

Image: Cookes Beach

Local Water Done Well – options assessment

Thames Coromandel District Council
Final Report

24 March 2025

Commercial in Confidence



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Preface

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Executive summary



Executive summary

This report presents an assessment of water service delivery options for the Thames Coromandel District Council (TCDC), in response to Local Water Done Well (LWDW).

LWDW introduces new legislative requirements and higher expectations for councils to ensure their water services are sustainable and compliant over the long term.

TCDC has assessed multiple options, with this report focusing on the two main options (and relevant variation) available to the Council:

- an internal water services unit, and*
- a joint Water Services Organisation (WSO).**

This report is intended to support TCDC's decision-making as it prepares to consult with the community on its proposed future arrangements for water service delivery in April 2025.

TCDC has managed water services well but faces cost pressures and future investment requirements that need to be considered when assessing the options for future water service delivery arrangements.

Like many councils, TCDC faces numerous challenges including ageing infrastructure (including water treatment plants that will require replacement), upgrades for consenting and growing pressures from climate change, extreme weather events, and increasing regulatory requirements.

Reflecting this, infrastructure resilience is a focus of TCDC's Long-Term Plan and is an important consideration when considering future arrangements for water services delivery. An independent review from Beca confirms that TCDC's investment plans for water services over the next decade are expected to meet regulatory standards. Similarly, our prior assessment considered that Council projections appear consistent with financial sustainability requirements.

In responding to the government's LWDW policy and considering the future challenges, the Council has sought to explore how an internal water services unit, or a collaborative approach with neighbours (via a joint WSO) would support robust and affordable water services for the

district now and into the future.

The assessment found both options would meet the Council's objectives, but that joining forces with other local authorities is likely to unlock greater financial capacity for the Council and water services, and would help to reduce price increases for consumers, compared to delivering water services internally. It would also provide access to specialised expertise for water services which help to safeguard water quality and reliability, particularly when meeting new regulatory standards and resilience needs in the future.

However, a joint WSO can raise concerns about local influence and while there are mechanisms to protect this, the Council will need to be satisfied that it can achieve the level of influence it seeks to have, balancing this with other objectives and affordability constraints.

The Council will need to make a series of judgments to determine which option will best provide for Thames Coromandel's future water service delivery needs.

* *There are three possible sub-regional WSOs that the Council could participate in. This assessment explores all three.*



Background



Strategic context and challenges



Meeting peak demand and changing demographics

1

Thames Coromandel has a unique demographic profile, with seasonal peaks, and an aging population. This drives unique requirements with the need to cater for peak demand, while ensuring water services are affordable for an older population and slowing growth.



Longer-term sustainability and affordability challenges

2

TCDC's 10-year investment programme is expected to meet compliance requirements, based on recent findings from a review by Beca. However, the council faces significant future investment requirements as ageing assets, capital price inflation, climate change and community supplies present downside risks to long-term projections (beyond FY34) including provision for significant upgrades in wastewater and drinking water in Thames. Current estimates suggest annual operating costs will reach \$125m by FY54, compared to around \$40m today.

Climate change, including sea-level rise and more frequent (and intense) weather events, are expected to put pressure on stormwater and wastewater networks, likely requiring additional investment.



Meeting Treaty of Waitangi settlement obligations in the region

3

Within the TCDC boundary, there are a range of applicable iwi settlement acts and bills, and the Pare Hauraki Collective Redress Bill and Deed which provides redress for the 12 Hauraki iwi collectively.

Provisions in all settlements and claims require the consent authority to have regard to iwi when making consent and planning decisions in certain areas. This is likely to create responsibilities on water services providers via consent conditions under the Resource Management Act 1991.



Previous recommendations and subsequent developments



Previous recommendations (December 2024)

We previously recommended TCDC consider several options in further detail:

1. continue to deliver through the Council, via an 'enhanced status quo' with a standalone internal water services unit, to meet 'ring-fencing' requirements, and
2. a regional or sub-regional asset owning Water Services Organisation, with three sub-regional options available, each providing a range of benefits and risks.

We considered a stand-alone internal water services unit would likely meet the Council's strategic objectives in the short to medium-term, and meet new LWDW requirements. However, we identified longer-term challenges which a sub-regional Water Services Organisation may be better placed to address.



Subsequent developments

We have worked with council officers to consider three potential sub-regional options:

1. **participating in a joint sub-regional WSO** with a smaller group of Bay of Plenty councils (potentially Tauranga City Council and Western Bay of Plenty District Council, and other councils)
2. **Waikato Water Done Well** (asset owning WSO with up to seven councils in the Waikato excluding Hamilton City Council and Waikato District Council), and
3. **participating in a joint WSO with Hamilton City Council and Waikato District Council.**

The council must consult on at least two options, including the enhanced status quo, and will need to consult on at least one of the above options. Council could consult on a general joint WSO or a specific one.

Various assessments and existing information mean you are well placed to make a decision

Operating context

Broader Thames Coromandel strategic context

Relationship to other Council priorities

Impact on rest of Council (see below)

Impact on rest of Council

Rest of Council

Financial viability and sustainability

Continuity of other Council functions

Service levels

Network performance

Drinking water compliance

Resource consent compliance

Customer service

Cost drivers

Asset age and condition

Improved levels of service

Growth

Asset revaluations

Borrowing

Operating costs

Financial projections

Revenue and expenses

Investment

Borrowing

Other capital funding

Viability and sustainability assessment

Revenue sufficiency

Investment sufficiency

Financing sufficiency

Resource sufficiency

Affordability



Options available

to Thames Coromandel District Council



The full suite of options were considered

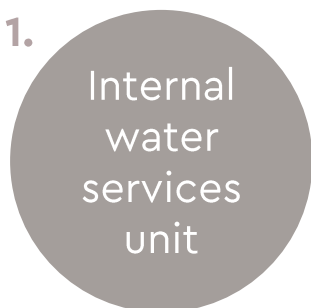
	Internal water services unit or division	Single council owned Water Services Organisation	Multi-council owned Water Services Organisation	Mix council/consumer trust-owned Water Services Organisation	Consumer trust-owned Water Services Organisation
Ownership	Council owned (internal division)	100% owned by the Council	Owned by the Council plus others	Part-owned by the Council, part owned by trust	100% owned by trust
Governance	Council oversight (option of independent committee)	Council appointed committee (Council officers and elected members cannot be on Board)	Shareholder Council	Shareholder Council (trust and Council)	Trustees appoint the Board
Accountability	Water-focused annual reports and financial statements	Reports to owners quarterly, prepares audited annual report, acts consistent with statutory objectives	Reports to owners quarterly, prepares audited annual report, acts consistent with statutory objectives	Reports to owners quarterly, prepares audited annual report, acts consistent with statutory objectives	Reports to owners quarterly, prepares audited annual report, acts consistent with statutory objectives
Borrowing	Council borrows within its overall Local Government Funding Agency (LGFA) limit of up to 175% debt to revenue	Borrow via LGFA, with different financial ratios to Council, enabling greater borrowing, with Council support	Borrow via LGFA, with different financial ratios to Council, enabling greater borrowing, with Council support	Independent, likely via banks (more expensive)	Independent, likely via banks (more expensive)
Planning	Council prepares a Water Services Strategy, fully integrated with overall council strategy and budgeting	Water organisation prepares its own Water Services Strategy, guided by a council issued Statement of Expectations	Multi-council shareholders jointly issue a Statement of Expectations; the Water Services Organisation prepares a Water Services Strategy	Shareholders (councils and trust) issue combined expectations; Water Services Organisation prepares its strategy to meet both councils and trust goals	Trustees issue a Statement of Expectations, with the Water Services Organisation preparing a strategic plan aligned with community goals
Operations	Integrated with Council operations	New independent Water Services Organisation	New independent Water Services Organisation	Mixed ownership; some community involvement	Full independence from Council
Considered?	Considered for consultation Feasible and minimal change. 1	Discounted Financially viable but does not offer the scale of multi-region options across people, efficiencies or resilience of capital structure.	Considered for consultation Financially viable and offers scale benefit. 2 a 2 b 2 c Three variations of this option are available	Discounted Cannot access borrowing from LGFA and complexity of trust ownership structure.	Discounted Cannot access borrowing from LGFA and complexity of trust ownership structure.



There are two broad options available

+ three sub-regional variations (side 1 of 2)

1.



TCDC would deliver water services via an internal water services unit within Council, with changes necessary to meet new legislative and regulatory changes.

- Fully responsible for all day-to-day operations, maintenance, planning for future water needs, and repaying any water-related debt.
- To help meet new requirements, particularly ring-fencing, TCDC would set up a dedicated water services delivery unit within the Council and review its internal overhead allocation.
- The Council retains full control over water services decisions, but this may be more limited in future due to water services coming within the scope of economic regulation by the Commerce Commission.

Standalone option

2.

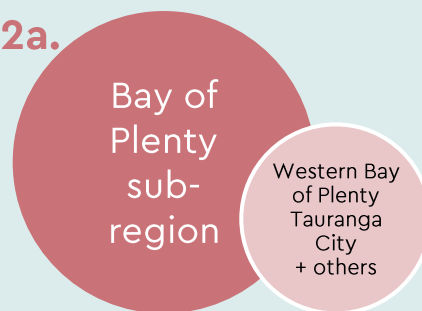


TCDC would join in the establishment of a new council-controlled Water Services Organisation (WSO) with its neighbours, noting there are three possible sub-regional WSO opportunities that have been considered.

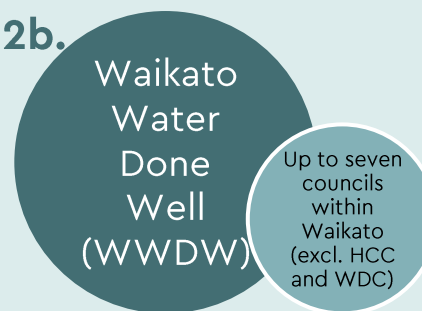
- The joint WSO would handle water services across all participating districts and take on each council's water-related debt and assets, and be responsible for setting water charges.
- A professional Board of Directors, appointed by the Councils, would govern the organisation from day to day.
- TCDC, together with other councils, can set the direction for the WSO through a Statement of Expectations and retain influence over some key decisions.
- Provides additional financial flexibility for Council by removing water debt from the Council's balance sheet.

WSO options

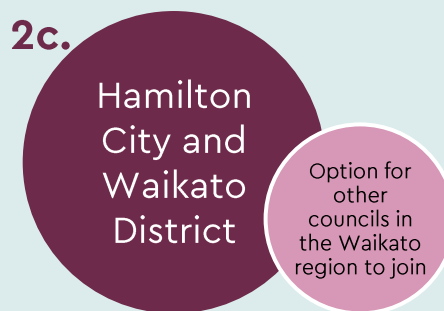
2a.



2b.

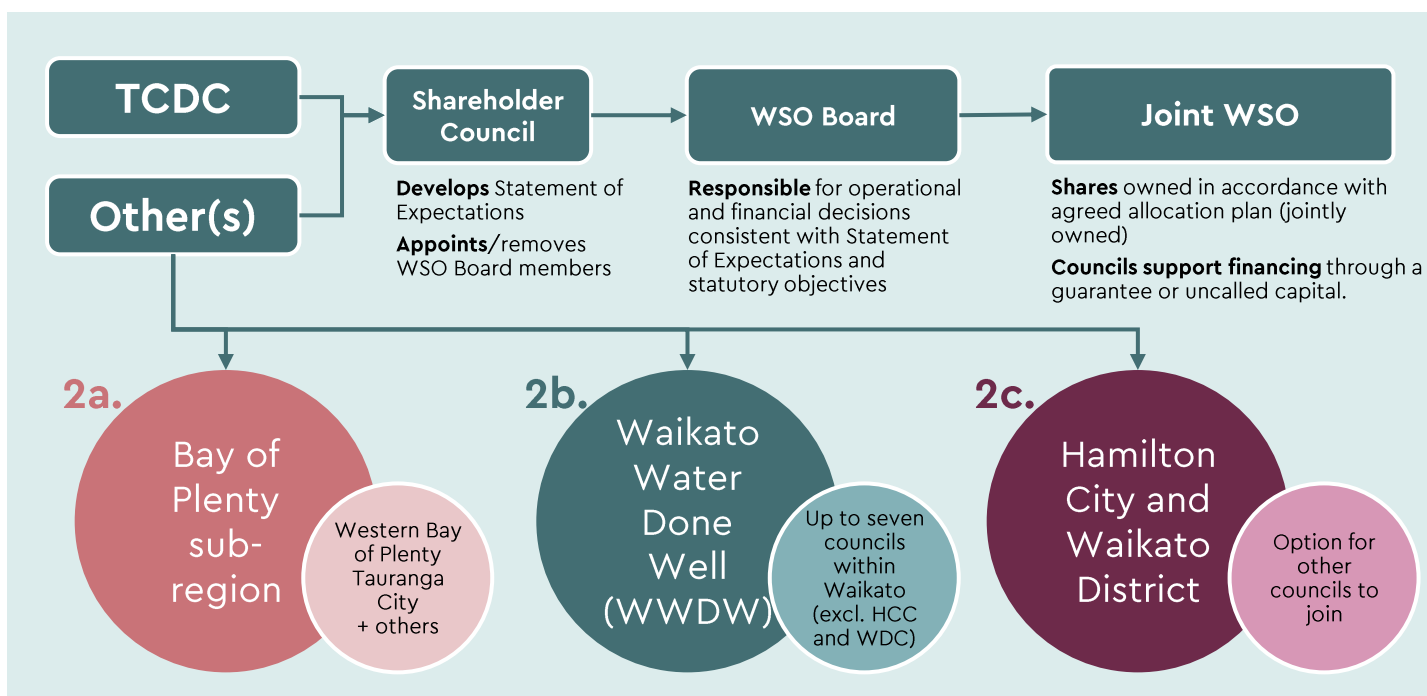
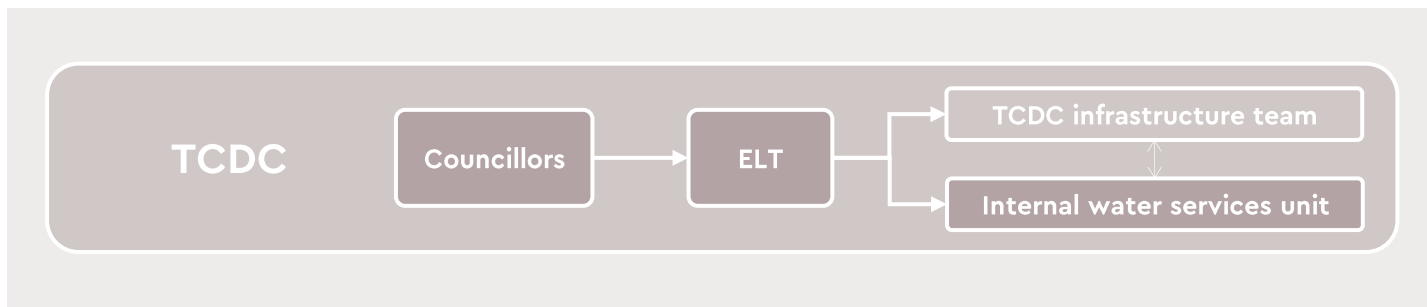
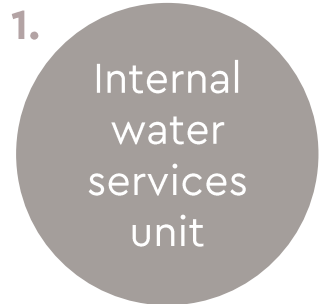


2c.



There are two broad options available

+ three sub-regional variations (slide 2 of 2)



WSO options



Options assessment



Key judgements to inform assessment

Comparative assessments have been undertaken for each option, against a series of financial and non-financial considerations.

A note on the approach to assessing the options can be found in [Appendix A](#).

Comparative assessment against strategic objectives

The Council has agreed a set of strategic objectives, against which the options were assessed. These can be broadly placed into two categories:

- effective and affordable delivery, and
- community needs.

Comparative financial assessment

There are several key financial metrics which options were assessed against:

- investment and revenue sufficiency
- average cost per connection
- debt position of the council, with and without water services delivery, and
- future level of efficiencies.

Impact on remaining council functions

The factors considered to assess the degree of impact on the rest of council were:

- the impact on the Council's 'residual' financial position of transitioning water services to a separate WSO, or meeting ring-fencing requirements, and
- the level of cost that Council would need to fund from other activities (that is, stranded costs) that may not transfer to an internal water services unit or a joint WSO.

Additional considerations

This includes key risks, a comparative overview of ownership, decision making and accountability structures.



Comparative assessment

Strategic objectives



Reminder: your agreed strategic objectives

Strategic objective	Key Elements
<p>Efficient and financially sustainable delivery of water services for the Thames Coromandel community, now and into the future</p>	<ul style="list-style-type: none"> • Financial sustainability, a requirement under the new legislation incorporates: <ul style="list-style-type: none"> – revenue sufficiency – water charges generate sufficient revenue to meet the full costs of service delivery including opex, interest and depreciation – financing sufficiency – Council must be able raise the borrowing required to finance investment and generate the cash surpluses required to repay debt as it falls due, and – resource sufficiency – the future model will have sufficient resource to operate water services sustainably, and the management of those resources is effectively and efficiently undertaken. • ring-fencing: Councils will be required to prepare separate financial statements for each water activity group, and for water services as a whole. • Operate in accordance with best commercial and business practices.
<p>Integrated water services and infrastructure planning that promotes efficient, equitable, and integrated delivery</p>	<ul style="list-style-type: none"> • Support integrated planning and decision-making around rural and urban water network planning, including addressing low growth, changing demographics and peak (seasonal) demand. • Coordination with wider district and infrastructure planning to align water services planning effectively and efficiently. • Appropriate levels of service, including how these are reflected in differential charges, ensuring equitable access.
<p>Affordable fit for purpose service to consumers and communities that meets the needs, and expectations of the Thames Coromandel community</p>	<ul style="list-style-type: none"> • Affordability – the projected increase in water charges is affordable for the community. • Strength of mechanisms for local voice and influence provided for in the model for example, customer engagement regarding service levels, investment and prices. • Act in best interests of present and future consumers and communities. • Fit for purpose – delivering only what is necessary to meet the specific needs of the community, without excess (that is, value-for-money).
<p>Remaining council operations are viable and continue to deliver on communities' expectations</p>	<ul style="list-style-type: none"> • The Council needs to be able to sustainably deliver its core services and meet communities' expectations.
<p>Water services are resilient to natural hazards and climate change</p>	<ul style="list-style-type: none"> • Investment sufficiency to meet current and future resilience needs and enable effective response to emergencies from natural hazards. • Support alignment and coordination with Waikato Regional Council flood protection functions • Appropriate level of financial capacity to respond to unexpected shocks.
<p>Protects and promotes public health and the environment – meeting regulatory requirements</p>	<ul style="list-style-type: none"> • Investment sufficiency: Councils undertake the investment they need to maintain existing assets, meet regulatory requirements, and provide for seasonal demands, consistent with current asset management plans including: <ul style="list-style-type: none"> – maintaining compliance with drinking water standards – maintaining good standards of environmental protection, and – anticipating and planning for meeting national standards and resource consent requirements.
<p>Responsibilities to hapū and iwi are met</p>	<ul style="list-style-type: none"> • Giving effect to Council's responsibilities arising from Treaty settlements. • Strength of processes and mechanisms for engaging with hapū and iwi to ensure meaningful participation in water services decision-making and delivery.



Comparative assessment against strategic objectives

Effective and affordable delivery (slide 1 of 3)

	1. Internal water services unit	2a. Bay of Plenty sub-region WSO	2b. WWDW WSO	2c. Hamilton City & Waikato District WSO
	Creation of dedicated ring-fenced unit within TCDC	Partner with Western Bay of Plenty District Council (WBPDCC) and Tauranga City Council (TCC)	Partner with councils in the Waikato region (except Hamilton City Council (HCC) and Waikato District Council (WDC))	Participate in the Hamilton City Council (HCC) and Waikato District Council (WDC) WSO
Efficient and financially sustainable delivery of water services for the Thames Coromandel community, now and into the future	<ul style="list-style-type: none"> Council has managed its water networks efficiently. Modelling confirms financial viability but longer-term risks exist beyond the 10-year horizon. Potential for operation and maintenance contract renewal process to result in cost increases (not allowed for in modelling). Resource competition with new WSOs (staff and contractors) may impact cost to serve. Ambitious capital programme against historic delivery rate. Obligation to assess community supplies and, if problems develop, may be required by Taumata Arowai to address issue(s). 	<ul style="list-style-type: none"> Scale efficiencies would provide financial benefits to consumers. Extent of efficiencies may depend on the number and mix of participating councils. Ability to optimise investment and prices through an optimised capital structure. Greater financial capacity increases capacity for future unforeseen investment needs (for example, climate resilience). 	<ul style="list-style-type: none"> Efficiency savings are expected, but forecast efficiencies may take longer than modelled. However, they are likely to be achieved in the long-run, up to 15% per annum for both capex and opex. Stormwater would be a contracted service. 	<ul style="list-style-type: none"> Analysis from HCC does not consider efficiencies, however efficiencies would likely accrue, and the ability to better optimise borrowing under a WSO may lead to affordability improvements, depending on pricing structures. Stormwater would be a contracted service.
Integrated water services and infrastructure planning that promotes efficient, equitable, and integrated delivery	<ul style="list-style-type: none"> Retains existing interface between spatial and water infrastructure planning. Staff involved in these functions all housed within Council. 	<ul style="list-style-type: none"> Creates need for formal information sharing and collaboration between TCDC and WSO to coordinate planning and investment (including for compliance, resilience and growth) across multiple shareholder councils. Will require sophisticated, combined investment prioritisation and delivery approaches. 		

Legend: Red text denotes possible risk Does not meet objective(s) Consistent with objective but has some risks Moderate alignment to objective(s) Strong alignment to objective(s)



Comparative assessment against strategic objectives

Effective and affordable delivery continued (slide 2 of 3)

	1. Internal water services unit	2a. Bay of Plenty sub-region WSO	2b. WWDW WSO	2c. Hamilton City & Waikato District WSO
	Creation of dedicated ring-fenced unit within TCDC	Partner with WBPDC and TCC	Partner with councils in the Waikato region (except HCC and WDC)	Participate in the HCC and WDC WSO
Affordable fit for purpose service to consumers and communities that meets the needs, and expectations of the Thames Coromandel community	<ul style="list-style-type: none"> ▪ Affordable today, but is expected to become challenging in the medium to long-term. Contract renewal process may result in higher prices than currently projected. ▪ Based on a review by Beca, the 10-year capital programme is expected to be compliant but further investment for wastewater consent compliance may be required from 2026. ▪ Longer term (10+ years) investment challenges highlight possible pressures facing communities to meet the cost of investment, including increasing borrowing from around \$100m to around \$340m in 25-30-years time. 	<ul style="list-style-type: none"> ▪ Depending on WSO pricing outcomes, affordability is expected to improve, relative to internal water services unit, particularly as efficiencies are realised over the medium term and long term. ▪ A WSO would need to be able to respond to diverse needs of a broader consumer base (would need to be addressed through design of consumer engagement mechanisms). It is expected to have the financial strength to better meet these needs. ▪ Shareholder composition would include a large urban conglomeration and councils facing coastal adaptation challenges, like TCDC. 	<ul style="list-style-type: none"> ▪ Shareholder composition may be more aligned to rural and provincial needs, but not face the same adaptation challenges as TCDC. 	<ul style="list-style-type: none"> ▪ Shareholder composition would include a large urban conglomeration, but not face the same adaptation challenges as TCDC as there is no coastal community.
Remaining Council operations are viable and continue to deliver on communities' expectations	<ul style="list-style-type: none"> ▪ Least impact on current Council operations and staff. ▪ Finances would be ring-fenced, however debt would continue to be consolidated to Council. ▪ Council has debt headroom to absorb higher water debt. 	<ul style="list-style-type: none"> ▪ The Council would be in a stronger financial position if water services (and associated debt obligations, revenue and expenditure) became the responsibility of a WSO. ▪ Some transition impacts are expected in the short term, and an appropriate (phased) transition plan would need to be in place to minimise impact to Council and staff. This is explored later in this report. ▪ Modelling assumes stormwater included though individual councils would decide in next period of reform. 	<ul style="list-style-type: none"> ▪ Unknown impact in relation to stormwater contracting opportunity. 	<ul style="list-style-type: none"> ▪ Unknown impact in relation to stormwater contracting opportunity.



Comparative assessment against strategic objectives

Community needs (slide 3 of 3)

	1. Internal water services unit	2a. Bay of Plenty sub-region WSO	2b. WWDW WSO	2c. Hamilton City & Waikato District WSO
	Creation of dedicated ring-fenced unit within TCDC	Partner with WBPDC and TCC	Partner with councils in the Waikato region (except HCC and WDC)	Participate in the HCC and WDC WSO
Water services are resilient to natural hazards and climate change	<ul style="list-style-type: none"> Council would be financially exposed to longer-term challenges of climate change and hazards from water services. These challenges are expected to grow in the coming decades. 	<ul style="list-style-type: none"> Greater debt capacity may make it possible to enhance investment in climate resilience in the longer term. 		<ul style="list-style-type: none"> Creates opportunity to consider regional-based climate investment, including potential to strengthen interface with regional council flood management.
Protects and promotes public health and the environment – meeting regulatory requirements	<ul style="list-style-type: none"> Current Council plans for investment largely align with needs and expected 10-year requirements. Climate resilience related investments and reactive infrastructure upgrades over the long term would present affordability challenges. 	<ul style="list-style-type: none"> Greater ability to invest in future resilience needs and meet changing regulatory requirements. Some common coastal issues and challenges. May need to work with multiple regional councils. 		
Responsibilities to hapū and iwi are met*	<ul style="list-style-type: none"> Ability to make use of existing relationships and channels for engagement and partnership. 	<ul style="list-style-type: none"> New mechanisms would need to be worked through with hapū and iwi. 		<ul style="list-style-type: none"> New mechanisms would need to be worked through with hapū and iwi. Would include existing Natural Resource Treaty Settlement (Te Ture Whaimana as it relates to Waikato River).

*Iwi should be specifically consulted on implications as part of consultation process



Comparative assessment

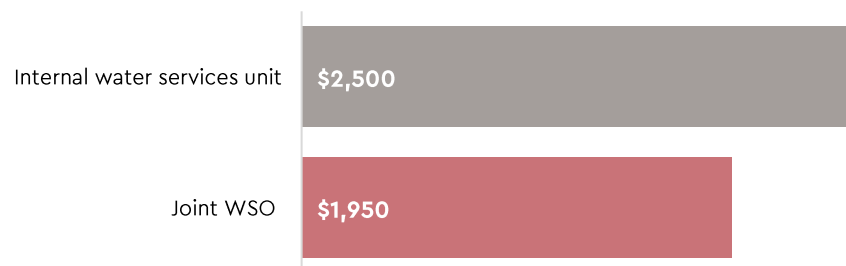
Key financial metrics



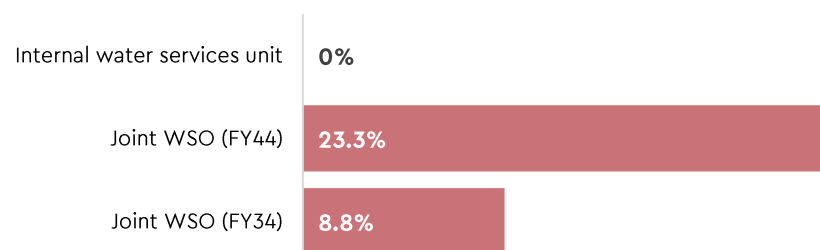
Comparative assessment of key financial metrics

	1. Internal water services unit	2a. Bay of Plenty sub-regional WSO	2b. WWDW WSO	2c. Hamilton City & Waikato District WSO
	Creation of dedicated ring-fenced business unit within TCDC	Partner with WBPDC and TCC	Partner with councils in the Waikato region (except HCC and WDC)	Participate in the HCC and WDC WSO
Average cost per connection FY34 (\$real)	~\$2,500 p.a.* FY25 cost is around \$2,250 per connection	~\$1,950	~\$2,300** (based on supplied two waters figures + current cost to deliver stormwater)	Likely similar to 2a but has not been modelled.***
Efficiencies	Limited to no efficiencies are likely to be realised. Some small efficiencies may be possible through shared services arrangements. * Incorporates additional costs to meet LWDW, and movement of port dividend and lease revenues to other Council services.	\$8.2 million cumulative opex efficiencies between FY29 and FY34. Cumulative opex efficiencies reach 23.3% p.a. in FY44. \$9.2 million cumulative capex efficiencies between FY29 and FY34. Cumulative capex efficiencies reach 20.8% p.a. in FY44.	Efficiencies are expected to be around 1%-2% per annum, and peak at 15% per annum for capex in FY42 and 15% per annum for opex in FY36. ** Modelling was undertaken by Co-Lab, not MartinJenkins. See Appendix A for further information.	Analysis from HCC does not consider efficiencies, however efficiencies would likely accrue and expected to be in similar range to 2a. *** HCC modelling information was insufficient to model a possible price path for TCDC. See Appendix A for further information.
Council financial position (FY34)	Including water services, Council debt-to-revenue ratio (including three waters) is expected to be 62% in FY34 and sees a peak debt-to-revenue ratio of 85% in FY31.	When water services revenues and debt are removed from the Council, the Council's debt metrics improve significantly. In FY34, the Council would have additional debt headroom of around 20% (or \$37 million), bringing total debt headroom to around \$217 million. Council debt-to-revenue ratio of -11% (that is, no external debt) in FY34. A peak debt-to-revenue ratio of 22% in FY30.		

Average cost per connection FY34 (\$real)



Approximate efficiencies (FY34 and FY44)



Additional considerations

Water Services Organisation



Specific implementation considerations – WSO

There are risks associated with WSO options but in general a WSO is less likely to be prone to problems if it is set up appropriately and subject to regulation. There are mechanisms to facilitate this in legislation, and through the establishment process.



GOVERNANCE FAILURE

- Appointing Board members that, individually or collectively, do not have the skills and experience required to effectively set the strategy and performance targets, and monitor management's performance against that strategy.
- Ineffective scrutiny of performance and/or failure to act on performance issues, whether through Councils' ownership control mechanisms (that is, Board appointments) or ministerial or regulator oversight.

1



INSUFFICIENT BALANCE SHEET

- There is a risk that the transfer of assets, liabilities, revenues and costs to a new WSO may result in it having low credit quality and/or unable to adequately fund the level of ongoing investment required (limited headroom for new investment).
- This risk is not inherent to the WSO model but attention still needs to be paid to how the new entities are structured financially, including the amount of debt and revenues that are transferred to it.

3



STRATEGIC CAPABILITY AND WORKFORCE

- Strategic capability to support any structural change and set up any new arrangements for success in a timely manner.
- The ability to attract and retain a high-quality management team and a qualified workforce is a key determinant of success. This risk is not inherent to a WSO model and also exists with in-house delivery.

2



LACK OF ALIGNMENT OF SHAREHOLDERS' INTERESTS

- In a multi-council ownership situation if different councils have different interests or priorities, then the Board and management of the entity can be pulled in different directions.
- The legislative requirement for a single Statement of Performance Expectations aims to mitigate this, as do other legislative protections.
- Shareholder agreements will also influence this.

4

Comparing mechanisms for planning, control and influence

Element	In-house delivery (via internal water services unit)	Water Services Organisation	Ordinary Council-Controlled Organisation (not available)
Ownership structure	100% Council owned as a business unit or division within the organisation. No new organisation is established.	Ownership arrangements and rights set out in a constitution and/or shareholder agreement, subject to compliance with the legislation.	<i>Controlled, directly or indirectly, by 50% or more of the votes of directors, trustees or managers.</i>
Governance arrangements	Internal water services unit responsible to the elected members, with other usual council governance oversight. This could be supplemented with a technical advisory group if required and an additional cost.	Shareholding councils can appoint and remove directors. A constitution would govern composition of the Board, process and requirements. Shareholder council provides governance oversight and a forum to meet, discuss, and coordinate on relevant issues. Shareholder Council will strive to make all decisions by consensus.	<i>Governors appointed by controlling councils.</i>
Strategy	Councils will need to prepare a water services strategy.	A WSO must prepare and adopt a water services strategy, consistent with the Statement of Expectations (SOE) issued by the shareholder council. WSO Board prepares water services strategy and consults shareholding councils.	<i>CCO must prepare and adopt statement of intent. Shareholders may direct changes to statement of intent.</i>
Direction setting	Set by the Council, through various strategies and planning documents, including the Long-Term Plan.	The shareholder Council would issue a Statement of Expectations, guided by ownership rights set out in a constitution or shareholders' agreement. The WSO must give effect to this.	<i>Owners may prepare a Statement of Expectations, however these are non-binding.</i>
Accountability	Accountable to the public through usual local democracy practices. Water services annual report – including new financial statements on water supply, wastewater and stormwater – will be completed to enhance current requirements. The Council will face new accountabilities to the economic regulator, and water services regulator for prices, and quality of service as well as consumers directly.	WSO must give effect to the Statement of Expectations, provided it is consistent with the Act. WSO Board is accountable to Council shareholders and reports regularly on performance (shareholders are accountable to community). WSO required to give effect to Statement of Expectations and meet statutory requirements. WSO prepares annual report, including financial statements, and information on performance and other matters outlined in water services strategy. The WSO will also be accountable to the economic regulator, and water services regulator, as well as consumers directly.	<i>Ordinary CCOs are not typically subject to economic regulation or sector specific regulation (an exception being airports). Accountability arrangements are broadly similar but the level of specificity for WSOs is more prescriptively set out in legislation and tailored to the delivery of water services.</i>
Community engagement	Consistent with the Local Government Act engagement requirements.	WSO may engage with the community, and shareholders. Shareholders can prescribe requirements through founding documents and accountability instruments.	<i>CCO may engage with the community and shareholders.</i>



Additional considerations

Possible implications for the Council, if water services are transferred



Rest of Council considerations

Changes to the delivery of water services would have implications for the rest of the Council's functions.

Forthcoming decisions on how TCDC delivers water services to residents will have a material impact on the Council's residual financial and operating context.

It is relevant for Council to understand these financial and operational implications for other Council functions under all options considered. Even under the internal water services unit option, the ring-fenced financial management of water services will have implications for matters such as overhead allocation and the residual debt capacity of Council for other functions.

TCDC needs to consider whether existing service delivery arrangements will a) be sustainable and b) continue to meet community expectations regarding levels of service and affordability.

This assessment has multiple considerations.

- The broader strategic context that TCDC faces including the ability to service its unique community and to address issues related to climate change adaptation and resilience.
- The implications of a new purpose for local government and definition of core services against Council's current service offering.
- The opportunities and challenges that could be explored for economies of scope through shared services arrangements.
- The investment needed to ensure TCDC has the

strategic capacity to lead through complex change and to continue to respond to the diverse needs and expectations of its unique communities.

- Options to move towards a financially sustainable (and affordable) operating model for the future that enables committed progress toward Council's strategic priorities.

The introduction of financial ring-fencing and the potential transfer of water services to a standalone or joint WSO provides both challenges and opportunities.

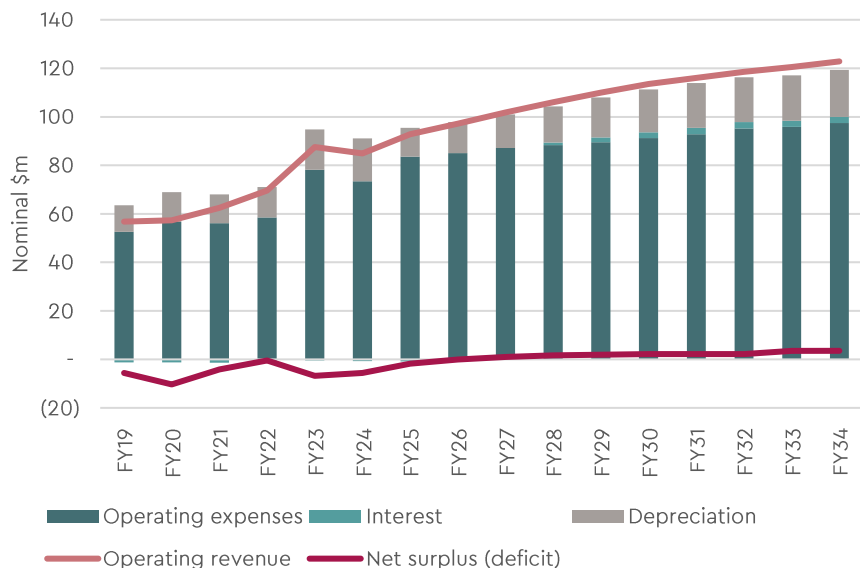
Our analysis has been informed by the information provided by TCDC. High-level findings are:

- Overall, the removal of water service delivery improves the borrowing position of the rest of Council. The Council has a stable financial position when water services are excluded.
- The Council will likely face some stranded costs however these would be limited because operations and maintenance of water services is already outsourced. There is scope to mitigate stranded costs through careful negotiation of transition arrangements, including ensuring Council is appropriately compensated for any shared services.
- The impact on other functions, would depend on transition arrangements, but some adverse impact is expected in the short-term. We assess the scale of these impacts to be moderate.

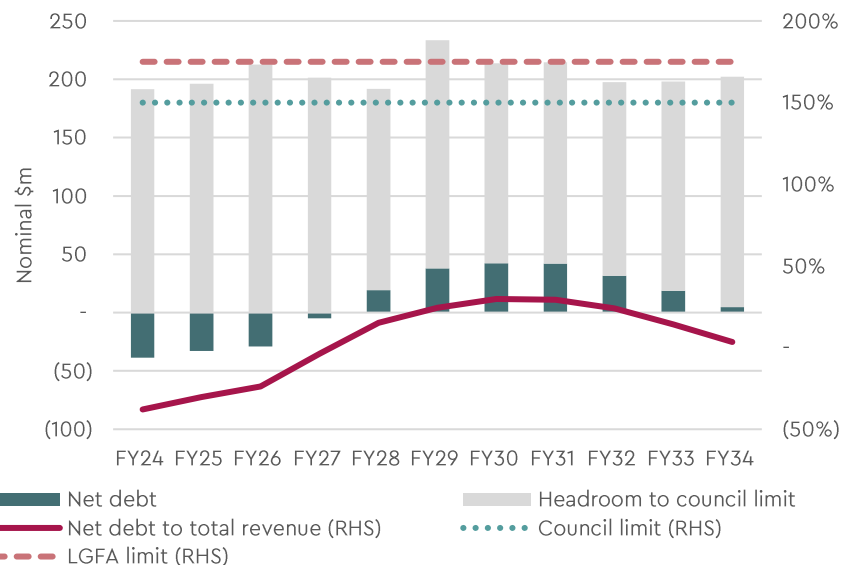


Anticipated financial position of TCDC, excluding water services

Revenues and expenses - Council excluding water services



Net debt to revenue - Council excluding water services



Revenues

Revenues for non-water services are projected to increase by 45% over the next 10 years (up \$38 million), growing from \$85 million in FY24 to \$123 million in FY34.

Operating surpluses/deficits

Non-water Council services are expected to run small deficits until FY27, improving on historic performance where deficits ranged from 18%-17% of revenues. From FY27, services become revenue-neutral and begin generating surpluses, peaking at a 3% surplus in FY33 and FY34. Over the long-term plan

period, cumulative losses and surpluses result in a minor net surplus of \$16 million against total revenues of around \$1.1 billion.

Operating surpluses and deficits

The Council's external net debt (excluding three waters) remains relatively low compared to other local governments in New Zealand. It rises from negative net debt (positive reserves) of \$39 million in FY24 to a peak of \$42 million in net borrowing FY30, before reducing to \$4 million in FY34, leaving around \$200 million of headroom against the council debt limit of 150%.



Impact on other Council functions

Initial analysis indicates that transitioning water services to a separate WSO, or meeting ring-fencing requirements, is likely to have a minimal financial impact on remaining Council functions. In the short term, there may be some adverse impact on these people and functions.

This finding is based on our assessment of the 'residual' financial position of the Council, and our understanding of the Council's organisational structure.

TCDC currently operates its functions through a mix of dedicated resource (by function) and resources that are shared across one or more Council functions. Where resources are shared, there does not appear to be a methodology to assign or attribute a share of costs to the relevant functions.

We have undertaken indicative analysis, through a combination of interviews and a review of the Council's current organisation structure, to understand the potential implications of either ring-fencing resources related to water services, or transferral of these resources to a WSO from a financial, and non-financial perspective.

Currently around 6-7% of Council staff (in full-time equivalent terms) are dedicated to water services, with an additional 5% of staff serving water services, but also supporting other Council functions.

It is assumed that in any new arrangement, dedicated water services roles would either transfer to an internal water services unit or to a joint WSO arrangement*. On the other hand, people who support multiple functions, including water services, may or may not transfer to an internal water services unit, or a joint WSO. As some of these personnel are integrated into other council functions, this would likely have some adverse impact on these people and functions in the short-term. We assess the scale of the likely adverse impacts to be moderate, with specific impacts dependent on the level of personnel changes and the nature of the specific transition arrangements entered into.

From a financial perspective, the treatment of stranded costs would need to be determined through transition arrangements within Council or with a new WSO. However, given the 'residual' financial position of Council as set out on the prior page, we anticipate that the impact of stranded costs on TCDC would be minimal and could be managed, provided suitable transition arrangements are agreed for council supplied services to a ring-fenced business unit or water services CCO. For example, stranded overheads could:

- Be 'ring-fenced' for water services in a Council-delivered arrangement, managed through an overhead allocation model
- contribute to shared services arrangements with a WSO, with compensation paid by the WSO to council for council-supplied services, or
- be reallocated to other Council functions to support the Council's other functions and activities.

** In practice, some of these people may choose to stay with Council, rather than move to a WSO.*



Key risks and mitigations

Option	Risk	Possible mitigation
Internal water services unit	<ul style="list-style-type: none"> Resource competition with WSOs – staff, contractors and delivery. For example, when tendering for investment, or attracting staff with the right skills and experience. 	<ul style="list-style-type: none"> Difficult to mitigate. Option to engage a third-party or WSO for service delivery, or leverage expertise through secondments to TCDC.
	<ul style="list-style-type: none"> The smaller operational scale and lower debt ceiling may limit flexibility to respond to broader challenges or shocks (for example, maintaining assets, making climate investments to improve resilience, or responding to an extreme weather event). 	<ul style="list-style-type: none"> Council is in a strong financial position today to manage shocks but may face community affordability challenges in responding to shocks in the future.
Joint Water Services Organisation	<ul style="list-style-type: none"> Limited direct control or influence over investment decisions and pricing outcomes.* <p><i>*Note, all water service providers (including councils) will be subject to economic regulation, as well as environmental and water quality regulation which may direct investment and prices.</i></p>	<ul style="list-style-type: none"> Consider options with fewer shareholding councils to reduce potential complexity of governance arrangements and transition. Consider council groupings with common interests and shared challenges. TCDC has a relatively strong negotiating position to influence shareholder agreements and statements of expectations, if involved from the beginning. Shareholder Council appoint and remove directors.
	<ul style="list-style-type: none"> Transition risks, such as stranded overheads, or reduced internal capacity to deliver other council services as a result of staff moving to a WSO. 	<ul style="list-style-type: none"> May be addressed through careful negotiation of transition arrangements with potential partners to ensure council functions are protected alongside appropriate management of stranded costs. This includes ensuring the WSO compensates Council for any services provided through transition period (e.g., collecting revenue on their behalf, accommodating staff).
	<ul style="list-style-type: none"> Higher costs to TCDC communities due to pricing decisions, or efficiencies not being realised. 	<ul style="list-style-type: none"> May be addressed through negotiation. TCDC has a strong starting position which would help to ensure that benefits are captured for the Thames Coromandel community. Economic regulation will help to drive efficiencies. WSO structure, including independent governance, will support strong asset management and procurement practices.



Summary assessment



Summary assessment

	1. Internal water services unit	2a. Bay of Plenty sub-regional WSO	2b. WWDW WSO	2c. Hamilton City & Waikato District WSO
Choose option if	<p>Council wants least change to status quo, is confident it can meet new LWDW requirements in the short- and long-term and is willing to retain operational and financial responsibility for water services.</p> <p>Council wants to preserve future option value including the potential to join a regional / sub-regional WSO in future, though this may be more complex and costly, and less certain than moving in the short-term.</p>	<p>Council sees benefit in a joint water service organisation, which includes a large urban area (to drive efficiencies), and smaller councils, and is better positioned to manage long-term risks.</p> <p>Council sees a greater community of interest and shared challenges with coastal councils in Bay of Plenty region.</p> <p>Council wishes to capture efficiencies from being a part of a larger organisation to enable more investment and/or lower prices.</p>	<p>Council sees benefit in a joint water service organisation along with smaller councils well positioned to manage long term risks.</p> <p>Council sees benefit in partnering with a larger group of smaller councils with a more rural and provincial focus.</p> <p>Council wishes to capture efficiencies from being a part of a larger organisation to enable more investment and/or lower prices.</p>	<p>Council sees benefit in a joint water service organisation well positioned to manage long term risks, and would like to partner within the Waikato.</p> <p>Council is seeking to join a process that is advancing at pace and has a strong implementation focus in the near term.</p> <p>Council wishes to capture efficiencies from being a part of a larger organisation (including a metro) to enable more investment and/or lower prices but with fewer shareholders.</p>
Key advantages	<p>Provides for the least change: water services are integrated with other council services.</p> <p>Provides the greatest direct relationship between the delivery of water services, your Council and community.</p> <p>This option preserves some flexibility and doesn't prevent TCDC joining up with other councils in a WSO later.</p>	<p>Potential to bring longer-term benefits of a larger entity with councils facing common coastal community issues.</p> <p>Greater scale efficiencies likely when partnered with a metropolitan area, and less dispersed geography.</p> <p>Fewer participating councils would reduce potential complexity of governance arrangements and transition. TCDC has a relatively strong negotiating position given its low debt and good asset condition.</p>	<p>TCDC would likely be the largest council, which may provide for a stronger negotiating position with other participating councils. However, a larger number of participating councils may dilute the level of individual council influence and shareholder cohesion and could make transition planning more difficult.</p>	<p>Efficiencies of this option may be more limited than other WSO options, as international evidence suggests that the inclusion of a city or metropolitan area help drive greater efficiencies.</p>
Key disadvantages	<p>Likely to have higher costs for consumers/ratepayers than other options in the long term, as this option does not provide benefits from scale (e.g., bulk purchasing or attracting staff with the right skills and experience).</p> <p>The smaller operational scale and lower debt ceiling may limit flexibility to respond to broader challenges (for example meeting drinking water and wastewater discharge standards, and investments in climate resilience).</p>	<p>Risk that TCDC could have less influence partnered with a larger council, depending on what representation and governance arrangements are agreed between councils. This also depends on the number and mix of participating councils.</p> <p><i>Note, TCDC has a relatively strong negotiating position today.</i></p>	<p>While TCDC could be the largest participating council, the number of other partners may dilute TCDC's ability to influence.</p> <p>Less scope for scale efficiencies due to absence of a metropolitan area.</p>	<p>Risk that TCDC could have less influence partnered with a larger council, depending on what representation and governance arrangements are agreed between councils.</p>



Appendix A

Approach to comparing sub-regional options



Limitations to the comparison of sub-regional options

Each of the three sub-regional variations are in different stages of development, and have undertaken analysis at different points in time.

Government expectations of councils and WSOs—particularly around water quality, environmental standards, and financing arrangements—have continued to evolve during the development of this assessment.

The comparative analysis is reliant on inputs from third parties, which may not have been prepared on a consistent basis and may have been prepared with different assumptions.

Where possible we have tried to align assumptions, to present a fair comparison.

Bay of Plenty sub-regional Water Services Organisation

Tauranga City Council, Western Bay of Plenty District Council, Whakatāne District Council, and Thames Coromandel District Council engaged MartinJenkins to perform a high-level financial assessment of a proposed joint WSO.

The modeling was based on an agreed set of assumptions, including efficiencies, operating costs, and target financial structures (informed by guidance from the LGFA and the DIA).

The findings of that analysis underpin the Bay of Plenty opportunity outlined in this report.

Waikato Water Done Well

Waikato Water Done Well (WWDW) is a regional project that has facilitated the high-level design and assessment of a Joint WSO for the Waikato region. Participating councils would transfer responsibility for their water services to a newly formed organisation, collectively owned, ensuring they have input into strategic priorities.

WWDW has provided various iterations of its modeling and key assumptions to inform this assessment, allowing for like-for-like comparison of the likely price path for Thames Coromandel

consumers (to the extent possible).

Because WWDW covers only two waters, the price path shown here includes the two-waters cost projections from WWDW plus the Council's forecast costs for delivering stormwater services (as outlined in the Long-Term Plan).

Hamilton City Council / Waikato District Council Water Services Organisation

Hamilton City Council resolved in December 2024 that a joint WSO with Waikato District Council was its preferred option, noting that other councils may join.

The business case ([found here](#)) which supported HCC's decision has been used to guide the assessment presented in this report. Modelling potential pricing outcomes for TCDC, were it to join, was not possible with the information available.

Note that since that business case was developed, the government has issued new guidance on WSO financing arrangements. Consequently, it is not directly comparable to WWDW or the Bay of Plenty sub-regional proposal.





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