring settings for the new water services system. The Local Government Water Services Bill will set out a range of changes to the water services delivery system and to the water services regulatory system. These include:

- 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.
- Changes relating to wastewater environmental performance standards and national engineering design standards.

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

All legislation to support the implementation of LWDW is expected to be passed by mid-2025, ahead of the local government elections in October 2025.

Water Services Delivery Plans

As part of this package of reform, all councils are required to submit WSDPs to the Government by 3 September 2025.

The WSDP and future models and options to be considered will need to respond to agreed objectives and consider future approaches that are workable, affordable, sustainable and meet the needs of communities, mana whenua and the environment. The WSDP must include:

- A description of the current state of the water services network and services provided.
- Details of the capital and operational expenditure required to deliver the water services and to ensure that water services comply with regulatory requirements.
- Financial projections for delivering water services over the period covered by the plan, including the operating costs and revenue required to deliver water services and projected capital expenditure on water infrastructure, and projected borrowing to deliver water services.
- The anticipated or proposed model or arrangements for delivering water services (including whether the territorial authority is likely to enter a joint arrangement or will continue to deliver water services in its district alone).
- An implementation plan.
- Adoption by resolution and submission to the Secretary of Internal Affairs no later than 3 September 2025.

If a council fails to submit a WSDP by the statutory deadline, the Minister of Local Government may appoint someone to prepare a WSDP on that council's behalf, and (if necessary) to direct the council to adopt and submit this WSDP (a 'regulatory backstop' power). Any expenses associated with this appointee and the preparation of the WSDP would be covered by the council.

Organisational Overview

The following two sections of this business case (organisational overview and strategic considerations) draw significantly from analysis done for the Council in mid-2024 by Logicus NZ Ltd.[2]

Gisborne District Council's water services functions are provided by the Water Team of the Community Lifelines Hub, led by the Director Community Lifelines.

The Water Team is led by a manager who reports to the Director Community Lifelines and has around 30 staff organised into five teams:

- Stormwater / Wastewater / DrainWise
- Wastewater Treatment
- Drinking Water

[2] Logicus NZ, The Challenges of Water Services Delivery in Tairāwhiti. Report for the Gisborne District Council, 6 June 2024

- Asset Management
- Infrastructure

Water services are delivered via a hybrid operating model with the drinking water and wastewater plants operated by council staff and the delivery of works on the water, wastewater and stormwater networks contracted out.

In the first year of the 2024-2027 Three-year Plan (3YP), water services operating expenses (covering the costs of operating the network, repairs and maintenance, compliance, support services, and staff costs) are forecast to be:

- Urban stormwater $4.588 million
- Wastewater $12.967 million
- Water supply $9.473 million
- Total: $27.028 million

This represents 15% of planned council expenses of $178.919 million in 2024/25.

Over the course of the 2024-2027 3YP, the Council is planning to invest $45.841 million in waters infrastructure, which represents 10.5% of the capital investment planned over the period.

Table 1: 2024-2027 3YP water infrastructure investment

Description	Total Cost $000s	Total 2025 $000s	Total 2026 $000s	Total 2027 $000s
Stormwater				
Integrated catchment plan	194	82	112	-
Stormwater renewals & upgrades	6,791	3,376	2,261	1,154
Stormwater resilience	2,050	300	750	1,000
Total	9,035	3,758	3,123	2,154
Wastewater				
Kaiti area pumpstation & rising main	100	-	-	100
Te Karaka wastewater land disposal	900	280	620	-
Wastewater renewals and urban upgrades	16,483	4,280	5,842	6,361
Wastewater sensor network	300	150	150	-
Wastewater treatment plant further treatment	500	500	-	-

Description	Total Cost $000s	Total 2025 $000s	Total 2026 $000s	Total 2027 $000s
Mortuary waste field	150	150	-	-
Total	18,433	5,360	6,612	6,461
Water Supply				
Dams resilience	1,300	500	800	-
Rural reticulation renewal	793	782	11	-
Sang dam slump remedial works	310	218	92	-
Taruheru block water extension	1,729	650	707	372
Waingake T/Plant UV installations	24	24	-	-
Waipaoa Treatment Plant infiltration gallery	1,250	1,250	-	-
Water supply renewals and upgrades	8,467	2,798	2,583	3,086
Water supply resilience	4,500	1,300	1,500	1,700
Total	18,373	7,523	5,692	5,158
Grand Total	45,841	16,641	15,427	13,773

All water services are wholly funded by ratepayers and users. The majority of funding (80-100%) comes from a targeted rate on service users. A small amount of funding comes from a general rate as the wider community derives a benefit from the effective delivery of water services. Some fees and charges are levied for specific users where this is practicable. Growth components of infrastructure projects are part-funded through development contributions.

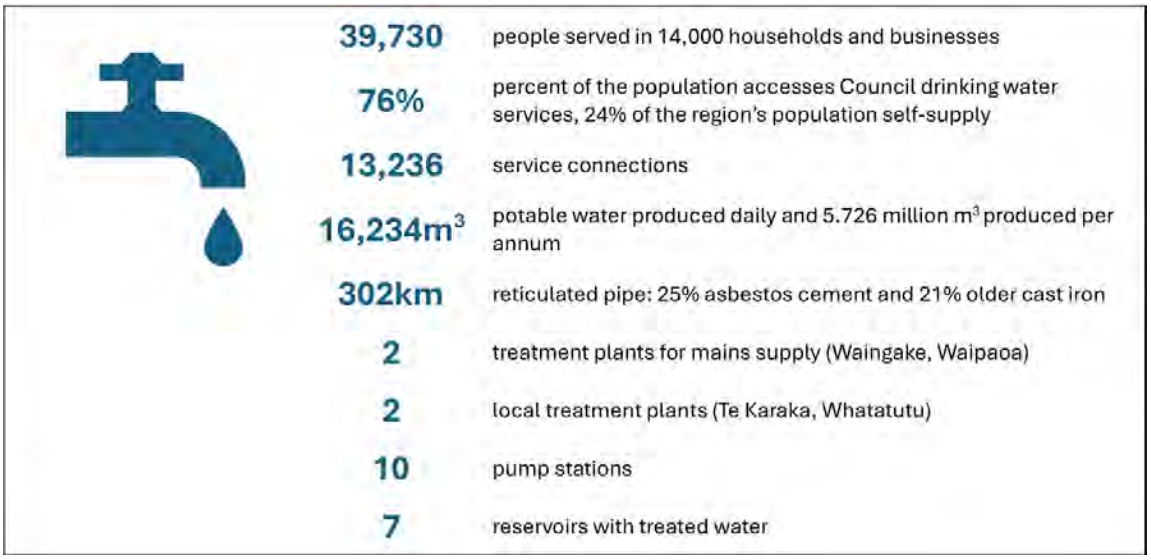
Debt for water services infrastructure was sitting at $48.91 million in the 2022/23 financial year.

Water Supply

Service provision

The Council provides reticulated supply of potable water to residents and businesses within the Gisborne urban boundary. In addition, the Council provides smaller scale supplementary water supply to Te Karaka and Whatatutu townships to 'top up' other household sources such as rainwater tanks and small-bore supplies. The Council also provides community drinking water stations for self-service in Muriwai and Patutahi.

Figure 1: Key information about drinking water services



Raw water for the main Gisborne city supply comes from surface water bodies to the west of the city, with 70% coming from the three Mangapoike dams and the remaining 30% coming from Te Arai Bush Catchment. The water is gravity-fed and pumped 40km through a pipeline, that meanders through the catchment crossing Te Arai River at several points, through the Waingake treatment plant (where it is treated), before topping up reservoirs and being distributed through water mains and service lines to property boundaries.



Lamella filters being installed at Waingake Water Treatment Plant



HC Williams Dam, one of the three Mangapoike dams

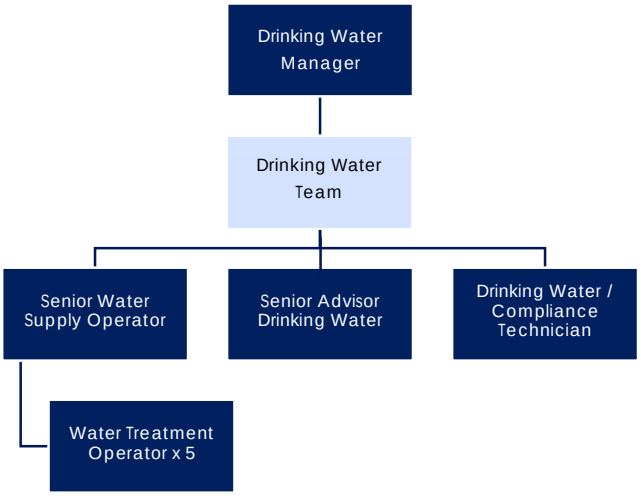
This main supply is augmented by raw water from the Waipaoa River that is treated at the Waipaoa treatment plant. This secondary supply provides additional capacity when supply from the main sources is reduced due to weather, high consumer demand or technical issues with treatment systems. Additional capacity is available from a series of reservoirs located around the city that are kept filled as part of the public reticulation network.

Water for Te Karaka is drawn from bores close to the Waiapaoa River and Whatatutu water is sourced from the Mangatu River. Raw water is treated before being distributed to tanks at households in the township area.

For households without full reticulated supply, townships, marae, and rural properties have private water supply systems, where water is sourced from roof catchments, ground water bores/springs or surface water. Private systems are neither council owned nor administered. It is estimated that there are around 12,000 people (about 23% of the population) without access to council reticulated supply. This includes nearly 70 marae.

The drinking water activities are overseen by a Drinking Water Manager (supported by two technical staff) whose role it is to direct operations of the drinking water network and ensure compliance with relevant legislation and standards. A team of six is responsible for daily operation of the water treatment plants. There are 9.0 FTE in total. Maintenance of water networks is contracted externally through a seven-year maintenance contract.

Figure 2: Structure of drinking water team



Financials

The drinking water network assets have a replacement value of $296.9 million (2024).

Table 2: Replacement value of drinking water network assets 2024

	Gisborne	Manutuke	Muriwai	Te Karaka	Whatatutu	Total
Replacement Value ($,000)	293,699	52	1,051	1,077	986	296,866
Depreciated Replacement Value ($,000)	151,555	37	1,038	755	670	154,054
Ratio DRV/RV*	0.52	0.70	0.99	0.70	0.68	0.52
* Note: The ratio of DRV/RV gives a financial indication of the remaining life of the network. Newly installed assets have a ratio of 1 (depreciation hasn't started), whereas assets at the end of their life have a ratio approaching 0.						

Rates for drinking water services are charged based on the principle that those who benefit, either directly or indirectly, should pay. For some water users, charging based on actual quantities is practical due to the location, size or use of the property. Their share of costs is recovered by way of targeted water meter rates. For the remaining properties accessing drinking water (largely urban residential), the cost of the activity is equalised across all non-metered connections within the region.

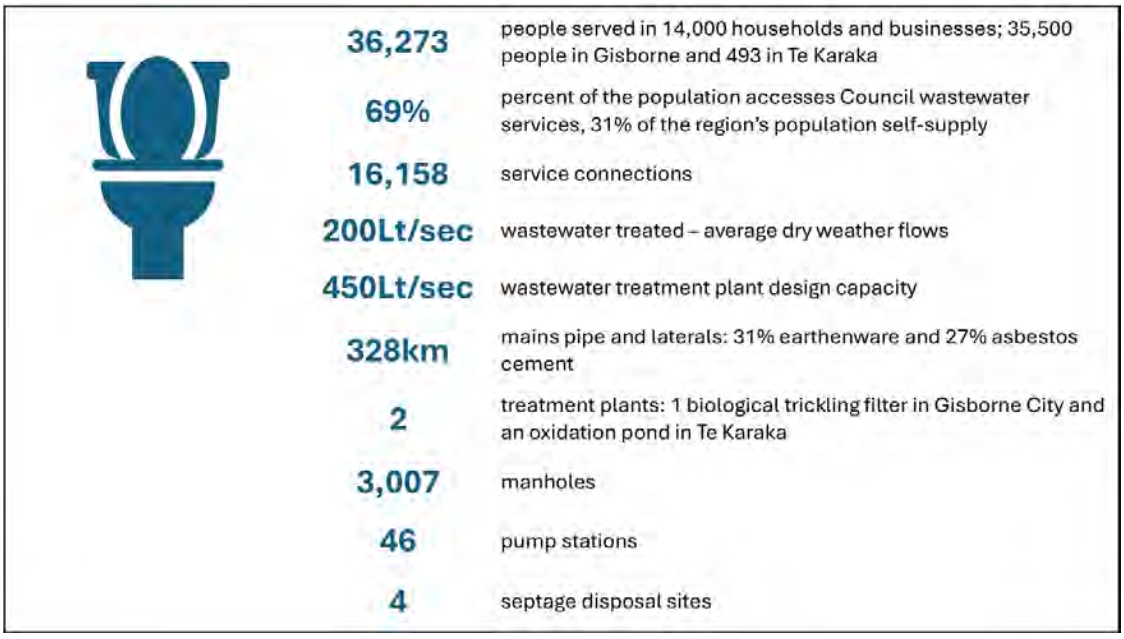
Wastewater

Service provision

Wastewater systems collect, treat and dispose of human and industrial waste to protect public health and the natural environment.

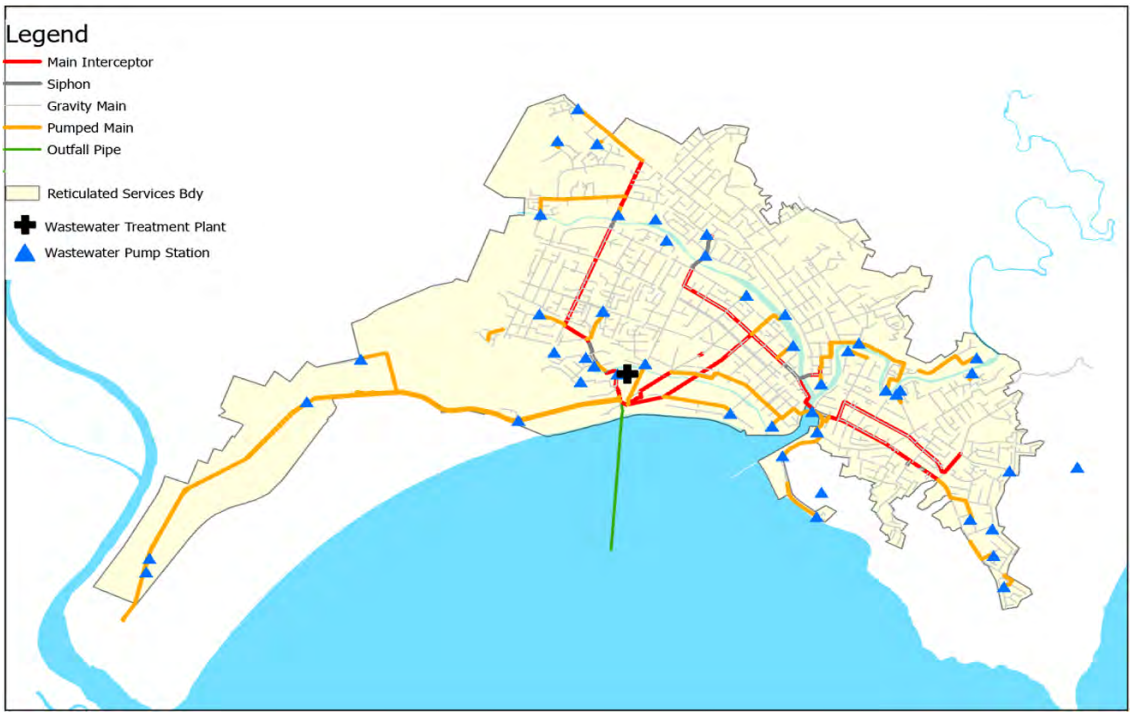
The Council provides reticulated wastewater services to residents and businesses within the Gisborne urban boundary and a smaller wastewater service to Te Karaka. The Council also owns and administers three septage disposal sites at Te Araroa, Ruatoria and Te Puia Springs.

Figure 3: Key information about wastewater services



All sewage entering the Gisborne public wastewater network is piped to a wastewater treatment plant on Banks Street for treatment. Domestic wastewater is processed through a biological trickling filter, clarified, solids removed, and then put through a UV treating system before being discharged through a 1.8km outfall to the sea off Midway Beach.

Figure 4: Gisborne city wastewater network



Within Gisborne city, specific industries are served by a separate industrial wastewater network requiring a trade waste permit to discharge. This network discharges to the wastewater treatment plant for treatment, then the marine outfall – it does not go through the biological trickling filter.



Banks St Wastewater Treatment Plant, Stage 2

Te Karaka township has a simple wastewater system, where sewage is pumped from households to an oxidation pond for treatment before being discharged into the Waipāoa River.

Properties without public wastewater services are required to have private on-site wastewater systems, such as septic tanks. These private systems are not owned or administered by the Council. However, the Council provides four septage sites around the region for the disposal of sewage from the maintenance of on-site wastewater systems. It is estimated that around 16,000 people, or about 31% of the population, do

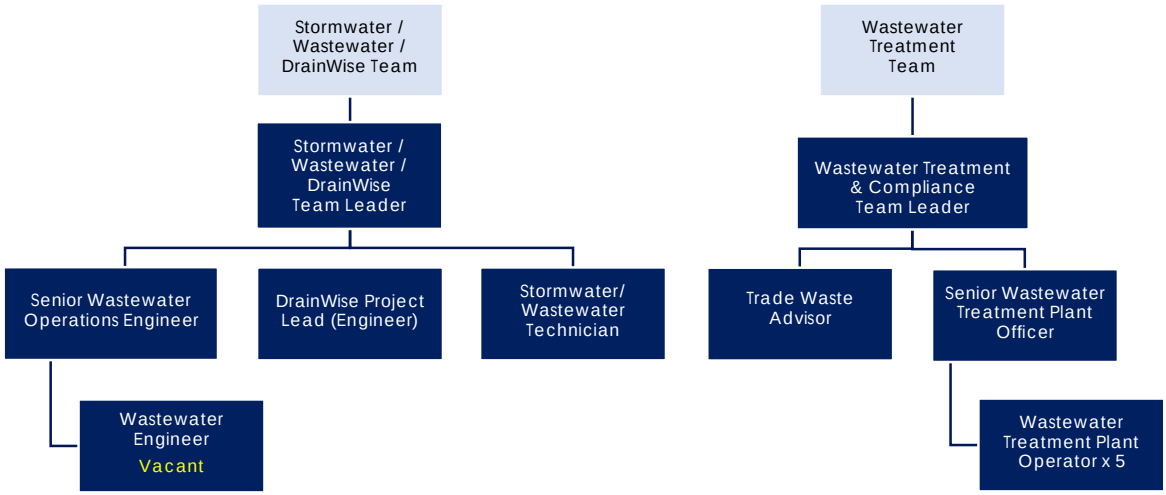
not have access to the public wastewater network. This includes nearly 70 marae and dozens of rural schools and businesses.

The wastewater activities are delivered by two teams:

- Wastewater treatment – managing the treatment of wastewater
- Wastewater reticulation – managing the reticulation of wastewater (this function is combined with stormwater management).

There are 8.0 FTE in the wastewater treatment team, and 4.0 FTE in the reticulation team servicing both wastewater and stormwater.

Figure 5: Structure of wastewater teams



Financials

The wastewater network has a replacement cost of $264.7 million (2024).

Table 3: Replacement value of wastewater network assets 2024

	Gisborne	Te Karaka	Total
Replacement Cost ($million)	260.9	3.8	264.7
Mains	114.7	2.3	116.9
Laterals	28.4	0.2	28.7
Treatment Plants	83.2	0.6	83.8
Pump Stations	16.2	0.3	16.5
Manholes	18.4	0.4	18.8
Depreciated Replacement Cost ($,000)	157.6	1.6	159.2

Rates for wastewater services are charged based on the principle that those who benefit, either directly or indirectly, should pay. In most cases, it is not practical to measure the quantity of each individual property's contribution to the wastewater

system. Those who connect to the reticulated wastewater network are charged a targeted rate per pan that approximates their use of the services. For heavy commercial users of the wastewater network, it is practical to measure the volume and quality of wastewater, and charges are applied accordingly.

Urban Stormwater

Service provision

Stormwater systems carry surface water overflow from heavy rains away, protecting properties from flooding and protecting the environment and public health by reducing pollutant discharge into natural waterways.

Stormwater service provision is complex. There are multiple parties with complementary (and potentially overlapping) jurisdictions:

- Waka Kotahi manages and funds stormwater from the state highway network in urban and rural areas.
- Council land transport team manages and funds stormwater from the local road network.
- Council stormwater team manages, and funds urban stormwater not associated with roads in urban areas.

Figure 6: Sponge Bay stormwater showing jurisdictions



The stormwater systems also connect with council and private drainage schemes in rural areas. Parts of the urban parks and reserves network also support stormwater management.

The Council owns and operates a public stormwater system for Gisborne city, including Makaraka and Wainui/Okitu, and urban areas in 12 rural communities from Wharekahika to Matawai.

The Council stormwater system includes:

- a primary stormwater system comprising piped reticulation, open drains, swale drains, sumps and channels,
- a secondary stormwater system, which kicks in during significant heavy rain, comprising stormwater flow paths through reserves, private properties and along road corridors, and
- a range of measures that reduce the level of pollutants discharged into natural waterways, including swale drains, green infrastructure, sumps with sediment traps and gross pollutant traps.

Table 4: Replacement value of stormwater pipe network assets 2024

	Replacement Value ($million)	Depreciated Replacement Value ($million)
Pipe Network		
Reinforced concrete	126.57	69.41
PVC	8.63	6.78
Polyethylene	4.18	3.59
Earthenware	2.37	0.54
Steel	1.13	0.41
Asbestos Cement	1.09	0.56
Polypropylene	0.77	0.71
Brick	0.10	0.04
Cast iron	0.07	0.01
Aluminium	0.02	0.01
Total	144.9	82.1

There is no practical way to charge individuals or groups for the direct benefits of urban stormwater services. This activity is funded through a mix of general and targeted rates, reflecting the benefits to property owners in urban areas as well as the broader community benefits of managing stormwater.

Strategic Considerations

Analysis of the current and likely future operating environments has identified the following key considerations for the provision of waters services:

- Like all territorial authorities, the Council's water infrastructure network is ageing and requires frequent repairs and maintenance.
- The contribution of tangata whenua to council decision-making processes in particular where legal or settlement-based provisions are enacted.
- The community has ever-increasing expectations for water service delivery, seeking a network that serves more people equitably and better protects the environment.
- There are increasing regulatory requirements and compliance costs that are expected to continue.
- Ongoing operational and capital cost increases, largely due to inflation and interest spikes, make it difficult to maintain the existing water networks. There is a backlog of renewals.
- Any increase in costs is passed on to ratepayers in a community where many households are already struggling financially. Significant rate increases or spikes are unlikely to be palatable to the community.
- However, debt-funding infrastructure comes at a cost to future generations, and there is a finite amount the Council can borrow (the debt ceiling) to expand and renew the water network.
- The region's population is growing, with a housing shortage of around 400 homes, currently forecast to rise to 5,000 by 2050.
- Climate change will impact water service delivery and infrastructure resilience.
- In the long term, technology offers opportunities to rethink water service delivery: automation of systems and use of artificial intelligence, use of wastewater by-products for energy generation, and stormwater /wastewater reuse. Exploring these requires investment and collaboration with others.

Asset Condition

The factors that most commonly impact on asset condition are:

- age of the asset,
- choice of asset material and its appropriateness for intended use,
- operating environment, including preventative maintenance, and its impacts on assets, and
- loading: the amount of work the asset needs to do and the pressure on the asset.

The Council's water infrastructure is ageing. On average, it is about halfway through its lifespan and therefore at least half of assets are past peak performance. As a result,

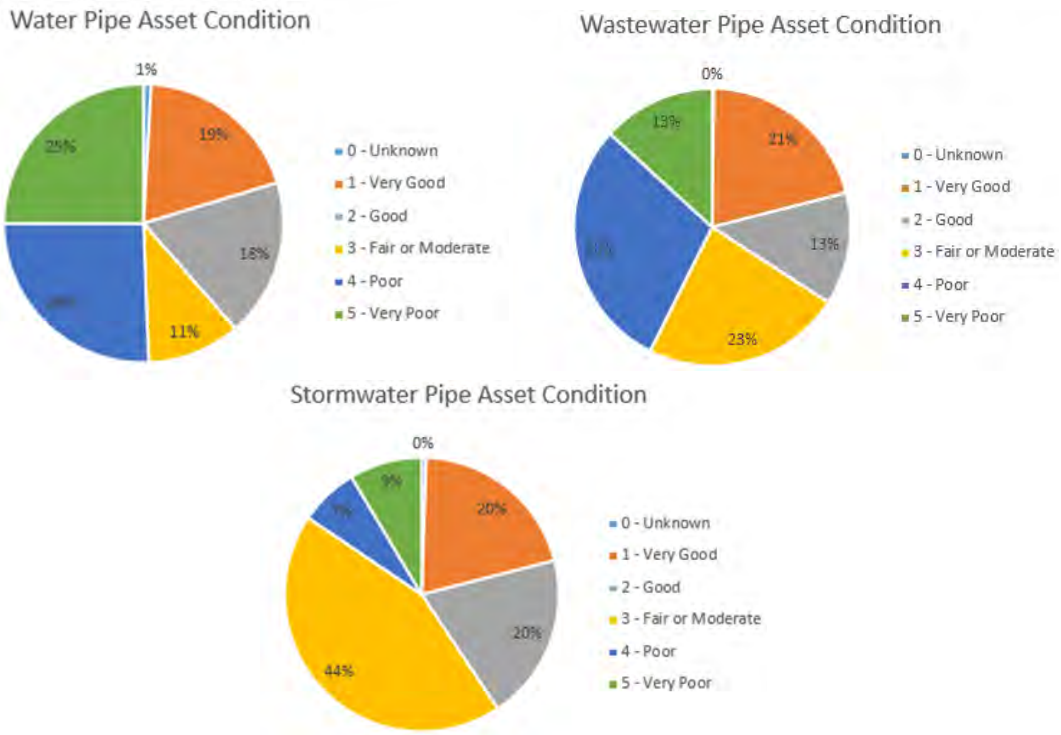
there is a developing backlog of pipes that are close to or past the end of their useful lives.

Some of the pipe assets are made from material that has not aged well and is no longer fit-for purpose, for instance:

- asbestos cement pipes comprising 25% of the drinking water pipe network and making up most of the pipe failures, and
- earthenware (clay) pipes comprise 31% of the wastewater pipe network that are brittle and more prone to groundwater infiltration.

The graphs below show an overview of the asset conditions for each of the water services rating assets from 'very good' to 'very poor'.

Figure 7: Water services asset condition ratings



Network Performance

As assets age, their performance reduces, and maintenance and operating costs increase. For example, cast iron pipes (some dating back to 1909) make up 21% of the drinking water pipe network and, over time, tuberculation (an accumulation of rust-like deposits) can occur. This reduces the internal diameter of the pipe and its performance. Tuberculation can also create issues with colouration of drinking water.

The most pressing network performance issue is the inflow and infiltration of stormwater into the wastewater pipe network. Rainfall and resultant stormwater can get into the wastewater system through:

- Direct inflow through gully traps and downpipes, largely on private property.

- Flooding on private property over-topping gully traps.
- Water infiltration into broken or thin pipes underground.

This can flood the wastewater system, significantly reducing its performance.

Treaty Commitment Landscape

The Council's responsibilities as a Treaty partner are guided by clear strategic and legislative direction. The Te Tiriti Compass guides the Council's internal readiness and consideration of partnership responsibilities against the provisions within Treaty articles. Treaty settlements and other statute with Treaty-specific provisions, such as the Resource Management Act 1991 and Local Government Act 2002 provide the legislative requirement that must be followed.

Treaty-based relationships are diverse. They include whānau and Māori landowners through to marae, trusts, hapū and iwi entities. Council must consider the breadth of these relationships and ensure it facilitates opportunities where the views and contributions of tangata whenua are sought to inform the appropriate pathway.

The current Council formally committed to the retention of Te Mana o te Wai in support of iwi partner priorities earlier this year. Water in all forms is a taonga and critical to the identity, health and well-being of tangata whenua. To ensure a new water services entity that delivers for the 56% Māori population in Te Tairāwhiti a partnership-based approach is integral to a result that has most benefit to the region.

A high-level Te Tiriti compass analysis is provided below to set the tone and expectation for the way in which the Council's partnership responsibilities are considered. A compass analysis will also be completed for each option in the options assessment section of the Economic Case.

- **Kāwanatanga**: Strengthening co-governance arrangements to enable genuine decision-making partnerships with tangata whenua in water infrastructure.
- Tino Rangatiratanga: Supporting initiatives that align with tangata whenua priorities.
- **Ōritetanga**: Ensuring reforms prioritize the equitable distribution of water resources and address the historical inequities faced by tangata whenua.
- Whakapono: Embedding mātauranga Māori and tikanga in all aspects of water management to reflect the values and aspirations of tangata whenua.

Environmental and Public Health Impacts

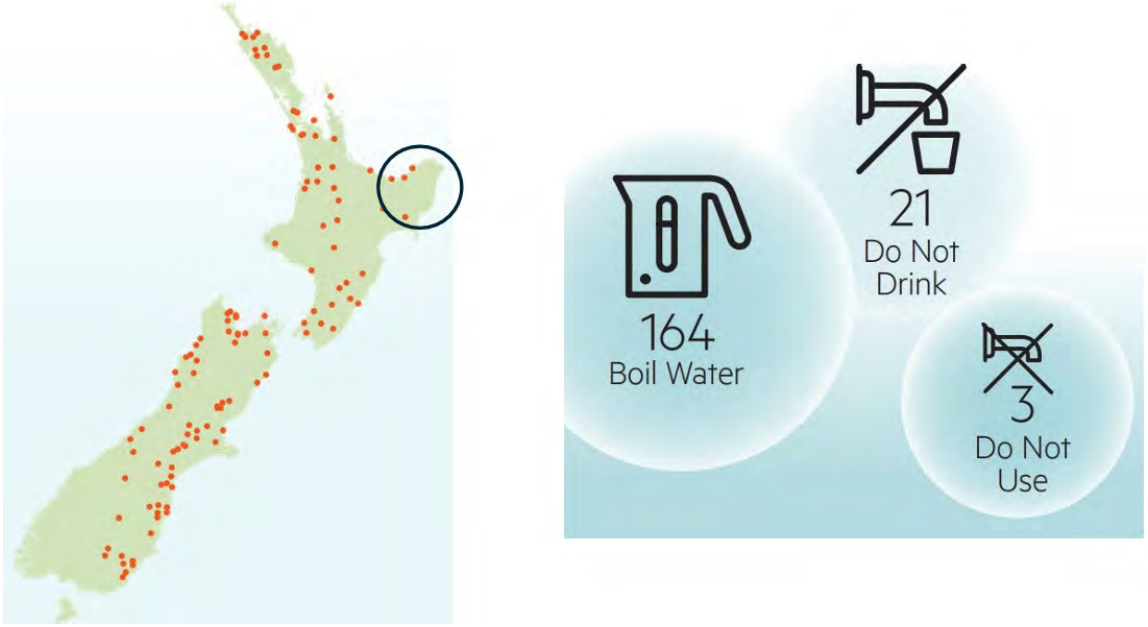
When excessive rainfall infiltrates the wastewater network, the pipes become overwhelmed and are unable to efficiently transport water to the wastewater treatment plant. When the wastewater network's capacity is reached, the Council is forced to open scour valves, resulting in the discharge of untreated wastewater into the rivers within Gisborne city. This measure is taken to prevent overflows on private properties and from wastewater access chambers. These discharges adversely affect

Te Mana o te Wai and mahinga kai, rendering the rivers and coastal environment around Gisborne city temporarily unsafe for use. Consequently, they pose a significant public health risk. There is mounting pressure from the community to cease this practice.

The ongoing discharge of treated wastewater through the marine outfall remains a significant issue. The current resource consent for the wastewater outfall was vigorously contested by iwi and includes conditions that require progress towards alternative land-based disposal methods.

There are numerous examples from across Aotearoa/New Zealand where drinking water services are failing communities. Data from Taumata Arowai indicates that 22% of the population is served by drinking water that does not meet quality standards. In 2022, 36 councils (50.7% of territorial authorities) issued consumer advisories for 87 water supplies throughout Aotearoa. Recent research suggests that nitrate contamination may potentially cause 100 cases of bowel cancer and 41 deaths annually.

Figure 8: Taumata Arowai consumer advisories 2022



Drinking water supply systems are vulnerable to contamination in numerous ways, and a single vulnerability has the potential to cause widespread illness, injury or death. Evidence from Taumata Arowai indicates that smaller water supply systems are statistically more at risk of contamination. The Council's drinking water systems comply with drinking water standards and regulations, but some smaller registered community supplies in the region have occasionally experienced intermittent difficulties in meeting safe drinking water standards.

Even larger drinking water supply systems are vulnerable during extreme events, such as Cyclone Gabrielle, which underscores the need for continued planning and investment in water infrastructure to build resilience.

There is strong anecdotal evidence from the Medical Officer of Health that ongoing issues exist with the quality of water from properties in rural areas and townships with self-supply systems. Occasional outbreaks of diarrhoea and vomiting are observed, but notifications typically occur only when people are hospitalised. The incidence of these issues is likely much higher than reported.

The Council's stormwater system focuses on quickly removing water from properties and roads. However, stormwater is contaminated with rubbish, oil, sediment, animal droppings, chemicals, plant nutrients and other pollutants. The current stormwater system offers limited designed treatment of water.

Community Expectations

Community expectations are rising for:

- better protection of the natural environment,
- rates affordability, and
- a greater say in decisions that impact on them.

Additionally, there is ongoing pressure to provide public drinking water and wastewater services to communities that are currently not serviced. These account for 23% and 31% of the population, respectively. These communities are in townships and rural areas spread across the region.

Environmental Regulation

The raised community expectations are also leading to new regulatory requirements. Taumata Arowai has already established a new regime for regulating drinking water supplies, which includes a range of drinking water standards and rules. A monitoring and reporting framework for wastewater and stormwater has been set up, and further environmental and supply standards are likely to be introduced in the near future.

The new regime proposed under LWDW will introduce a range of new standards for consumer water quality and infrastructure investment. Additionally, the Council's Tairāwhiti Resource Management Plan will implement new rules for stormwater systems and their discharge to natural environments in 2025. These increased standards will likely necessitate additional investment in stormwater treatment systems over time.

Population Growth and Housing

The region's population continues to grow, with a housing shortage of up to 400 homes reported in 2022. Based on medium-high population projections, the population is expected to increase by 8,760 people, reaching 59,460 by 2050. This growth suggests a need for an additional 1,280 dwellings in the short term, 2,570 dwellings in the medium term, and 5,360 dwellings in the long term within Gisborne urban areas.

As the population grows, more people will seek to connect to water services. The last estimate of spare drinking water capacity was 3,000m³ per day at peak demand, sufficient to supply an additional 9,000 people or 2,850 households, contingent on the availability of source water for production.

Capacity modelling indicates that most areas within the wastewater reticulated network have sufficient capacity to meet demand in the short to medium term. However, some wastewater catchments lack spare capacity, which will constrain growth in these areas unless wastewater infrastructure is upgraded. The wastewater treatment plant has unused capacity for the short to medium term but will limit growth in the long term.

Housing infill will place additional pressure on existing stormwater networks. Therefore, the Council's water infrastructure must increase in capacity to meet future needs and support long-term development without constraints.

Climate Change and Natural Hazards

In the background of all these issues is the looming challenge of climate change, which will significantly impact water service delivery and infrastructure resilience. Key concerns include:

- Declining raw water availability from dams, rivers and groundwater, with increasing periods of drought.
- Increased frequency and intensity of rainfall and flooding, leading to a higher risk of source water contamination and inflow and infiltration of the wastewater network.
- Rising temperatures, which will increase the demand for water supply for both domestic and industrial purposes.

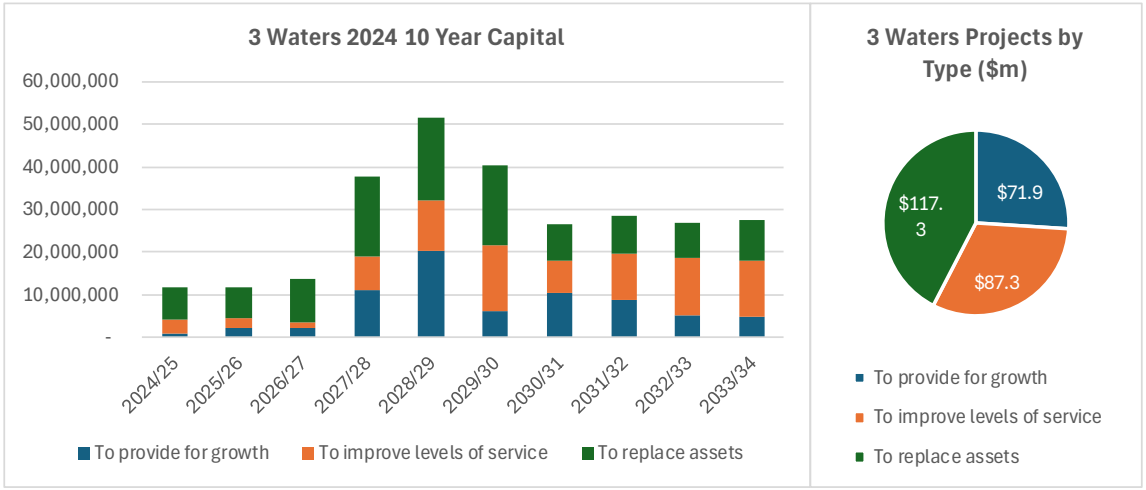
The Trust Tairāwhiti Wellbeing Survey 2023 found that 84% of respondents were concerned about the impacts of climate change, an increase from 81% in 2022.

Capital Investment

Addressing the issues outlined above will require substantial capital investment, which will also lead to increased operating costs.

The graphs below illustrate the projected capital requirements for each water service activity to meet the growing demand. The total investment needed is estimated to be $277 million over ten years.

Figure 9: Water services capital investment needs 2024 - 2034

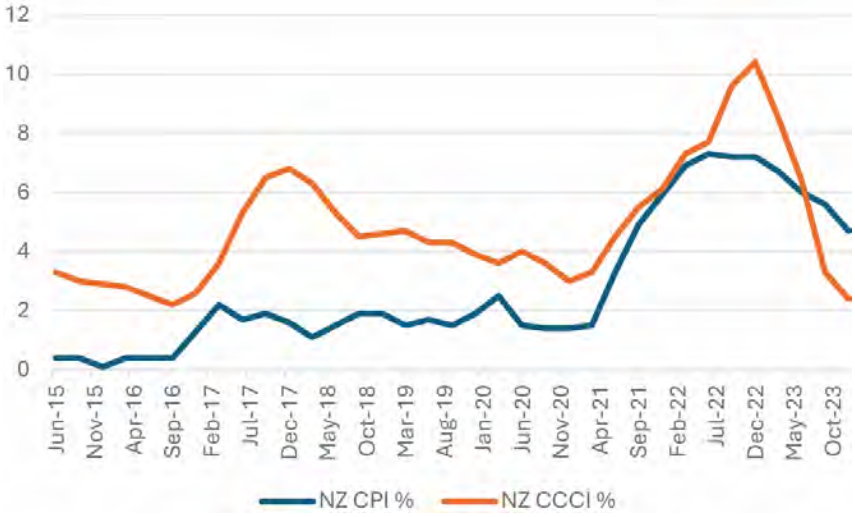


Financial Costs

All the previously outlined issues exert pressure on the Council to enhance water service delivery, necessitating additional investment, particularly in infrastructure. However, the Council's capacity to address these needs is severely constrained by financial costs.

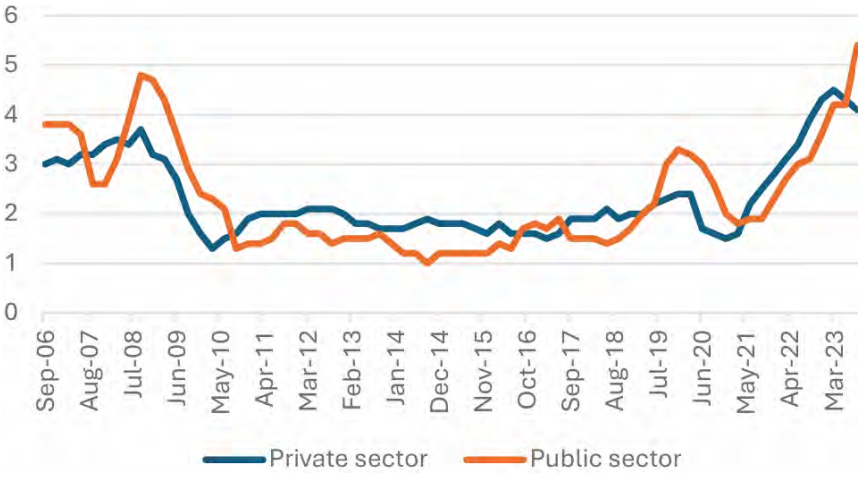
Inflation has steadily risen in Aotearoa/New Zealand since the early 1900s. Following the onset of the COVID-19 pandemic, inflation increased by 23% more than projected, and the cost of construction saw a significant spike between 2021 and 2022.

Figure 10: Cordell Construction Index and CPI changes 2015 – 2023 (%)



Wage inflation continued to rise, particularly in the public sector, well into 2023. The current spike is comparable to that experienced during the Global Financial Crisis of 2007–2008.

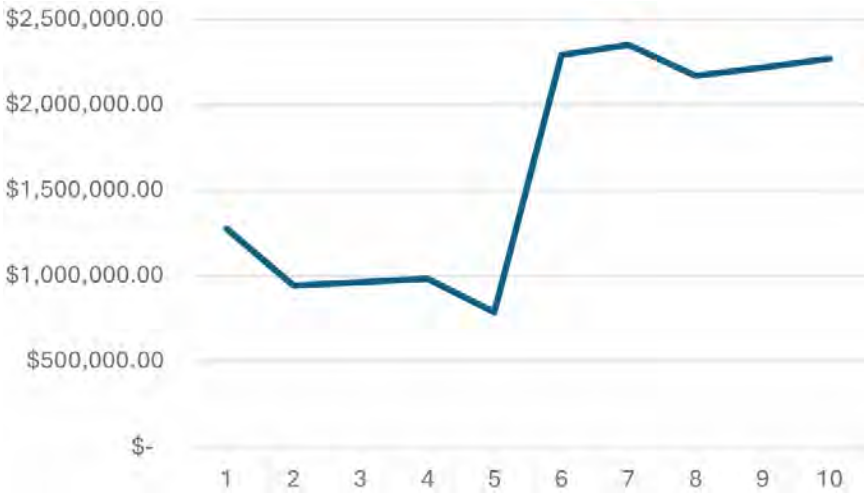
Figure 11: Wage inflation in Aotearoa / New Zealand 2006 – 2023



The Official Cash Rate (OCR) set by the Reserve Bank has been restrictive for some time, but it has recently dropped to 4.75%[3] and is projected to drop to just above 3% by 2026. However, historical trends for the OCR indicate it is prone to fluctuation, which has significant implications for the cost of debt. There is no guarantee that future spikes will not occur.

This inflationary pressure is clearly reflected in the rising costs of water service delivery.

Figure 12: Water services operating costs 2014 – 2027



In essence, the cost of maintaining business as usual is rising across the board.

Cost increases are in part a result of meeting compliance and consent conditions, for wastewater treatment and the additional treatment of water supply required to meet regulated standards. These challenges are compounded by the nature of the district's service networks, which are more dispersed, leading to higher per unit delivery costs compared to more densely populated urban areas.

Affordability

As of January 2022, the Gisborne District ranked 60th out of 67 territorial authorities on the NZ Deprivation Index, making it the region with the highest level of deprivation in New Zealand. Two-thirds of the population (65%) live in deciles 8-10, with deprivation being more pronounced among Māori, 77% of whom in Te Tairāwhiti live within these deciles. This high level of regional deprivation poses significant challenges for service providers in balancing the need for services with their affordability.

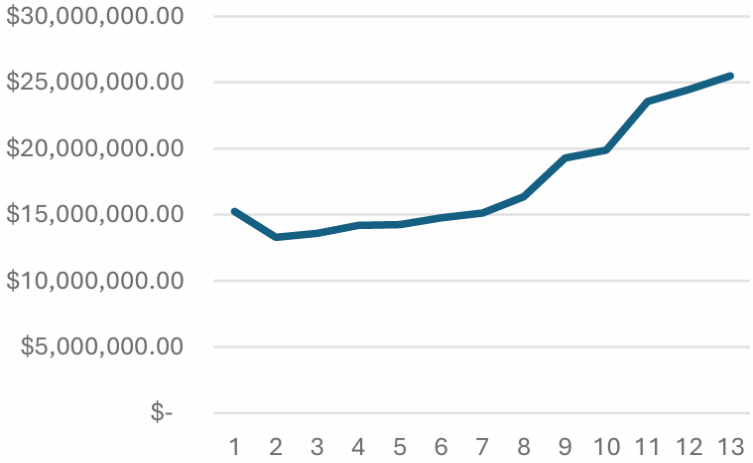
The median household income in the region is relatively low at $66,000 per annum, compared to the national median of $80,055. There is considerable variability in median income within the region, with Māori living on the East Cape having a median income of $49,196. Notably, 26% of Tairāwhiti households have an income of less than $30,000 per annum, and another 19% have an income between $30,000 and $50,000. This makes the affordability of service provision a continuing challenge in Te Tairāwhiti.

[3] As at 9 October 2024

Many of the lowest-income households do not currently have access to all council water services, putting them at risk of poorer health outcomes. These households are more likely to rely on unregulated self-supply of drinking water and on-site septic systems, which are costly to maintain.

Any increase in costs is passed on to ratepayers in a community where many households are already struggling financially. Significant rate increases or spikes are likely to be unpalatable to the community. The cost of water services to ratepayers has gradually risen since 2015.

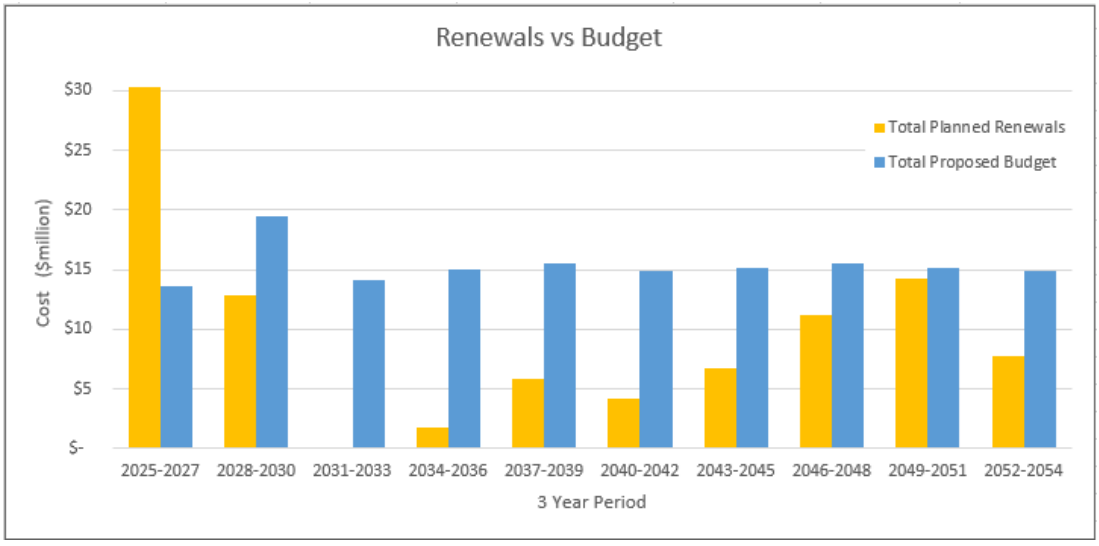
Figure 13: Cost of water services to ratepayers 2014 - 2027



Renewal Deferrals

Over time, the Council has deferred renewals on some of its pipe networks due to funding constraints. These deferrals have the potential to increase the vulnerability of the network to reduced performance and potential failure. The graph below shows the renewals backlog. The yellow bars show the renewals that are needed but not yet completed. The blue bars show the renewal budgets that will address the deficit over time.

Figure 14: Pipe network renewal needs and budgets 2025 – 2054



Renewals are mostly funded from depreciation reserves, with any funding required beyond the accumulated depreciation reserves debt funded.

Council Mitigation

These challenges are not occurring in isolation. The Council has been taking purposeful and innovative action to address them. Several initiatives are helping to mitigate these challenges, including:

- Implementing the DrainWise programme, which is about 40% complete. This programme aims to reduce inflow and infiltration in the wastewater network and has already significantly increased the rainfall threshold at which untreated wastewater needs to be discharged into rivers.
- Vastly improving asset management maturity, including better condition assessments and risk-based asset planning, which enable more effective renewals programming and reduce the likelihood of asset failures.
- Ensuring critical assets continue to be renewed, prioritised by age, risk, and performance, despite cost constraints.
- Increasing the budget for pipe renewals in the 2024–2027 Three-year Plan, bolstering network performance and reducing the risk of pipe failure.
- Improving the resilience of the water supply by building in redundancy, such as establishing a second direct connection of raw water from the Sang dam to the Waingake treatment plant.
- Carefully managing the land surrounding the water supply mains to reduce the likelihood and potential severity of erosion and subsidence.
- Establishing a woody debris removal programme in the Waingake catchment to proactively limit the potential for future pipeline breaks.
- Continuing to work towards land-based disposal options for treated wastewater as an alternative to marine discharge.
- Restructuring staff to better respond to challenges, including dedicating staff to manage drinking water compliance.
- Conducting extensive public education campaigns about reducing water use, minimizing inappropriate household discharges to the wastewater network, and reducing stormwater inflow from private properties into the wastewater network.

However, many of these challenges, such as climate change and global economic factors, are beyond the Council's control and will continue to grow. In essence, the Council is being asked (and in some cases required) to do more, but it lacks the financial resources to do so. A change in approach is required.

Investment Objectives, Existing Arrangements and Business Needs

A robust and compelling case for change requires a thorough understanding of what the organisation is seeking to achieve (described by the investment objectives) and what is currently happening (existing arrangements). Any difference between the two represents the business gap (or business needs) that this investment proposal is intended to address. This gap analysis assists in providing a compelling case for change.

Investment Objectives

The following investment objectives have been identified:

- Investment objective one: Financial sustainability
    - Does the option lead to a WSDP that is financially sustainable[4] by 30 June 2028?
    - Revenue sufficiency – is there sufficient revenue to cover the costs (including servicing debt) of water services delivery?
    - Investment sufficiency – is the projected level of investment sufficient to meet regulatory requirements and provide for growth?
    - Financing sufficiency – are funding and finance arrangements sufficient to meet investment requirements?
    - Is the resulting price path affordable for consumers over both the short and long-term?
    - Are proposed efficiency savings realistic?
- Investment objective two: Compliant water services
    - Does the option support meeting regulated water quality standards?
    - Does the option support meeting economic regulation requirements?
    - Does the option support meeting environmental consent compliance requirements?
- Investment objective three: Improved service delivery
    - Does the option support the maintenance of good practice in water services planning and levels of service?
    - Does the option provide economies of scale and generate efficiency savings?
    - Does the option support the achievement of the district's strategic goals and growth including He Huarahi Whai Oranga, the Tairāwhiti Economic Plan?
- Investment objective four: Meet partner and community expectations
    - Do mana whenua and tangata whenua have a meaningful role and influence through governance and operations?
    - Are Te Tiriti o Waitangi obligations met?

[4] Defined as: is the revenue applied to the council's delivery of water services sufficient to ensure the council's long-term investment in delivering water services; and is the council financially able to meet all regulatory standards and requirements for the council's delivery of water services?

- Does the option support wider community and stakeholder expectations and aspirations?
- How accountable to the local community is the option?

Existing Arrangements and Business Needs

Table 5 below provides a snapshot of the current arrangements for each objective and identifies the business gap between these and the desired future state.

Table 5: Summary of the existing arrangements and business needs

Investment Objective One	Financial sustainability
Existing Arrangements	The financing of water services is currently integrated into the broader council financial planning, management and reporting system. Most of the funding (80-100%) comes from a targeted rate on service users, with a small portion from a general rate. Specific fees and charges are applied where practicable. Growth components of infrastructure projects are partially funded through development contributions. Over the next 5 years approximately $20 million will need to be invested to clear a growing backlog of infrastructure renewals. Current planning will see this backlog cleared over a 10-year period.
Business Needs	Water services are to be financially sustainable by 30 June 2028 and are to meet statutory requirements for investment, financing and revenue sufficiency. Revenue from water services is to be ring fenced and only applied to water activities. Further, if water services continue to be delivered by an in-house business unit, financial performance of waters services is to be reported separately (in an Annual Report) from the remainder of council activities.
Investment Objective Two	Compliant water services
Existing Arrangements	Water services are currently meeting regulated compliance standards, resource consent requirements, and other performance measures and targets for water safety, wastewater discharges and overflows, and storm water management.
Business Needs	Water services will be required to meet changed standards for water quality, wastewater and stormwater, and economic regulation will be progressively implemented over the next few years. Economic regulation will include information disclosure requirements, revenue thresholds, financial ring fence, quality standards and performance requirements, and potentially price-quality regulation.

Investment Objective Three	Improved service delivery
Existing Arrangements	Water services are overseen and governed by the full Council and its Operations Infrastructure Committee. Water services are managed by the Director Community Lifelines as part of a portfolio that includes roading infrastructure and operations, water services, flood protection and recovery activities. There is a focus on improving service delivery, resilience and renewal, and achieving value for money for consumers.
Business Needs	The management and governance of water services should be focused on improving service delivery, realising economies of scale (where these are available) and achieving efficiency savings wherever possible. Water services should support the achievement of the district's strategic goals and growth plans including He Huarahi Whai Oranga, the Tairāwhiti Economic Plan.
Investment Objective Four	Meet partner and community expectations
Existing Arrangements	The Council is accountable to the community for the delivery of the water services through annual reporting and the electoral process and takes account of community expectations and aspirations through standard consultation and engagement processes. The Council's Tairāwhiti Piritahi Policy is its current framework for promoting and facilitating Māori participation in council decision-making processes. Tairāwhiti Piritahi affirms the Council's commitment to its role as a Treaty partner and inclusion of whānau, hapū and iwi in council decision-making processes.
Business Needs	Water services delivery should be accountable to the communities it serves and meet their aspirations and expectations. The Council's Te Tiriti o Waitangi obligations are to be met and mana whenua should have a meaningful role and influence in the governance and operation of water services.

Economic Case – Exploring the Preferred Way Forward

The purpose of this part of the economic case is to assess the full range of options, identify the preferred approach that will deliver the required outcomes and quantify the likely costs and benefits of the proposed investment. Having determined the strategic context for the investment proposal and established a robust case for change, this part of the economic case:

- identifies critical success factors,
- generates a list of options,
- undertakes an assessment of those options, and
- identifies a preferred way forward based on the options.

Critical Success Factors

The following are the critical success factors for the successful implementation of the future delivery model:

Table 6: Critical Success Factors

Critical Success Factors	Considerations
Independence	• Does the option provide for independent governance and decision making on a water services strategy, investment, financing, revenue, service delivery and operations?
Affordability	• Are the establishment and implementation costs of the option affordable?
Complexity	• How complex is the option? • How difficult and time consuming would establishment be? • Do staff and assets need to be transferred to a new organisation? • Are new properties and facilities required?
Timeliness	• Can the option be implemented in a timely way that meets statutory deadlines for financial sustainability?
Flexibility	• Is the option flexible enough to evolve to meet changing circumstances over time? • Does the option support possible future transition into an alternate delivery model such as a multi-council WSO?

Longlist Options and Initial Options Assessment

Options Identification

The Government has provided guidance on the range of water service delivery models that are available to councils. The choices 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.

Water organisations are the separate organisations that councils may establish to provide water services - this does not include councils. Water organisations must be companies, their boards must be independent and professional, the activities of water organisations will be limited to water services and directly related activities. There will be various types of water organisations under LWDW and LGFA will only be lending to water organisations that meet the qualifying criteria for LGFA membership as a CCO. In particular, financially independent water organisations will not meet the qualifying criteria.

Councils that already deliver water services via a CCO or council-controlled trading organisation (CCTO) will be able to continue to use these arrangements. However, the CCO or CCTO would 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.

The Government has identified five water service delivery models that are available to councils and that meet the requirements of a water organisation. These have been adopted as the longlist of options for this business case:

Table 7: Longlist options

Option	Description
1. Internal business unit or division	• Status quo for many councils • Minimum requirements for water service providers will apply • New financial sustainability, ring fencing rules, and economic regulation will apply
2. Single council-owned water organisation	• 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

Option	Description
3. Multi-council-owned water organisation	• 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	• Consumer trust established to part-own a water organisation • One or more councils own the remainder of the shares • Structure enables financially independent organisation to be established while retaining some council ownership
5. Consumer trust-owned	• 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

Longlist Options Assessment

The potential longlist options were assessed against the identified investment objectives and critical success factors by Te Ranga Whakahau in a Multi-Criteria Analysis (MCA) decision conference conducted on 15 October 2024.

MCA is a decision support methodology commonly used to evaluate alternatives and options to assist in decision making on the course of action to be adopted. MCA evaluates the effectiveness of different options in achieving stated objectives against multiple criteria, both quantitative and qualitative.

Applying MCA involves identifying the underlying objectives identified in the Strategic Case and then determining the factors (the criteria) that would indicate achievement of the objectives. The criteria are ranked (or weighted) in terms of their relevant importance. Options are then scored against both the individual objective criteria and the critical success factors outlined in Table 1 above.

Implications and Opportunities for Tangata Whenua

The implications and outcomes for tangata whenua in water services reform would need to be identified by tangata whenua. Council can however use its Te Triti Compass framework to consider each option against how it provides for Treaty partnership. Partnership discussions, co-governance and management arrangements, relationship agreements and engagement with whānau, marae and hapū also contribute to the knowledge which Council may form baseline positions on.

The summary assessment of the longlist options is included below.

Longlist Option 1 - Internal business unit or division (modified status quo)

Description

Under this option, water services would be delivered directly by the Council 'in-house' 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 in-house service delivery model used by the Council.

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.

Ownership

- 100% council owned as a business unit or division within the organisation.
- No new organisation is established.

Governance

- Internal business unit or division responsible to the elected council members, with other usual council governance oversight.

Strategy

- Councils will need to prepare a Water Services Strategy.

Accountability

- 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

- Borrowing undertaken by Council with water activity groups meeting their share of financing costs (on internal and any external borrowing).

Advantages

The main advantages are:

- Simplest and easiest option to implement with the least disruption to council assets, facilities, activities, systems and processes, and staff.
- This option would have the lowest implementation costs and would be easily implemented within statutory timelines.
- Council would continue to have direct control of water services operations, price setting, investment decisions and priorities, enabling decision making

to be more easily aligned with wider council priorities and community expectations.

- There would be no disruption to current service delivery and operations, and a lower risk of degraded levels of customer experience during the implementation period.
- Water services would continue to be aligned with council goals and strategies including He Huarahi Whai Oranga, the Tairāwhiti Economic Plan.
- Current mana whenua and tangata whenua relationships and opportunities to engage in the decision-making process would be maintained.
- Any community expectations around continued council ownership and control of waters services would be met.
- Flexibility to join any future regional or other joint delivery model is maintained.

Disadvantages

The main disadvantages are:

- Council would be required to meet the new requirements for financial sustainability and economic regulation using current financing arrangements. LGFA lending to be capped at 280%, meaning more investment needs to be funded from current rates.
- An S&P Global (S&P) credit rating downgrade is likely if the Council is operating near its LGFA limit.
- Ring fencing and financial sustainability requirements will drive upward pressure on rates as infrastructure investment increases, relative to alternative models.
- An internal business unit may have more difficulty than a water services-specific entity in meeting regulated quality and economic standards and as a result the trade-offs required to meet non-water related priorities across the Council.
- Similarly, with governance and management focus diluted through other wider priorities and imperatives, there may be less priority given to improving water services planning, processes, practices and levels of services than in a water services-specific entity.
- Fewer opportunities are provided to achieve economies of scale and generate efficiency savings.
- It may be more difficult to meet community expectations for increased investment in water infrastructure, and improved resilience and levels of service.
- This option does not support independent governance and decision making on a water services strategy, investment, financing, revenue, service delivery and operations.

Te Tiriti Compass Analysis

Kāwanatanga

Council is already displaying commitment to co-governance and management approaches with tangata whenua. Legislation currently secures this commitment which would continue under Option 1. This ensures the ongoing ability of tangata whenua to contribute to decision making at all levels. Capacity of tangata whenua across business with Council remains a challenge. A review of appropriate decision making for a stand-alone business unit may be required.

Tino Rangatiratanga

Under the current constitution the expression of tino rangatiratanga is restricted as common law and legislation provide the framework in which the treaty relationship is considered. This does not prevent Council from seeking to understand what self-determination looks like within the parameters given. Iwi leaders' priorities relating to water storage, supply, and water quality are areas where Council can look for opportunities to devolve or partner. Option 1 provides for this to occur.

Ōritetanga

Option 1 provides for the ongoing commitment by Council to partnering for shared outcomes. Equity of information, capacity, capability and resourcing are an ongoing challenge for the ability to partner well. Finding an approach that suits the diversity of Treaty rights and interests will be crucial and partner involvement at the earliest opportunity ensures awareness and best alignment.

Whakapono

In line with earlier discussion, from a Māori worldview water is a taonga as opposed to a resource. The tikanga and kawa that surround interaction and use of water will vary between marae, hapū and iwi groupings. It is important that the opportunity for Māori worldview and belief systems is provided for. Option 1 caters to the provision of this article.

Conclusion

This option is not able to access the additional LGFA debt headroom provided by other options but has a more affordable price path over the short to medium term. It lacks independence of decision making and governance. However, it is the simplest, cheapest and least disruptive option to implement.

From a Treaty partnership perspective, this option retains current arrangements that provide for Treaty-based relationships and outcomes. It will require consistency in partnership to achieve but tangata whenua would have security in a position at the table with the strategic and legislative levers that Council must follow in delivering on this work.

Longlist Option 2 - Single council-owned water organisation

Description

This option would see a 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.

Ownership

- Limited liability company, 100% owned by the Council.
- Ownership rights spelled out in a constitution, subject to compliance with legislation.

Governance

- Appointments made directly or via an Appointments and Accountability Committee (or similar body).
- Board comprised of independent and professional directors.

Strategy

- Shareholding council issues Statement of Expectations.
- Water organisation prepares a Water Services Strategy and consults the Council.

Accountability

- 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

- Borrowing via the Council or from LGFA directly supported by council guarantee or uncalled capital.

Advantages

The main advantages are:

- The LGFA council lending cap of 280% would apply to non-water debt/revenue only. LGFA lending to water organisations is capped at 500% of water revenue (subject to council guarantee) and does not count towards the council LGFA limit.

- Enables reductions in water and non-water rates through more efficient gearing of the water organisation. Higher rates of investment will drive improved network performance, with public health and environmental benefits.
- An asset-owning water organisation better supports alignment between investment requirements and funding decisions.
- A dedicated water services CCO would be expected to have strengthened governance and management, subject to economic regulation, focussed solely on the provision of water services.
- Mana whenua and tangata whenua relationships and opportunities to engage in the decision-making process would be maintained through opportunities to be involved in the board appointments process and through board membership. New relationships would need to be formed at the operational level with the CCO.
- Council would continue to have significant influence over water services operations, price setting, investment decisions and priorities through its annual Statement of Expectations which will drive the CCO's Water Services Strategy, and through regular reporting from the CCO to the Council. The Statement of Expectations would also ensure that water services continue to be aligned with council goals and strategies including He Huarahi Whai Oranga, the Tairāwhiti Economic Plan.
- Any community expectations around continued council ownership of water services would be met.
- This is the simplest of the non-in-house options to implement and would have lower implementation costs than other options and can be implemented within statutory timelines.
- Flexibility to join any future regional or other joint delivery model is maintained.

Disadvantages

The main disadvantages are:

- The requirement to maintain an operating cashflow to debt ratio of above 10% means that additional water charges need to be applied from the inception of the CCO. This leads to a price path that is less affordable than the in-house model until around 2050.
- S&P will consolidate water CCO debt and revenue for rating purposes. There is likely to be a credit rating impact (~1-2 notch downgrade) if the CCO lifts borrowing to the maximum allowed under LGFA covenants.
- There is a relatively limited pool of experienced and skilled directors available in the region to be appointed to a competency-based board.
- A relatively small single-council CCO lacks the scale required to generate sufficient economies of scale to deliver significant efficiency savings and may struggle to meet regulated quality and economic standards.

- Establishment costs are relatively high given the need to recruit staff and establish facilities, systems and processes for a relatively small organisation. Though this could be mitigated to an extent through sharing services and overhead costs or contracting for them on an agency basis from the Council.

Te Tiriti Compass Analysis

Kāwanatanga

With the level of influence that Council has over this option the analysis is exactly same as Option 1. Council is already displaying commitment to co-governance and management approaches with tangata whenua. Legislation currently secures this commitment which would continue under Option 2. This ensures the ongoing ability of tangata whenua to contribute to decision making at all levels. Capacity of tangata whenua across business with Council remains a challenge. A review of appropriate decision making for a water services CCO may be required.

Tino Rangatiratanga

Under the current constitution the expression of tino rangatiratanga is restricted as common law and legislation provide the framework in which the treaty relationship is considered. This does not prevent Council from seeking to understand what self-determination looks like within the parameters we are given. Iwi leaders' priorities relating to water storage, supply, and water quality are areas where Council can look for opportunities to devolve or partner. Option 2 provides for this to occur.

Ōritetanga

Option 2 provides for the ongoing commitment by Council to partnering for shared outcomes. Equity of information, capacity, capability and resourcing are an ongoing challenge for the ability to partner well. Finding an approach that suits the diversity of Treaty rights and interests will be crucial and partner involvement at the soonest ensures awareness and best alignment.

Whakapono

In line with earlier discussion, from a Māori worldview water is a taonga as opposed to a resource. The tikanga and kawa that surround interaction and use of water will vary between marae, hapū and iwi groupings. It is important that the opportunity for Māori worldview and belief systems is provided for. Option 2 caters to the provision of this article.

Conclusion

This option can access the additional debt headroom and is likely to be more affordable over the very long term. However, it is less affordable over the short to medium term and lacks the scale required to generate efficiency savings and produce significant service improvements. Of the change options it is the simplest and cheapest to implement and maintains long-term flexibility.

From a Treaty partnership perspective, this option retains current arrangements that provide for Treaty-based relationships and outcomes. It will require consistency in partnership to achieve but tangata whenua would have security in a position at the

table with the strategic and legislative levers that Council must follow in delivering on this work.

Longlist option 3 – Multi-council-owned water organisation

Description

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.

Ownership

- Limited liability company owned by three or more councils.
- Ownership arrangements and rights set out in a constitution and/or shareholder agreement, subject to compliance with the legislation.

Governance

- Councils agree how to appoint and remove directors, for example through a shareholder council or similar.
- Board comprised of independent and professional directors.

Strategy

- Shareholding councils agree the process for issuing a combined Statement of Expectations.
- Water organisation prepares a Water Services Strategy and consults shareholding councils.

Accountability

- 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

- Borrowing arrangements and credit rating implications dependent on whether shareholding councils provide financial support.

Advantages

The main advantages are:

- The LGFA council lending cap of 280% would apply to non-water debt/revenue only. LGFA lending to water organisations is capped at 500%

of water revenue (subject to council guarantee) and does not count towards the council LGFA limit.

- If the Council guarantees water-related debt, it is treated as a contingent liability (not consolidated into council debt burden assessment) with improved credit rating outcomes.
- The entity can also be totally off balance sheet if not borrowing from LGFA. Some larger multi-council CCOs may seek to transition to fully non-LGFA funded debt over time. In which case there would be no credit rating impact for shareholding councils.
- Relieves rates burden from needing to inefficiently fund infrastructure investment with current revenues, pushing the focus of investment funding more onto long-term debt. This should lead to a more affordable price path for consumers.
- Enables reductions in water and non-water rates through more efficient gearing of the water organisation. Higher rates of investment will drive improved network performance, with public health and environmental benefits.
- Transfer of water debt and revenues will improve council financial metrics – debt/revenue, balance after capital account.
- A relatively large multi-council water CCO is more likely to have the scale required to generate economies of scale sufficient to deliver significant efficiency savings and develop depth in workforce expertise and improved systems, processes and procedures.
- Asset-owning water organisation would support better alignment between investment requirements and funding decisions.
- A multi-council CCO can retain locality-based pricing and transition over time to harmonised pricing subject to investment and service level equalisation.
- Councils appoints a competency-based board to the CCO through a shareholder council (or similar body). A multi-council water services CCO would be expected to have strengthened governance and management, subject to economic regulation, focussed solely on the provision of water services.
- Shareholding councils would influence water services operations, price setting, investment decisions and priorities through a joint annual Statement of Expectations which will drive the CCO's Water Services Strategy, and through regular reporting from the CCO to councils.

Disadvantages

The main disadvantages are:

- This is a complex option to implement. It would have higher implementation costs than other options and would be challenging to establish within statutory timelines. At the present time it appears unlikely that a regional multi-council CCO will be established in the immediate future.

- Mana whenua and tangata whenua relationships and opportunities to engage in the decision-making process would be more limited with fewer opportunities for tangata whenua to be involved in the board appointments process and to be members of the board. New relationships would need to be formed at the operational level with the CCO.
- Any community expectations around continued council ownership of water services would be more difficult to satisfy with diluted multi-council ownership of the CCO.
- It would also be more difficult to ensure that water services continue to be aligned with specific council goals and strategies including He Huarahi Whai Oranga, the Tairāwhiti Economic Plan through a joint Statement of Expectations.

Te Tiriti Compass Analysis

Kāwanatanga

This option dilutes the ability of tangata whenua in Te Tairāwhiti to influence a process and contribute/make decisions on what is best for them. Given that three or more councils are required for this option you would also assume that the seats available on this entity would not provide for the depth of Treaty relationship you would expect to see when three councils combine their efforts. It would also require a CCO leadership that is in step with the Council's Treaty commitments.

Tino Rangatiratanga

The already diluted ability for tangata whenua to express tino rangatiratanga would be further compromised by this multi-council option. Having another two regions' tangata whenua relationships to consider would provide challenges given rangatiratanga looks different for different groupings. Without a binding commitment to work with the preference and priority of our own region's tangata whenua, this option limits the ability to provide for this at the fullest extent we could.

Ōritetanga

With this option the pool of resource to work with would increase, but so would the workload required to bring together the diverse views of tangata whenua across three regions. It would be more challenging also to ensure an equitable approach to design and delivery in general. Equitable approaches across three councils may also look different. It would also require compromise on all fronts which may be challenging given our regional context.

Whakapono

Increasing the amount of tangata whenua that should be contributing to discussion also increases the amount of trade off and compromise. This would occur for councils also. The ability to facilitate an approach that caters to the diversity of worldview, belief systems and kawa/tikanga would require very careful navigation.

Conclusion

This option has significant benefits. If a regional CCO is eventually established, Gisborne District Council should look to join it. In the short term however, it would be complex and expensive and is highly unlikely to be implemented in the time available.

This option suggests that it would dilute the voice of tangata whenua in Te Tairāwhiti and also reduce the representation opportunities with perhaps one seat from each council becoming a representative voice for tangata whenua in their regions.

Longlist option 4 - Mixed council/consumer trust-owned water organisation

Description

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 the consumer trust to protect against privatisation.

Ownership

- 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

- Councils and consumer trust appoint a shareholder council to appoint directors.
- Water organisation governed by independent, professional Board of Directors.

Strategy

- Shareholders agree the process for issuing a combined Statement of Expectations.
- Water organisation prepares a Water Services Strategy and consults shareholders.

Accountability

- 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

- Borrowing would be independent of local authorities (for example banks) and subject to water organisation achieving sufficient credit quality and track record.

Advantages

The main advantages are:

- This option provides total balance sheet separation from the Council. All borrowing is totally independent of Council and would not be reflected on the council balance sheet or contingent liabilities. There would be no impact on the Council's credit rating.
- Councils establish shareholder rights and interests through a company constitution and/or shareholder agreement upon establishment, subject to compliance with the legislation. Water consumers exercise ownership rights by electing trustees to the consumer trust. Community ownership of water assets is clearly maintained.
- A dedicated water services trust would be expected to have strengthened governance and management, subject to economic regulation, focussed solely on the provision of water services.
- Mana whenua and tangata whenua relationships and opportunities to engage in the decision-making process would be maintained through opportunities to be involved in the board appointments process and through board membership.
- Council would continue to have significant influence over water services operations, price setting, investment decisions and priorities through the combined Statement of Expectations which will drive the trust's Water Services Strategy, and through regular reporting from the trust to shareholders. The Statement of Expectations would also ensure that water services continue to be aligned with council goals and strategies including He Huarahi Whai Oranga, the Tairāwhiti Economic Plan.

Disadvantages

The main disadvantages are:

- The trust would not have access to debt funding from LGFA. Borrowing would be independent of local authorities (for example banks) and subject to the water organisation achieving sufficient credit quality and track record. It is not likely that a small regional water trust will be able to raise capital at competitive rates.
- It is very likely that the price path required to service this debt will not be affordable for consumers.
- There is a relatively limited pool of experienced and skilled directors available in the region to be appointed to a competency-based board.

- A relatively small water services consumer trust lacks the scale required to generate sufficient economies of scale to deliver significant efficiency savings and may struggle to meet regulated quality and economic standards.
- Establishment costs are relatively high given the need to recruit staff and establish facilities, systems and processes for a relatively small organisation. Though this could be mitigated to an extent through sharing services and overhead costs or contracting for them on an agency basis from the Council.

Te Tiriti Compass Analysis

Kāwanatanga

This option potentially opens up another avenue where tangata whenua may choose to position themselves as shareholders to a water services venture. The existing Treaty relationship provisions would secure at least a minimum requirement of Council to work in a manner consistent with Treaty commitments. Conversely if tangata whenua do not pursue a shareholder pathway it could mean that the ability to influence in a jointly owned water organisation they are not shareholders of will most likely limit the amount of influence on decisions.

Tino Rangatiratanga

Under this option the ability to self-determine would be informed by the position that tangata whenua may choose to take if this option is explored. If tangata whenua were a shareholder that would be guaranteed. If they were an external party to a jointly owned entity, it would be much harder to guarantee the ability to express rangatiratanga. This potentially compromises Council, as while a major shareholder in this option it would still require balance alongside other shareholders to ensure the approach to Treaty commitments is maintained.

Ōritetanga

Again, dependent on which avenue tangata whenua may choose to explore, there could be two sides to this option. As a shareholder, the level of influence would be much higher than if an external party to a jointly owned venture. The latter means that it is likely equitable approaches and outcomes for tangata whenua would not be catered for.

Whakapono

Māori worldview and approaches led by kawa/tikanga under this option may be provided for if tangata whenua are in a shareholding capacity. If not, it is highly likely that the financial and process investment objectives become the basis for the design thinking and approach to this work.

Conclusion

This option has significant weaknesses. The trust would be required to obtain finance from capital markets. It is likely that this would lead to debt servicing costs that are unaffordable for consumers. Council would have little influence over these options and once water assets are vested in a consumer trust there is little flexibility to later change the service delivery model.

This option does provide an opportunity for tangata whenua to look at the role of business partner inside the existing Treaty commitments that Council applies to the relationship. However, time is a barrier for councils and tangata whenua alike to seriously consider this option.

Longlist option 5 - Consumer trust-owned water organisation

Description

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.

Ownership

- Limited liability company solely owned by a newly established consumer trust.
- Trust deed is subject to certain minimum requirements to protect against privatisation.

Governance

- Trustees appoints company directors.
- Water organisation governed by independent, professional Board of Directors.

Strategy

- Trustees issue Statement of Expectations.
- Water organisation prepares a Water Services Strategy.

Accountability

- 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

- Borrowing would be independent of local authorities (for example from banks) and subject to water organisation achieving sufficient credit quality and track record.

Advantages

The main advantages are:

- This option provides total balance sheet separation from Council. All borrowing is totally independent of Council and would not be reflected on

the Council balance sheet or contingent liabilities. There would be no impact on the Council's credit rating.
- Community ownership of water assets is clearly maintained.
- A dedicated water services trust would be expected to have strengthened governance and management, subject to economic regulation, focussed solely on the provision of water services.
- Mana whenua and tangata whenua relationships and opportunities to engage in the decision-making process would be maintained through opportunities to be involved in the board appointments process and through board membership.

Disadvantages

The main disadvantages are:

- The trust would not have access to debt funding from LGFA. Borrowing would be independent of local authorities (for example from banks) and subject to water organisation achieving sufficient credit quality and track record. It is not likely that a small regional water trust will be able to raise capital at competitive rates.
- It is very likely that the price path required to service this debt will not be affordable for consumers.
- There is a relatively limited pool of experienced and skilled directors available in the region to be appointed to a competency-based board.
- Council would have no influence over water services operations, price setting, investment decisions and priorities and there would be no opportunity to align these with council goals and strategies.
- A relatively small water services consumer trust lacks the scale required to generate sufficient economies of scale to deliver significant efficiency savings and may struggle to meet regulated quality and economic standards.
- Establishment costs are relatively high given the need to recruit staff and establish facilities, systems and processes for a relatively small organisation.

Te Tiriti Compass Analysis

Kāwanatanga

While this option suggests there is space for tangata whenua in board appointments and membership, this will be influenced by the make-up of shareholders in an entity of this type. It is challenging to forecast a compass analysis with the number of unknown variables. If contribution to decision making is the baseline for best practice, then it would require at the very least a process that partners with tangata whenua from its inception. Being completely removed from council control means the majority of Treaty based legislative requirement will not transfer to an entity of this type.

Tino Rangatiratanga

How tangata whenua would be able to self-determine within this option is unknown unless this option was to be further explored. Considering the kāwanatanga summary above it would be reliant on some of the potential variables as to the degree in which this option secures ability for tangata whenua to self-determine.

Ōritetanga

Under this option there may not be the level of service and commitment to tangata whenua relationships that is currently experienced when working with Council. How this option impacts on the ability of tangata whenua to contribute as an equitable partner is not known unless it is shortlisted and explored.

Whakapono

Again, with the number of variables to consider you can assume under this model that the ability for tangata whenua worldview, belief systems and tikanga/kawa to influence the approach to this work would be drastically reduced. If tangata whenua wanted to explore the shareholder option, it could mean the complete opposite.

Conclusion

This option has significant weaknesses. The trust would be required to obtain finance from capital markets. It is likely that this would lead to debt servicing costs that are unaffordable for consumers. The Council would have no influence over these options and once water assets are vested in a consumer trust there is little flexibility to later change the service delivery model.

This option does remove the partnership opportunity to directly influence process and outcome. An independent body would not have the same Treaty partner requirements placed on them that the Council has.

GISBORNE DISTRICT COUNCIL

Table 8: Longlist Options Assessment

	Option 1: Internal business unit (modified status quo)	Option 2: Single council-owned water organisation	Option 3: Multi-council-owned water organisation	Option 4: Mixed council/ consumer trust owned water organisation	Option 5: Consumer trust owned water organisation
	Water services delivered directly by the council 'inhouse' through an internal business unit or division.	New company established to deliver water services, with ownership by a single council.	Three or more councils would establish a jointly-owned water organisation.	One or more councils establish a jointly-owned water organisation with a consumer trust holding a majority stake.	One or more councils establish a wholly consumer trust-owned water organisation.
Objectives					
1: Financial sustainability (double weighted)					
2: Compliant water services (double weighted)					
3: Improved service delivery					
4: Meet partner and community expectations					
Critical Success Factors					
Independence					
Affordability					
Complexity					
Timeliness					
Flexibility					
Total Score (weighted)	13	6	6	-7	-8
Comments/notes from discussion	This option is not able to access the additional LGFA debt headroom provided by other but has a more affordable price path over the short to medium term. It lacks independence of decision making and governance. However, it is the simplest, cheapest and least disruptive option to implement.	This option can access the additional debt headroom and is likely to be more affordable over the very long term. However, it is less affordable over the short to medium term and lacks the scale required to generate efficiency savings and produce significant service improvements. Of the change options it is the simplest and cheapest to implement and maintains long-term flexibility.	This option has significant benefits and if a regional CCO is eventually established GDC should look to join it. In the short term however, it would be complex and expensive and is highly unlikely to be implemented in the time available.	This option would be required to obtain finance from capital markets. It is likely that this will lead to debt servicing costs that are unaffordable for consumers. Council has limited influence over this option and once water assets are vested in a consumer trust there is little flexibility to change the service delivery model at a later date.	This option would be required to obtain finance from capital markets. It is likely that this will lead to debt servicing costs that are unaffordable for consumers. Council has no influence over this option and once water assets are vested in a consumer trust there is little flexibility to change the service delivery model at a later date.
Decision					

The Shortlist Options

On the basis of this analysis, the recommended shortlist for further assessment is:

- Option 1: Internal business unit or division (modified status quo).
- Option 2: Single council-owned water organisation.

In the long term, maintaining the flexibility to join a regional CCO (should one be established) remains a strong option. However, at this time it is very unlikely that this will occur within the next couple of years, and it may be sensible to wait and see how the reforms settle down over time rather than rushing to establish a joint entity now.

Economic Assessment of the Shortlist Options

Economic assessment of the shortlisted options has been undertaken based on financial modelling of both options. The financial modelling includes:

- An assessment of the potential transitional costs for establishing a single council-owned water organisation per Option 2,
- The financial capacity of the shortlisted options to deliver planned capital works programmes,
- The potential for a single council-owned water organisation of delivery efficiencies, and
- The potential costs to water consumers in Gisborne of each of the shortlisted options.

An assessment of the net present value (NPV) has been determined based on the annualised revenue requirements for each of the two shortlisted option. A net present value calculation has been based on revenue rather than capital cashflows to better reflect the impact to water consumers. In this case a lower NPV is preferred.

Assumptions

Detailed assumptions underlying the financial modelling are outlined in Appendix 1.

Assessment Period

The start date for valuation purposes is assumed to be 1 July 2024. The presumed establishment date for Option 2 is 1 July 2027.

Economic and financial modelling has been completed for a 30-year period. Results are presented as:

- Average household charges are expressed as the annual charge for the financial year indicated in reporting. Amounts are expressed in nominal terms and include GST.
- Debt is expressed as a year-end closing balance and is determined based on nominal cashflows.
- Revenue is expressed as an annual value, in nominal terms. Net present value is expressed as the net present value of revenue over the 30-year modelling period.

Discount and Inflation Assumptions

The Public Sector Discount Rate specified by the Treasury for projects of this type is 2% per year. This discount rate applies to real (uninflated) costs and has been adjusted to a nominal rate for the purposes of determining a net present value.

Estimated Costs

Assumptions underpinning the calculation of costs are outlined in Appendix 1.

Establishment costs for a single council-owned water organisation have been estimated to be in the order of $8.5 million. There may be opportunities to reduce these costs following further detailed investigation if this option is to be pursued.

Taxation

Both the Council and the water organisation are assumed to be exempt from income tax. GST is included in expressions of household charges only. All other figures exclude GST.

Estimating Monetary Benefits

Monetary benefits have been determined for Option 2 based on anticipated efficiencies that may be achieved through the establishment of a water organisation that has a sole and dedicated focus on the delivery of efficient three waters services. No efficiencies or benefits resulting from increased economic regulation have been accounted for.

Potential efficiencies have been estimated based on:

- Comparison to observed and measured efficiencies disclosed by the Water Industry Commission of Scotland, with a reduction in scale to reflect the reduced scale, isolation, and similarity to Option 1.
- Work undertaken by Morrison Low through their extensive water reform, asset management, and procurement experience.

Efficiencies have been estimated at:

- Operating expenditure efficiencies 0.13% of total capital expenditure per year, commencing in year two of the CCO establishment date and reaching a cumulative maximum of 1.28% after 10 years.
- Capital expenditure efficiencies 0.13% of total operating expenditure per year, commencing in year two of the CCO establishment date and reaching a cumulative maximum of 1.35% after 10 years.

Non-monetary Benefits and Costs

Some benefits could not be reliably quantified in monetary terms and are described below.

Table 9: Non-monetary benefits (and costs, if any) from the investment proposal

Non-monetary Benefits	Description
Impact on Council's balance sheet	Removal of three waters debt from the Council's balance sheet will create additional borrowing capacity for Council to invest in the achievement of community outcomes. Three waters currently rely on leveraging Council's total borrowing capacity to meet investment needs, which are typically not discretionary.
Approach to funding and financing	Option 2 needs to generate additional revenue over and above the full funding of operating expenditure in order to access the borrowing that it needs to fund its full capital works programme. The consequence of this is that over time, Option 2 results in lower total three waters borrowing than Option 1, improving outcomes for future generations.
Funding autonomy	Delivery of three waters services has been, and will continue to be, a significant driver of cost and rates increases for the Council. Transfer to a wholly owned water organisation will allow the Council to focus its efforts on other activities. A water entity will equally have the autonomy (with controls and oversight from the Commerce Commission) to set charges at the amount needed to deliver necessary capital works and meet level of service expectations.
Dedicated focus	A wholly owned water organisation will have a dedicated Board of Directors with the skills required to deliver effective and efficient three waters services for the water consumers of Gisborne. This will enable the organisation to make decisions it may not otherwise be able to make through the existing service delivery model.
Ability to scale	It is expected that a wholly owned water organisation would have fewer barriers to future aggregation than an in-house business unit. If a regional option becomes more realistic in the future, Option 2 is likely to make participation in that option easier.

Risk Assessment

The key risks that might create, enhance, prevent, degrade, accelerate or delay the achievement of the investment objectives have been identified and evaluated. The results of this assessment are detailed below.

Table 10: Risk assessment and risk management strategies

Risk	Category	Consequence (H/M/L)	Likelihood (H/M/L)	Comments and Risk Management Strategies
Disruption to staff during implementation	Implementation	Moderate	Low	Changes to the management or operational structure and ongoing uncertainty of roles may

Risk	Category	Consequence (H/M/L)	Likelihood (H/M/L)	Comments and Risk Management Strategies
				result in staff dissatisfaction, or distraction from business-as-usual activities. Given Option 1 has the lowest amount of change, this risk is considered to be low.
Inadequacy of arrangements described in the Water Services Delivery Plan	Implementation	High	Low	DIA's assessment of the Council's Water Services Delivery Plan may identify that the proposed arrangement does not meet their expectations. In such event the Council may be directed to work with neighbouring councils. An in-house business unit is presented as a potential delivery model in DIA guidance, so there should be no inherent issues with the proposed model.
Legislative provisions in Bill 3 may undermine the feasibility of the preferred option	Implementation	High	Low	DIA has released information packs about the expected content of Bill 3. The preferred option is aligned to these models, and significant departure from the published DIA guidance is not anticipated.
Lack of financial independence	Ongoing	Moderate	Moderate	Ring fencing provisions required by law will create some financial independence. However, the responsibility for setting rates and approving budgets will still ultimately rest with

Risk	Category	Consequence (H/M/L)	Likelihood (H/M/L)	Comments and Risk Management Strategies
				Council (with some requirements from an economic regulator).
Loss of staff or expertise	Ongoing	Moderate	High	The establishment of more regional or sub-regional water entities of scale will provide better career pathways and opportunities for staff. It is likely that recruitment and retention of staff will be increasingly challenging. This risk is not mitigated by Option 2.
Impact on other council activities	Ongoing	Moderate	High	The ongoing provision of three waters services will continue to require access to a significant amount of council debt and will continue to be a key driver of rates rises in the future. These financial pressures may impact Council's ability to invest in other activities in the future. Note that Option 2 mitigates some of the risks associated with borrowing requirements, but that total cost of service (i.e. water charges and council rates) will still be under pressure.
Potential for conflict between priorities of economic, environmental and quality regulators and elected	Ongoing	Moderate	Moderate	Economic, quality and environmental regulators may drive a requirement for investment beyond that which the community or elected members can afford or desire. There may be limited opportunity for elected

Risk	Category	Consequence (H/M/L)	Likelihood (H/M/L)	Comments and Risk Management Strategies
members' priorities				members to make decisions that are not aligned to the priorities of the regulator.

This risk analysis will be also used to inform the development of the risk register, referred to in the management case.

Testing the Robustness of the Options Analysis

The financial modelling is highly dependent on the potential value of the forward capital works programme. Financial modelling, particularly of the water organisation model, assumes that the capital works programme must be delivered to meet the requirements of the economic and environmental regulators.

Funding this programme of capital works and servicing the associated debt, is the single largest cost influencer in the financial modelling.

Sensitivity testing has been completed based on an uplift of the capital works programme of 33% for upgrades and renewals. This reflects a moderate level of uncertainty regarding the forward capital works programme.

Analysis of failures in the water network has identified that the Council's current approach to renewals is well aligned to existing network failures. Additionally, comparison of the existing renewals programme against expected useful lives of assets has also indicated that the renewals programme is likely to be adequate. There may be scope for increased pace of renewals, however the total programme value is likely fair.

The modelled uplift in capital works for drinking water services alone equates to an uplift of over $150 million over the modelling period. This is broadly aligned with the estimated value of drinking water resilience work that may be required.

No low investment scenario has been modelled as it is considered unlikely that a water organisation or in-house business unit would reduce its capital programme materially.

Identifying the Preferred Option

Household Charges

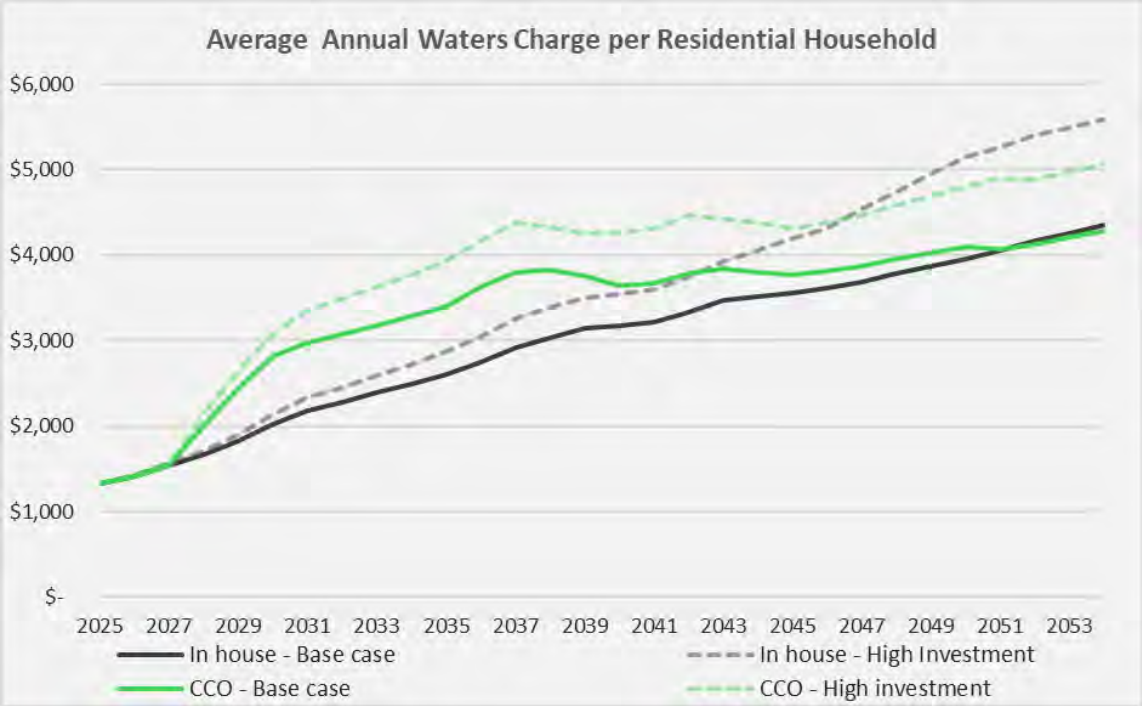
The chart below presents average residential household waters charges for the three service delivery models using both the base case and high investment capital investment programme.

Due to the water organisation's requirement to maintain a Funds from Operations (FFO) to debt ratio of above 10%, additional charges need to be applied from inception, resulting in an immediate increase in charges when compared to the in-house model. Additionally, the water organisation incurs setup costs and ongoing operating and governance costs.

The anticipated efficiencies of the water organisation model are not noticeably realised for more than the first ten years of their existence, and it is not until 2051 that the water organisation and in-house models reach parity under the base capital programme (2046 under the high investment programme).

Notably, even under a high investment scenario, a water organisation is unlikely to result in lower household charges for 15 – 20 years.

Figure 15: Average annual water charges 2025 – 2054



Capital investment and Asset Sustainability

In both the base case and the high investment scenario, both delivery models have been assumed to deliver the same programme of capital works. Over time, as the water organisation has been modelled to achieve some modest efficiencies in the delivery of its capital works programme, the total cost of delivering that programme is reduced.

WSDPs require disclosure of projected investment against a range of asset investment benchmarks, including:

- The asset sustainability ratio, which compares capital expenditure on renewals to depreciation. This should ideally be above 0%.
- The asset investment ratio, which compares total capital expenditure to renewals. This should ideally be above 0%.
- The asset consumption ratio, which compares the book value of assets to their replacement value. This ratio should ideally trend upwards.

Performance against these ratios is highlighted in the charts below. As the water organisation and the in-house business unit models include the same investment

programmes, results are shown for the "high" and "base case" scenarios. The results generally show asset investment meeting all benchmarks (noting that the asset sustainability ratio underperforms in some years but exceeds the benchmark on average across the 30 years).

Figure 16: Average sustainability ratio performance 2025 – 2054

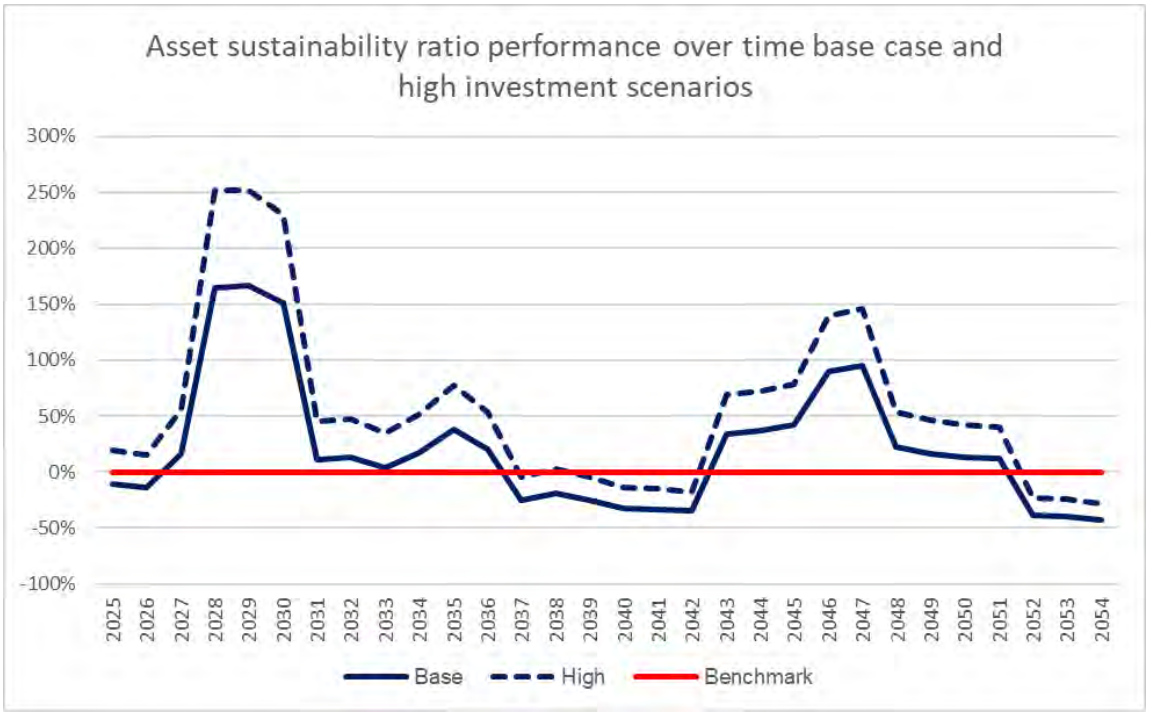


Figure 17: Asset investment ratio performance 2025 – 2054

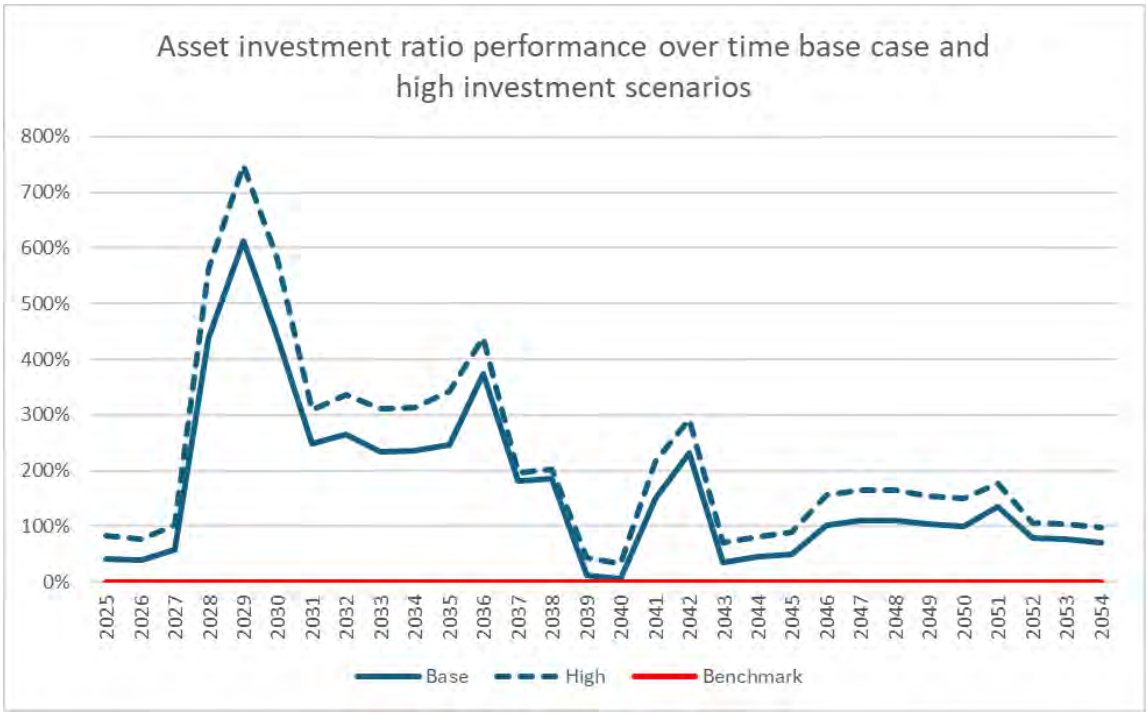
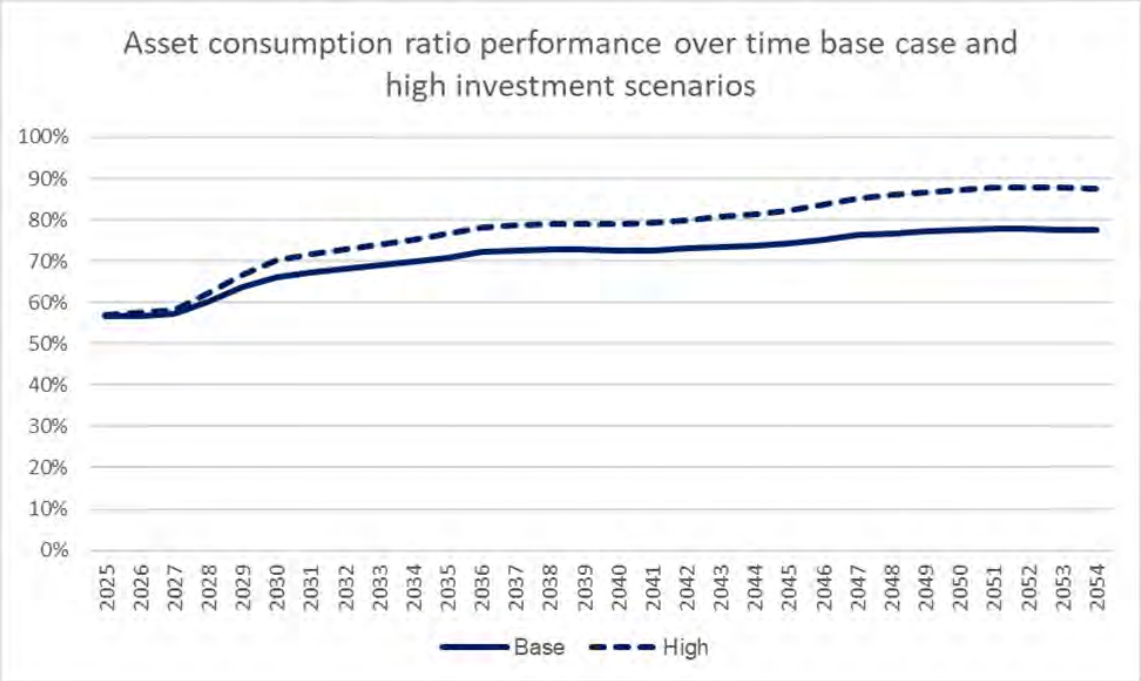


Figure 18: Asset consumption ratio performance 2025 – 2054



Options Analysis

Table 11: Options analysis

	Base case		High investment scenario	
	Option 1 In-house business unit	Option 2 Single council-owned water organisation	Option 1 In-house business unit	Option 2 Single council-owned water organisation
Appraisal Period (years)	30	30	30	30
Cost-benefit analysis of monetary costs and benefits:				
Net present value of revenue requirements[5]	$847 million	$981 million	$968 million	$1,116 million
Average household charge 2034	$2,491	$3,284	$2,724	$3,774

[5] A lower NPV is preferred

	Base case		High investment scenario	
	Option 1 In-house business unit	Option 2 Single council-owned water organisation	Option 1 In-house business unit	Option 2 Single council-owned water organisation
Average household charge 2054	$4,345	$4,281	$5,586	$5,062
Three waters debt 2034	$322 million	$253 million	$410 million	$313 million
Three waters debt 2054	$723 million	$348 million	$892 million	$446 million

The Preferred Option

Both the modified in-house (Option 1) and single-council CCO (Option 2) options are sound options for the delivery of water services in the Gisborne District. The choice between them is therefore substantially driven by the results of the economic and financial analysis of the options. This clearly shows that under the modified status quo, it is possible to deliver a more affordable price path for consumers whilst simultaneously meeting financial sustainability and regulatory compliance standards. The modified status quo is therefore the preferred option.

Commercial Case – Preparing for the Potential Deal

The commercial case normally considers:

- the procurement strategy and any legislative requirements,
- procurement plan and timetables,
- service requirements,
- risk sharing arrangements,
- payment mechanisms, and
- any other contractual or accounting issues.

This section outlines the proposed deal in relation to the preferred option outlined in the economic case. A commercial case is not needed if there is no significant procurement, for example if services are provided in-house.

Given that in this case the preferred option is continued in-house delivery, no commercial case has been prepared.

However, should Council ultimately decide to adopt Option 2, the establishment of a single-council CCO, the equivalent of a commercial case/procurement plan would be prepared in the next phase of the LWDW project as part of the implementation plan for the WSDP. This would include matters such as funding arrangements and cost of capital, debt settlement, transition processes, commercial and contracting arrangements including novation, and establishment costs for the new CCO.

Financial Case – Affordability and Funding Requirements

The purpose of the financial case is to determine the funding requirements of the preferred option and to demonstrate that the recommended deal is affordable.

The Financial Costing Model

Financial Costing Approach

Financial analysis presented in the financial case is based on the financial modelling of an in-house business unit and a single council-owned water organisation completed by Morrison Low.

The modelling is a cost-based model that has been modelled to ensure financial sustainability of three waters services. This means that in both options:

- All operating costs including depreciation and interest are fully funded through operating revenue.
- Capital works are funded from debt or surplus cashflows from operations.
- Borrowing limits are monitored and additional revenue is generated, where required, to ensure borrowing remains within limits imposed by the Local Government Funding Agency (a limit of 280% of total council operating revenue has been assumed, with modelling confined to remaining below 250%).

The modelling assumes inflation at the BERL LGCI rates for the first 10 years and 2% per annum thereafter.

Borrowing costs are assumed to be 5% per annum based on the previous years' closing debt balance.

All establishment costs for the Option 2 are assumed to be capitalised and funded through additional borrowing. All three waters related debt is assumed to transfer to the water organisation in Option 2 on establishment date.

An establishment date of 1 July 2027 has been assumed.

Impacts on the Financial Statements

A statement of comprehensive revenue and expenditure and a statement of financial position are presented in the tables below for each of the shortlisted options over the 10-year period from 2024/25 – 2033/34.

Financial statements are presented for the base case scenario only.

Table 12: Option 1 Statement of Comprehensive Revenue and Expenditure

Statement of comprehensive revenue and expense (000s)	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
Operating revenue	$22,636	$24,281	$26,719	$29,218	$32,126	$36,009	$39,098	$41,281	$43,647	$45,916
Other revenue	-	-	-	-	-	-	-	-	-	-
Total revenue	**$22,636**	**$24,281**	**$26,719**	**$29,218**	**$32,126**	**$36,009**	**$39,098**	**$41,281**	**$43,647**	**$45,916**
Operating expenses	$12,800	$12,815	$13,482	$14,259	$14,587	$14,908	$15,221	$15,540	$15,867	$16,200
Finance costs	$2,481	$2,796	$3,064	$3,368	$5,352	$8,285	$10,517	$11,834	$13,302	$14,662
Overheads and support costs	$2,016	$2,186	$2,495	$2,555	$2,614	$2,671	$2,727	$2,784	$2,843	$2,903
Depreciation & amortisation	$8,288	$8,499	$8,711	$9,036	$9,574	$10,145	$10,633	$11,123	$11,635	$12,152
Total expenses	**$25,585**	**$26,296**	**$27,752**	**$29,218**	**$32,126**	**$36,009**	**$39,098**	**$41,281**	**$43,647**	**$45,916**
Net surplus / (deficit)	**-$2,949**	**-$2,016**	**-$1,033**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Revaluation of infrastructure assets	$8,783	$9,026	$9,273	$9,559	$10,544	$11,928	$13,060	$13,847	$14,712	$15,550
Vested assets revenue	-	-	-	-	-	-	-	-	-	-
Total comprehensive income	**$5,834**	**$7,010**	**$8,240**	**$9,559**	**$10,544**	**$11,928**	**$13,060**	**$13,847**	**$14,712**	**$15,550**

Cash surplus / (deficit) from operations (excl depreciation)	**$5,338**	**$6,483**	**$7,679**	**$9,036**	**$9,574**	**$10,145**	**$10,633**	**$11,123**	**$11,635**	**$12,152**

Table 13: Option 1 Statement of Financial Position

Statement of financial position (000s)	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
Assets										
Cash and cash equivalents	-	-	-	-	-	-	-	-	-	-
Other current assets	$178,034	$178,034	$178,034	$178,034	$178,034	$178,034	$178,034	$178,034	$178,034	$178,034
Infrastructure assets	$451,283	$463,638	$477,974	$527,204	$596,410	$652,989	$692,374	$735,588	$777,502	$821,592
Other non-current assets	-	-	-	-	-	-	-	-	-	-
Total assets	**$629,317**	**$641,672**	**$656,009**	**$705,238**	**$774,444**	**$831,023**	**$870,408**	**$913,622**	**$955,536**	**$999,626**
Liabilities										
Borrowings - current portion	$55,925	$61,270	$67,367	$107,037	$165,698	$210,350	$236,675	$266,041	$293,244	$321,784
Other current liabilities	-	-	-	-	-	-	-	-	-	-
Borrowings - non-current portion	-	-	-	-	-	-	-	-	-	-
Other non-current liabilities	-	-	-	-	-	-	-	-	-	-

Total liabilities	**$55,925**	**$61,270**	**$67,367**	**$107,037**	**$165,698**	**$210,350**	**$236,675**	**$266,041**	**$293,244**	**$321,784**

Net assets	**$573,392**	**$580,402**	**$588,642**	**$598,201**	**$608,745**	**$620,673**	**$633,733**	**$647,581**	**$662,292**	**$677,843**

Equity										
Revaluation reserve	$40,510	$49,536	$58,808	$68,368	$78,912	$90,840	$103,900	$117,747	$132,459	$148,009
Other reserves	$532,882	$530,866	$529,833	$529,833	$529,833	$529,833	$529,833	$529,833	$529,833	$529,833
Total equity	**$573,392**	**$580,402**	**$588,642**	**$598,201**	**$608,745**	**$620,673**	**$633,733**	**$647,581**	**$662,292**	**$677,843**

Table 14: Option 2 Statement of Comprehensive Revenue and Expenditure

Statement of comprehensive revenue and expense (000s)	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
Operating revenue	$22,636	$24,281	$26,719	$34,956	$42,881	$50,108	$53,327	$55,670	$58,129	$60,491
Other revenue	-	-	-	-	-	-	-	-	-	-
Total revenue	**$22,636**	**$24,281**	**$26,719**	**$34,956**	**$42,881**	**$50,108**	**$53,327**	**$55,670**	**$58,129**	**$60,491**

Operating expenses	$12,800	$12,815	$13,482	$19,293	$19,737	$20,144	$20,539	$20,942	$21,353	$21,772
Finance costs	$2,481	$2,796	$3,064	$3,368	$5,614	$8,150	$9,795	$10,489	$11,294	$11,951

Overheads and support costs	$2,016	$2,186	$2,495	-	-	-	-	-	-	-
Depreciation & amortisation	$8,288	$8,499	$8,711	$9,081	$9,665	$10,238	$10,727	$11,218	$11,731	$12,248
Total expenses	**$25,585**	**$26,296**	**$27,752**	**$31,742**	**$35,016**	**$38,531**	**$41,061**	**$42,649**	**$44,377**	**$45,971**
Net surplus / (deficit)	**-$2,949**	**-$2,016**	**-$1,033**	**$3,214**	**$7,864**	**$11,577**	**$12,266**	**$13,021**	**$13,752**	**$14,520**
Revaluation of infrastructure assets	$8,783	$9,026	$9,273	$9,559	$10,713	$12,099	$13,231	$14,018	$14,881	$15,717
Vested assets revenue	-	-	-	-	-	-	-	-	-	-
Total comprehensive income	**$5,834**	**$7,010**	**$8,240**	**$12,773**	**$18,578**	**$23,676**	**$25,497**	**$27,039**	**$28,633**	**$30,237**
Cash surplus / (deficit) from operations (excl depreciation)	**$5,338**	**$6,483**	**$7,679**	**$12,295**	**$17,529**	**$21,815**	**$22,993**	**$24,239**	**$25,483**	**$26,768**

Table 15: Option 2 Statement of Financial Position

Statement of financial position (000s)	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
Assets										
Cash and cash equivalents	-	-	-	-	-	-	-	-	-	-
Other current assets	$178,034	$178,034	$178,034	$178,034	$178,034	$178,034	$178,034	$178,034	$178,034	$178,034

Infrastructure assets	$451,283	$463,638	$477,974	$535,666	$604,950	$661,538	$700,905	$744,040	$785,830	$829,731
Other non-current assets	-	-	-	-	-	-	-	-	-	-
Total assets	**$629,317**	**$641,672**	**$656,009**	**$713,700**	**$782,984**	**$839,572**	**$878,939**	**$922,074**	**$963,864**	**$1,007,765**

Liabilities										
Borrowings - current portion	$55,925	$61,270	$67,367	$112,285	$162,991	$195,903	$209,774	$225,870	$239,027	$252,692
Other current liabilities	-	-	-	-	-	-	-	-	-	-
Borrowings - non-current portion	-	-	-	-	-	-	-	-	-	-
Other non-current liabilities	-	-	-	-	-	-	-	-	-	-
Total liabilities	**$55,925**	**$61,270**	**$67,367**	**$112,285**	**$162,991**	**$195,903**	**$209,774**	**$225,870**	**$239,027**	**$252,692**

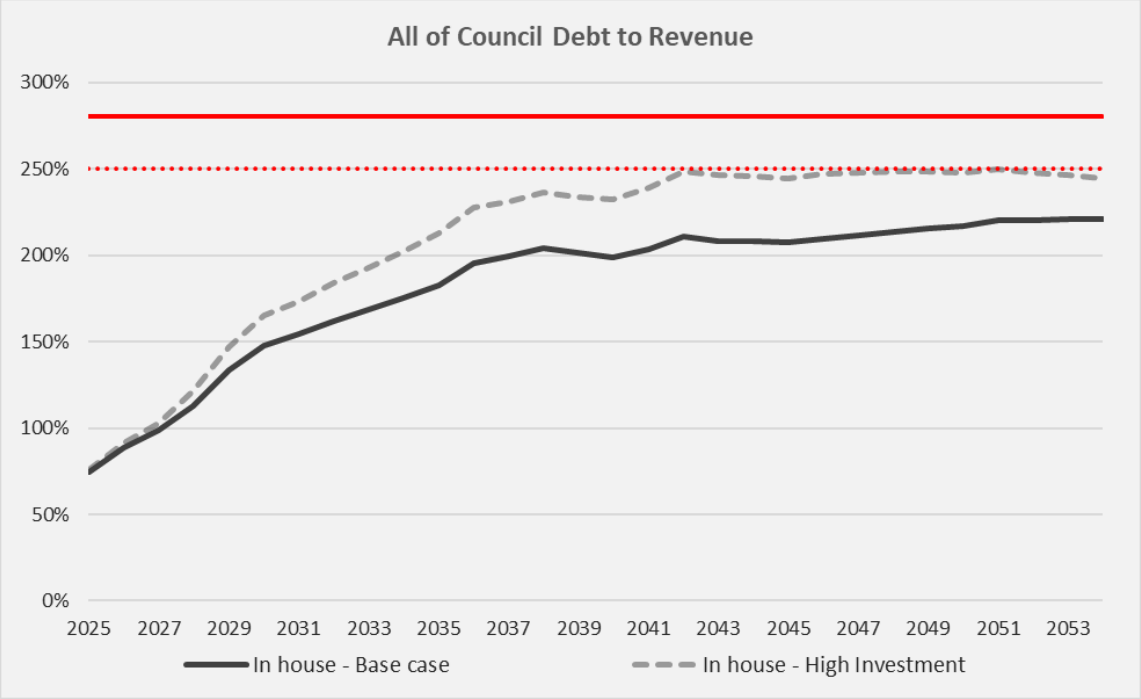
Net assets	**$573,392**	**$580,402**	**$588,642**	**$601,415**	**$619,993**	**$643,669**	**$669,165**	**$696,204**	**$724,837**	**$755,074**

Equity										
Revaluation reserve	$8,783	$17,809	$27,081	$36,641	$47,354	$59,453	$72,684	$86,702	$101,583	$117,299
Other reserves	-	-	-	-	-	-	-	-	-	-
Total equity	**$564,609**	**$562,593**	**$561,560**	**$564,774**	**$572,639**	**$584,216**	**$596,481**	**$609,502**	**$623,254**	**$637,774**

Critical differences between the two shortlisted options relate to the overall revenue requirements and total three waters borrowings.

Total three waters debt in Option 1 reaches $321 million by 2034 and is supported by $46 million of annual operating revenue. This represents a three waters debt to revenue ratio of approximately 600%. Additional three waters borrowing under Option 1 is therefore supported by revenue from other council activities. Total council projected debt to revenue is presented in the chart below and remains under 250% for the 30-year modelling period.

Figure 19: All of Council debt to revenue 2025 – 2054



Option 2 is not able to leverage debt against other revenue generated by the Council. As a consequence, the water organisation needs to increase revenue in order to stay within lending limits. This impacts household water charges and is the main contributor to price differences outlined in the Economic Case.

The two charts below show how the impact of financing constraints impact Option 2. The first chart highlights performance of Option 2 against lending covenants without the additional charges, and the second chart highlights how this translates to average household charges.

Figure 20: CCO FFO to Debt 2028 – 2054

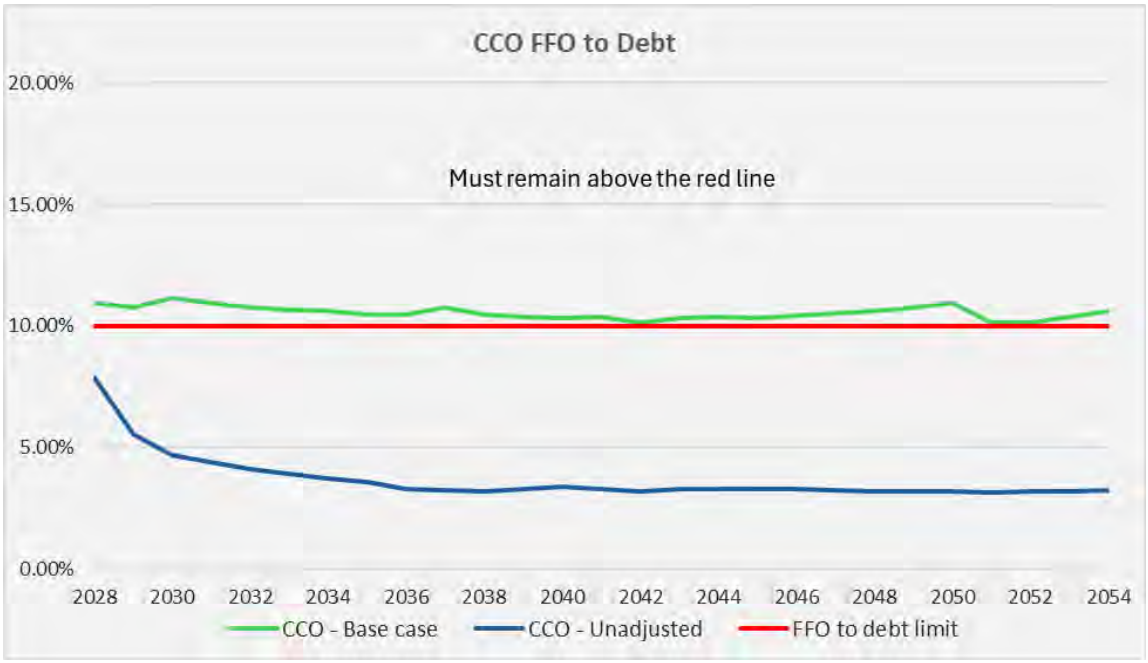
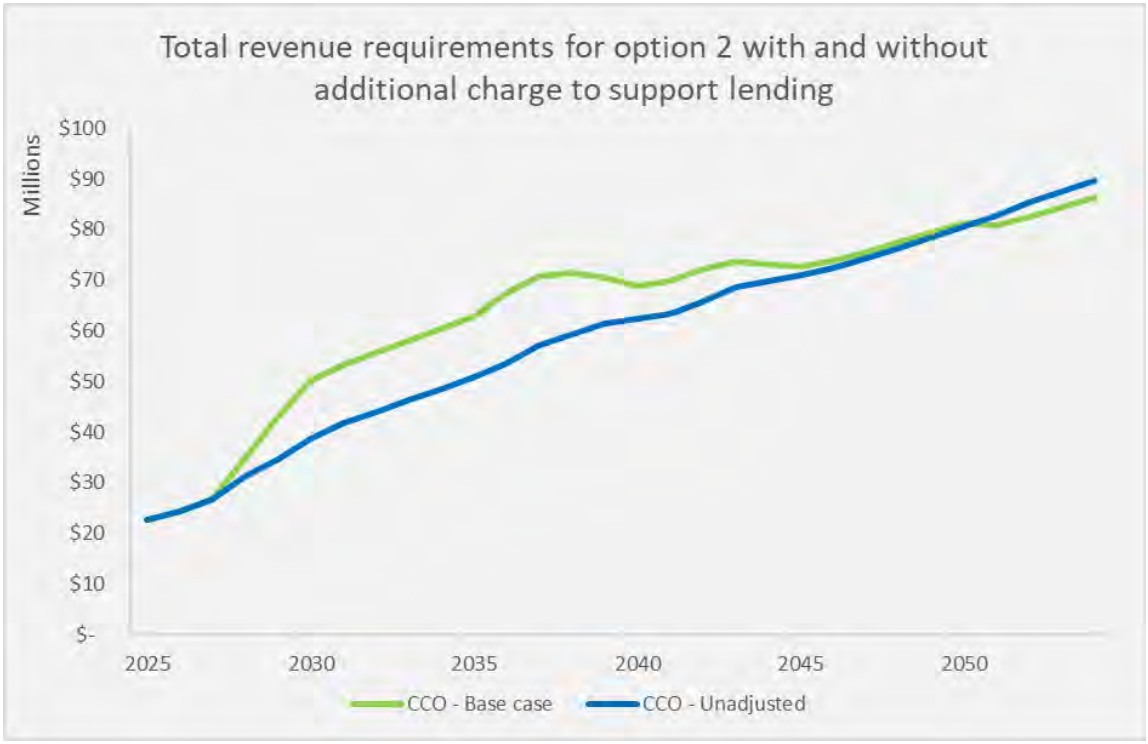


Figure 21: Total revenue requirements for Option 2



Overall Affordability

Financial modelling indicates that Option 1 is more affordable over the next 10 – 20-year period, as evidenced by:

- Lower expected household charges during that period.

- Lower revenue requirements over the period.
- Easier access to debt over that period. Noting however that three waters borrowing at current and projected rates of leverage will impact access the Council's ability to access debt for other activities.

Over the long term (20 or more years) it is expected that Option 2 will result in lower total borrowing requirements that may translate into lower household charges.

Management Case – Planning for Successful Delivery

The management case confirms that the proposal is achievable and details the arrangements needed to both ensure successful delivery and to manage project risks.

The Council's WSDP is required to include an implementation plan for the adopted water services delivery model. This implementation plan will cover much of the detail behind the outline included in this management case and will need to demonstrate how the Council will achieve financial sustainability of waters services delivery by 30 June 2028.

The plan outlined below is for an in-house delivery model and is therefore relatively simple as there would be limited change required to implement an in-house model.

Should the Council decide to instead establish a water services CCO, a more comprehensive implementation plan will need to be developed in parallel to the development of the WSDP.

This plan would need to cover matters such as:

- Implementation approach
  - Strategy for implementation
  - Goals and objectives
  - Success criteria
  - Deliverables
  - Scope statement
  - Resource plan
  - Procurement strategy and processes
  - Stranded costs strategy
- Governance
  - Statutory framework
  - Governance arrangements
  - Appointments panel
  - Role of Iwi / Māori
  - Board constitution
  - Shareholder agreements
  - Transfer of decision-making rights
- Roles and responsibilities
  - Project Team

- Handover points and processes

- Workstreams
  - General programme
  - Finance and commercial
  - Efficiency gains and strategy
  - Transfer arrangements
  - Service delivery
  - Operations
  - Enablers
- Schedule and milestones
  - Milestones and decision points
  - Critical path and Gantt Chart
- Change management approach
  - The case for change
  - Stakeholder management and engagement
  - Change leadership
  - Communications
  - Change readiness
  - Organisational design and workforce transition
- Risk management
  - Risk management approach
  - Risk management framework
- Budget, cost and funding
  - Cost estimation for implementation
  - Budget and funding model

Project Management Planning

Project Management Arrangements

We recommended that the Council establishes a project team to plan and execute the changes required to give effect to an in-house water services delivery model from adoption of the WSDP in mid-2025.

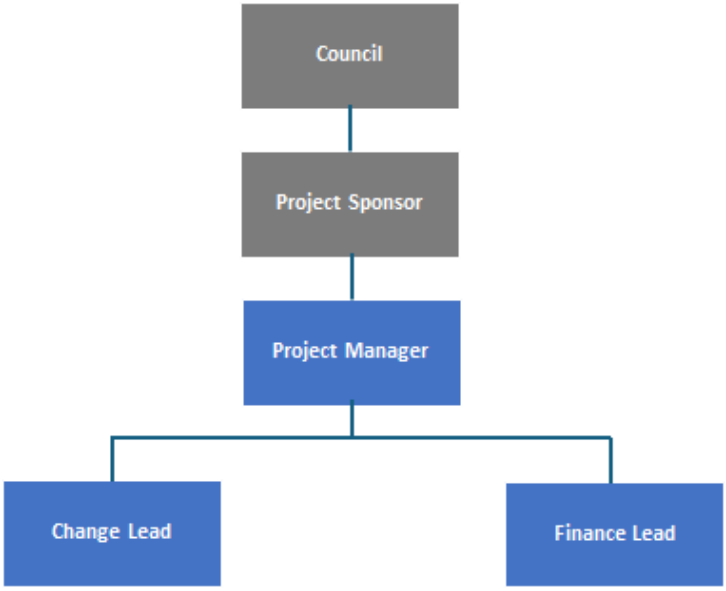
Proposed Governance Arrangements

Governance oversight of the project should be provided through standard reporting to the Infrastructure Operations Committee. Noting that the Council could consider establishing a specific Water Services Committee to oversee water services delivery under the LWDW legislative framework, and that this could be established from adoption of the WSDP to oversee the implementation of the WSDP and the resultant organisational change.

Either the Chief Executive or Director Community Lifelenes should fill the role of Project Sponsor, and the Project Manager could be either the Director Community Lifelines, the Manager of the Water Team, or an external contractor.

An outline project structure is included below.

Figure 22: LWDW Implementation Organisation Chart



Project Roles and Responsibilities

These are as follows:

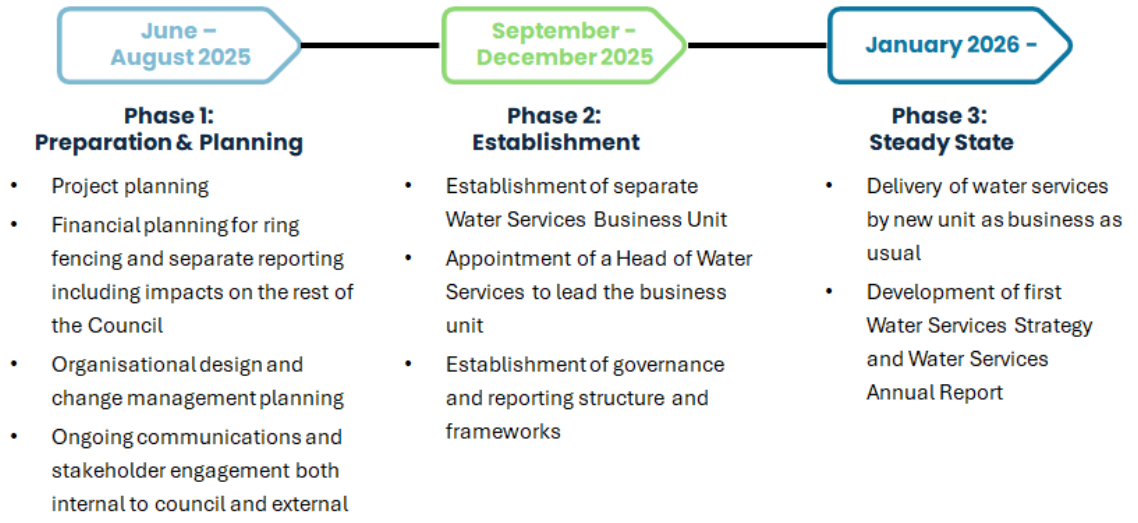
- Project Manager
  - Leads the project and is responsible for the delivery of project outputs and deliverables, project design, risk management, communications and stakeholder engagement, and reporting to the Project Sponsor and Council.
  - Day to day decisions within agreed scope and budget.
- Financial Lead
  - Leads all elements of the planning and implementation of the ring fencing of water services revenue, expenditure and reporting.
- Change Lead
  - Leads all elements of the planning and conduct of the organisational change required to fully establish water services delivery as separate business unit inside the Council.

The Project Manager and Leads would be supported by a range of subject matter experts from within the Council (e.g. communications staff) and external contracted specialist expertise where/if required.

Project Schedule and Milestones

The Project Manager will be responsible for developing a detailed project plan for the project. However, it is anticipated that the project will be conducted in three phases over a six-month period:

Figure 23: LWDW Implementation Project Phases



We expect that the Project Manager would hand over to a Head of Water Services once appointed in Phase 2. The Head of Water Services may wish to leave the project team in place throughout the establishment phase. Consideration could be given to the early appointment of a Head of Water Services and using the person appointed as the Project Manager for the establishment phase.

During Phase 1 the Project Manager would be responsible for ensuring that the following planning is conducted:

- Benefits Management Planning - the strategy, framework and plan for dealing with the management and delivery of benefits.
- Risk Management Planning - the strategy, framework and plan for dealing with the management of risk, including the development of a risk register that lists all the identified risks and the results of their analysis and evaluation.
- Post Investment Review Planning - a post investment review evaluating whether the benefits are being realised and the products are delivering the services proposed in the business case.

GISBORNE DISTRICT COUNCIL

Appendix 1: Financial Modelling Assumptions

The delivery models and modelling assumptions applied to each are summarised in the table below:

Service delivery	Description	Modelling assumptions
In-house	The existing service delivery model, encompassing the current structure of three waters teams within GDC's wider infrastructure group.	Source data provided by the Council forms the foundation of the modelled outcomes, with specific adjustments applied for the following: • Progressive depreciation funding to 100% fully funded by FY2028. Adjustments are applied to targeted rates. • Debt movements and financing costs aligned to targeted rates movements. • Depreciation calculated based on global rates and alternate capital investment profiles. • Where required, increase revenue to maintain total council debt-to-revenue below 250%.
Council-controlled organisation (CCO)	Establishment of a newly formed CCO to deliver water services from 1 July 2027.	Modelling inputs are aligned to the in-house model above, with separate adjustments to allow for: • Establishment costs and ongoing additional overheads. • Efficiencies as a result of the service delivery model. • Where required, increase revenue to maintain a funds from operations (FFO) to debt ratio above 10%.
Consumer trust-owned water services entity	Establishment of a newly formed water services entity owned by a consumer trust.	Modelling assumptions align with the CCO model above, except for a higher interest rate due to the inaccessible LGFA lending. Additional costs associated with the governance and ownership structure of a consumer trust are unlikely to be highly material to the decision at this time and would be refined if this option was considered suitable.

Capital Investment

Capital investment and the funding and financing of that investment are material components of the financial modelling, and two scenarios have been included within the projections.

- Base case: Capital investment programmes as per the three-year LTP 2024-2027, combined with the capital programme provided to the NTU in 2022 (CPI adjusted).
- High investment: The base case plus 33% additional spend on capital renewals and upgrades.

Data Sources

The foundation of the financial modelling is the information provided by the Council in response to a request for information. Due to the Council's decision to opt for a shortened LTP to FY2027, reliable data for most financial line items was only available to this date. To account for this, the modelling assumes a general continuation of prior trends with a corresponding increase to align with inflation.

Due to the capital investment programme's significance in the modelling, the Council has provided information for the projected periods, combining LTP data to FY2027 and data supplied to the NTU in 2022. Additional details for the longer-term outlook from FY2034-FY2054 have been obtained from the capital programme provided within the Council's response to the request for information document.

Data Limitations

The information provided to this point is sufficient to provide indicative results, limitations within the data exist in the following areas:

- As noted above, specific revenue and expense lines after FY2027 have been estimated at a high level. This may overlook any potential known material adjustments.
- Where the modelling relies on the rest of council operating results, the debt profile for non-three waters activities beyond FY2027 could not be precisely defined, requiring an assumption-driven estimate of this figure for years after this date.
- No development contributions were included within the data provided by the Council, potentially worsening the results across all scenarios if these are expected to be material line items.