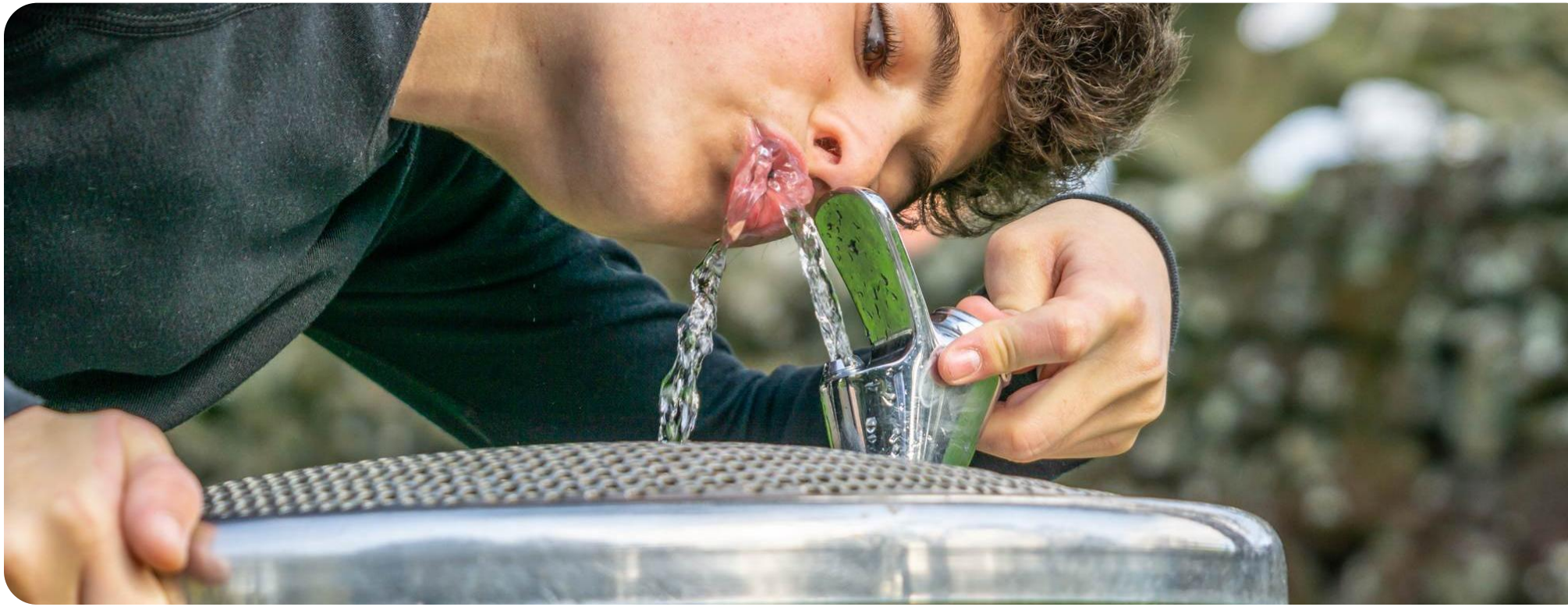

Joint WSCCO investigation

Rotorua Lakes Council, Whakatāne District Council, Kawerau District Council and Ōpōtiki District Council

Final Report

17 August 2026

Commercial in Confidence

Preface

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Introduction

Introduction

Background

Rotorua Lakes Council, Whakatāne District Council, Kawerau District Council, and Ōpōtiki District Council resolved to jointly explore the development of a multi-council Water Services Council Controlled Organisation (WSCCO) for Rotorua and Eastern Bay of Plenty.

Following consultation with their communities in 2025, each council submitted a Water Services Delivery Plan (WSDP) that set out a phased approach to service delivery, with in-house provision continuing until 1 July 2028 while the councils jointly investigated the feasibility of a shared WSCCO model. These WSDPs were approved by the Secretary for Local Government under the Local Governance (Water Services Preliminary Arrangements) Act 2024, noting the expectation that a joint service delivery option would be investigated.

The councils entered into a Heads of Agreement in December 2025 formalising their commitment to investigate the establishment of a joint WSCCO. It outlined the scope of the investigation, including governance arrangements, key activities, and each council's responsibilities. It established the Waters Working Group and Project Team to oversee and lead the work.

Purpose of this report

This report responds to the commitment each council made in the Heads of Agreement to investigate a joint multi-council water service delivery entity. The Heads of Agreement set out four objectives for that investigation:

- to work closely and collaboratively to investigate a joint WSCCO that meets each council's long-term needs and objectives for their communities
- to enable timely decisions that can be incorporated into each council's 2027 to 2037 Long Term Plan and meet the commitments made through the Water Services Delivery Plans
- to consider how the councils would operate together in a way that supports effective and efficient use of council resources and long-term benefit for ratepayers
- to provide a strong evidence base for decisions on whether to establish a joint water organisation by 1 July 2028.

This report sets out the recommended water service delivery model for the four councils and is intended to support councils to make decisions about future service delivery arrangements.

Scope

In February 2026, MartinJenkins was engaged to support the councils' investigation by providing a comparative assessment of an agreed set of service delivery options:

- an in-house ring-fenced business unit, retained as the counterfactual
- an asset-owning water services council-controlled organisation (WSCCO)
- a service delivery WSCCO, where councils retain assets.

Stormwater was treated as a specific decision within that scope, given its different characteristics and its interface with other council functions.

The analysis does not revisit the in-house service delivery model adopted by each council in their Water Services Delivery Plans. It builds from those plans and tests whether a joint arrangement would deliver better outcomes for communities than continuing with an in-house service delivery model.

Introduction

Approach

The work has been led by the Waters Working Group (WWG), made up of representatives from the four councils, and a Steering Group of council officers has supported the process throughout.

Five packages of work have been delivered between February and June 2026:

- a strategic assessment of options against agreed objectives
- a financial assessment, including thirty-year modelling and cost-to-serve analysis
- a stormwater options paper
- ownership, representation and governance design options
- an indicative high-level implementation plan.

Supporting materials including decision making examples and advice on the treatment of regional council assets were also provided.

Each package was developed by the project team, refined with input from the Steering Group, then taken to the WWG for testing and direction.

The preferred option set out in this report reflects direction the WWG has provided through that process.

How to read this report

This report summarises the key findings, analysis and conclusions from the investigation undertaken by the Waters Working Group. It is intended to provide a concise account of the investigation and support council decision-making. It does not reproduce all of the detailed analysis completed during the investigation, which is contained within the papers discussed at each WWG meeting and two companion reports.

This report is organised into the following sections:

- **Context**: sets out the evolving legislative and regulatory context for the investigation.
- **Current water services delivery models**: describes the current state of water services across Rotorua Lakes, Whakatāne, Kawerau and Ōpōtiki, including service delivery, compliance, asset condition, financial sustainability and future challenges.
- **Assessing water services delivery options**: describes the delivery models considered during the investigation and the characteristics of each, and sets out the process used to assess the options and identify a preferred model, including:
  - shortlisting the options
  - consideration of stormwater
  - key financial comparisons
  - detailed options assessment
- **Design of the WSCCO**: sets out the indicative ownership, representation, governance and decision-making arrangements considered by the Waters Working Group for the preferred model. While this is not definitive, it provides a reasonable basis for councils to consult their communities on how a joint WSCCO could be structured.
- **Next steps**: summarises the key decisions and activities that would be required if councils decide to progress the preferred option.
- **Appendix**: provides council-specific assessments of the implications, opportunities, risks and trade-offs associated with each delivery model.

Readers seeking more detailed information on a particular topic should refer to the relevant WWG meeting papers or the relevant companion report:

- Financial Assessment
- Stormwater Options.

Context for this investigation

The water reform context
1 of 2

Evolving water services reforms

Since councils prepared and submitted their Water Services Delivery Plans (WSDPs) in mid-2025, the national legislative and regulatory environment for water services has continued to evolve:

- The **Local Government (Water Services) Act 2025** was enacted in August 2025, finalising the Government's "Local Water Done Well" reforms. This sets **new financial, planning and accountability obligations** for water services providers, including the financial principles that support the ringfencing objective of Local Water Done Well, financial sustainability requirements, and obligations to provide cost-effective services. New accountability requirements include preparation of a Water Services Strategy, annual budget and annual report. For new water organisations, there are requirements to report at least twice a year to shareholders. The new Act also requires a range of other **plans or activities that water services providers must complete** including, for example, in relation to development contributions, trade waste, and stormwater network management.
- The **Water Services (Wastewater Environmental Performance Standards) Regulations 2025** took effect on 19 December 2025. These set **uniform environmental discharge standards** for wastewater and streamline consenting under the RMA. Compliance will likely require significant infrastructure upgrades for many water services providers, as many treatment plants face consent renewals in the coming decade.
- Amendments to the **Commerce Act (August 2025)** confirmed the Commerce Commission as economic regulator for water services. In February 2026, the Commerce Commission finalised new i**nformation disclosure requirements** for local water providers. These require water service providers to publicly disclose key information on charges, expenditure forecasts, financial planning, performance data, asset management, delivery and strategic planning information, improving transparency for consumers.

Potential for further changes

The legislative framework for water services provides for a range of other interventions that regulators may choose to introduce.

- Taumata Arowai has begun development of **National Engineering Design Standards** (NEDS). These standards will set consistent, performance-based requirements for the design, construction and operation of drinking water, wastewater and stormwater systems. Water services providers should anticipate the need to align local design practices and specifications with these national standards. Ultimately, these standards are expected to reduce the costs of infrastructure delivery.
- Taumata Arowai is also able to develop **national stormwater environmental performance standards** for urban stormwater to ensure consistent flood protection, network performance, and water quality outcomes across all councils. These standards would require local water providers to meet uniform benchmarks for stormwater infrastructure and environmental compliance.
- The Commerce Commission's powers also include the ability to impose **price-quality regulation**, **set revenue thresholds and performance requirement**s, and **ring-fence investment for water infrastructure** where it determines stronger interventions are needed. The Commission also has the ability to introduce **customer protection** measures to address service quality issues, including standardised complaints processes and a service quality code.

The water reform context
2 of 2

The future direction for water services delivery is clear, with an expectation of standards for drinking water quality, environmental performance, financial sustainability and transparency, and stronger enforcement when standards are not met. The pace and detail of further change is less certain. Whatever delivery model is chosen will need to be able to absorb continued regulatory development and changes in the labour market and supply chains without losing focus on service delivery.

Implications for councils

For water services providers, including councils delivering services in-house, the context for decision-making has significantly shifted since the WSDPs were written.

Greater clarity about obligations

Some of the uncertainties present when the WSDPs were developed have been reduced. The core legislative framework is now in place, providing clearer expectations around governance, operational standards, and future planning. Councils can base their next steps on confirmed requirements, rather than assumptions. However, with this clarity comes a suite of new compliance obligations that all water service providers must meet, regardless of the delivery model.

Increased regulatory scrutiny

Regulatory scrutiny of water services is intensifying. The Water Services Authority (Taumata Arowai) is actively enforcing drinking water safety and environmental performance, and the Commerce Commission will be scrutinising financial and service performance through the economic regulation regime.

Non-compliance is likely to face stronger enforcement actions with new legislation including penalties and intervention powers to ensure standards are met. This means there is likely to be less latitude for service shortfalls or deferred investment. Proactive compliance, risk management, and timely infrastructure upgrades will be essential whether water services continue in-house or transition to a WSCCO.

Higher costs of compliance

Increased regulatory standards will require additional investment, staffing and capability to ensure compliance. Meeting national drinking water and wastewater standards, enhanced environmental regulations, and rigorous reporting duties will increase operating costs and necessitate ongoing capital upgrades (for example, to improve wastewater treatment to meet the new discharge standards). Even under the current in-house model, councils should anticipate higher costs to satisfy these regulatory standards and may need to allocate more funding for water infrastructure, monitoring, and compliance activities.

Ongoing change

Councils and any future water organisation will need the capacity to keep tracking and responding to changes to regulations, increased competition for scarce labour, and changes in the supply chain. This includes building flexibility into financial, asset and operating plans so the organisation can adjust as further standards, guidance and disclosure requirements are confirmed. Maintaining sustainability and resilience of water services, in the face of changes in the external operating and regulatory environment, will be challenging for councils that continue to manage services in-house.

Wider local government reform context

Alongside the Local Water Done Well reform, the Government has been progressing wider local government and resource management changes during the period this investigation has been underway.

Three government policy announcements made since this investigation commenced are relevant to how a joint WSCCO is designed and how councils work with iwi and hapū.

Reorganisation of local government - Head Start process

On 5 May 2026, the Government announced a voluntary "Head Start" pathway for reorganising local government. Councils have until 9 August 2026 to submit proposals to form larger unitary authorities that combine regional and territorial functions. Proposals must come from groups of two or more territorial authorities representing a majority of the affected councils or population.

Cabinet is expected to make in-principle decisions on shortlisted proposals in September 2026, with detailed proposals confirmed in 2027 for implementation ahead of the 2028 local elections. Councils that do not opt in to this process face government-led reform after 2028 via a backstop mechanism to enable central intervention where voluntary proposals have not been advanced.

Council Head Start resolutions

- WDC, ŌDC (4 August 2026), and KDC (5 August 2026) have resolved to support submitting a joint proposal for the Eastern Bay of Plenty unitary authority.
- RLC (29 July 2026) have resolved to support submitting a proposal that would see RLC become a unitary authority.

Voting rights on council committees

On 2 June 2026, the Government announced it will amend the Local Government Act 2002, through the Local Government (System Improvements) Amendment Bill, so only elected members hold voting rights at council committee meetings.

Unelected appointees, including iwi and hapū representatives, would no longer vote or count towards a quorum. Councils could still appoint unelected members in an advisory or representative capacity, without voting rights. Statutory committees and appointments agreed as part of Treaty settlements would be excluded. Councils would have six months to implement the change once the Bill passes.

Iwi participation in the resource management system - Mana Whakahono ā Rohe

On 20 July 2026, the Government announced that existing and initiated Mana Whakahono ā Rohe agreements will not carry over into the new resource management system replacing the RMA (the Planning Bill and Natural Environment Bill).

These agreements, introduced in 2017, set out how councils and iwi authorities work together on resource management decisions.

Councils will instead be able to enter new, narrowly scoped iwi participation agreements recording how iwi authorities take part in statutory planning processes and give effect to Treaty settlement redress, with legislative guardrails to limit their scope.

The context for this investigation

The Water Services Delivery Plans submitted by the four councils in 2025 each committed to investigate a joint multi-council WSCCO, with in-house delivery continuing until 1 July 2028.

The Heads of Agreement signed in December 2025 gave that commitment a formal shape and confirmed the principles for working together.

The investigation has been carried out against a shifting regulatory backdrop. The core legislative framework is now in place, the wastewater standards are in force, and economic regulation is taking shape, but further change is still to come.

At the same time, multi-council WSCCOs are at various stages of establishment across the country. This gives the four councils a growing body of experience and lessons to draw on for the design choices set out later in this report.

Against this backdrop, this investigation tests whether a joint water services CCO would deliver better outcomes for communities than continuing with in-house service delivery for each of the four councils.

Implications of wider local government reform

The local government reforms noted on the previous page were announced after the four councils had committed to investigate a joint WSCCO, so their detailed implications sit outside the scope of this investigation.

They may, however, bear on how councils consider its findings, including the decision about whether to proceed with a joint WSCCO and how ownership and representative arrangements are designed.

The Head Start and backstop processes could change the group of councils involved over time. Irrespective of the process, the WSCCO's design should allow for the possibility that the group of shareholding councils changes over time, particularly via the entry, exit and adjustment provisions in the Constitution and Shareholders' Agreement. It is possible that different local government configurations or boundary changes could affect the financial and other implications of progressing a joint WSCCO.

The proposed changes to committee voting rights and to Mana Whakahono ā Rohe would affect some of the mechanisms available to involve iwi and hapū in the representative and governance arrangements for a joint WSCCO. Treaty settlement obligations endure regardless.

The exact details of these proposals, and their implications, are not yet clear as the Planning, Natural Environment and Local Government (System Improvements) Amendment Bills are yet to progress into law.

Key dates to the end of 2026

Key dates for decisions in relation to this WSCCO investigation and Head Start process overlap:

- 9 August 2026: Headstart proposals due.
- 17 August 2026: WSCCO technical investigation report confirmed by WWG.
- September 2026: Councils decide on progressing with consultation on joint WSCCO.
- September 2026: Cabinet decision in principle on Head Start proposals.
- December 2026: Councils decide if they want to progress with joint WSCCO.

Current water services delivery models

Understanding the current delivery model

Understanding the current state

Understanding the current state of water services in each district, and the pressures councils face, is central to assessing whether a different delivery model is worth pursuing.

This section sets out the 'current state' across Rotorua Lakes, Whakatāne, Kawerau and Ōpōtiki, based on available information. It covers the scale of services, the condition of assets, performance against compliance requirements, and the financial position of water services in each district.

The picture set out here also reflects, in substance, what an in-house delivery model would continue to deliver. It therefore serves as the baseline against which alternative delivery models are compared later in the report.

This context establishes the basis for considering whether a joint delivery model could better position the four councils to respond to these challenges.

How this section is structured

The material in this section provides an overview of the services delivered by each council and how those services are performing. The section ends with a summary of the pressures shaping the case for change.

- **Snapshot of water services:** the scale of services, connections and assets across the four councils.
- **Services and assets by council:** how each district differs in size, network composition and growth outlook.
- **Treaty settlement obligations and iwi and hapū engagement:** the Treaty landscape councils operate within.
- **Asset condition and renewals:** areas of network pressure and planned investment.
- **Compliance:** performance against drinking water, environmental and service level requirements.
- **Financial position:** planned capex, debt levels, and affordability of water charges in the current WSDPs.
- **Risks and challenges:** common pressures across the four councils and issues specific to each.

Information sources for this section

This section draws on the four councils' Water Services Delivery Plans, Annual Reports and supporting information provided by councils.

We note that the financial and asset information in this report is drawn from WSDPs that represent a point in time snapshot. There are some inconsistencies in the way each council reported information in WSDPs and in a number of places we have updated that information to provide for greater consistency.

The information in this section provides important context for council decisions to investigate a joint WSCCO, but the detailed financial modelling later in this report is based on a more consistent methodology than used in WSDPs and draws on more up to date information and projections provided by councils. This explains some differences in the information in this section and later sections of the report.

Readers seeking the underlying material should refer to the WSDPs and WWG meeting papers.

Snapshot of water services across the four councils

	Water supply	Wastewater	Stormwater
Services	**46,136** drinking water connections	**42,977** wastewater connections	**40,436** stormwater connections
Serviced population*	**119,737** 89% of total population	**110,937** 82% of total population	**117,937** 87% of total population
Schemes/ catchments	24 water supply schemes	23 wastewater schemes	25 stormwater schemes/catchments
Above ground assets	24 Treatment plants 82 reservoirs 24 pump stations • 91 % of assets have a condition rating • **13%** of assets are in poor or very poor condition	10 treatment plants 128 pump stations • 91 % of assets have a condition rating • **13%** of assets are in poor or very poor condition	34 pump stations • 89 % of assets have a condition rating • **5%** of assets are in poor or very poor condition
Below ground assets	1,555 km of pipes • 76% of assets have a condition rating • **12%** of assets are in poor or very poor condition	1,086 km of pipes • 81% of assets have a condition rating • **31%** of assets are in poor or very poor condition	581km of pipes • 75% of assets have a condition rating • **16%** of assets are in poor or very poor condition
Total replacement asset value**	**$2.4b**		

* An overall connection number has been applied across the three waters for RLC.

Summary of services by council

	Rotorua Lakes	Whakatāne	Kawerau	Ōpōtiki
Drinking water connections	27,185	13,200	2,917	2,834
Wastewater connections	25,964	12,240	2,922	1,851
Stormwater connections*	24,989	10,674	2,920	1,851
Networks/ catchments	RLC has 10 defined water supply areas, 13 wastewater areas and 14 stormwater catchments.	WDC has nine water supply schemes, six wastewater schemes, and eight stormwater catchments.	KDC has one drinking water and one wastewater scheme. Stormwater only comprises road run-off as all properties dispose of stormwater to soakage on-property.	ŌDC has three drinking water schemes, two wastewater schemes and one stormwater scheme.
Serviced population	73,373 (96% of the population have at least one water connection) Connected properties • DW – 87% • WW – 83% • SW – 80%	DW – 30,145 (76%) WW – 24,196 (61%) SW – 30,939 (78%)	8,000 (all)	DW – 8,219 (79%) WW – 5,368 (48%) SW – 5,368 (48%)
Anticipated growth in connections (10 years)	9%	7%	4%	10%

* Represents rating units and may not be the same as the number of direct physical connections from properties to the stormwater network.

Summary of assets by council

		Rotorua Lakes	Whakatāne	Kawerau	Ōpōtiki
Drinking water	**Above ground**	9 Treatment plants 50 reservoirs 17 pump stations	11 treatment plants 23 reservoirs 5 pump stations	1 treatment plant 2 pump stations	3 treatment plants 9 reservoirs 4 pump stations
	Below ground	761 kms of reticulation	609 kms of reticulation	73 kms of reticulation	112km of reticulation
Wastewater	**Above ground**	2 treatment plants 79 pump stations	6 treatment plants 49 pump stations	1 treatment plant 6 pumping stations	1 treatment plant
	Below ground	574 kms of reticulation	246 kms of reticulation	56 kms of reticulation	46 kms of reticulation
Stormwater	**Above ground**	2 pump stations	20 pump stations		12 pump stations
	Below ground	416 kms of reticulation	94kms of reticulation	42 kms of reticulation	20 kms of reticulation
Total replacement asset value		**$1,349.7m**	**$765.9m**	**$120.5m**	**$136.6m**

Treaty settlement obligations and iwi/hapū engagement context

Strategic context and key features

Across Rotorua Lakes, Whakatāne, Kawerau and Ōpōtiki, councils operate within a complex and enduring Treaty settlement landscape, shaped by a mix of settled and pre-settlement iwi and hapū interests. Several iwi have overlapping interests across multiple council areas, particularly in relation to shared catchments, affected environments and regionally significant water bodies.

Treaty settlement obligations arise from a range of statutory and non-statutory instruments, including settlement legislation, deeds of settlement, statutory acknowledgements, co-governance and joint management arrangements, and iwi management plans.

Collectively, these instruments establish enduring relationships, responsibilities and expectations for councils. The way these obligations apply to water services varies by place and context, and may be strategic, operational, or specific to particular sites, assets or decisions.

Council engagement with hapū and iwi is undertaken through a mix of formal and informal approaches, reflecting differences in settlement history, rohe, capacity and local relationships. In some areas, engagement is supported by well-established statutory co-governance and partnership arrangements, while in others it is more relationship-led and place-based, supported by council–iwi forums, project-specific engagement and site-specific arrangements. The maturity of these arrangements varies across the four districts.

A shifting statutory environment

As noted on page 11, two current reforms will change some of the statutory mechanisms for iwi participation.

Existing and initiated Mana Whakahono ā Rohe agreements will not carry into the new resource management system. Councils will instead be able to enter narrower iwi participation agreements at their discretion.

Proposed changes to the Local Government Act would remove voting rights for unelected members on council committees, including iwi and hapū representatives. Councils could still appoint unelected members in an advisory or representative capacity, without voting rights. Statutory committees and appointments agreed as part of Treaty settlements would be excluded.

Final details of these policy announcements are not yet clear and are still to move through Parliament and are not yet law.

Treaty settlement obligations endure regardless of these changes, and these and other instruments will continue to exist and shape relationships and responsibilities between councils, iwi and hapū. In practice, relationship-led and place-based approaches are likely to remain prominent in the Treaty landscape.

Snapshot: Treaty instruments and engagement approaches

Council	# iwi entities	Iwi entities *overlapping		Range of Treaty instruments in play (as an initial baseline)	Current formal and informal engagement approaches
Rotorua Lakes	21	Ngāti Kearoa-Ngāti Tuara Ngāti Mākino* Ngāti Pikiao Ngāti Rangiteaorere Ngāti Rangitihi* Ngāti Rangiwewehi Ngāti Rongomai Ngāti Tahu-Ngāti Whaoa Ngāti Tarāwhai Ngāti Tūwharetoa mai Kawerau ki te Tai* (Bay of Plenty)	Ngāti Uenukukōpako Ngāti Whakaue Tapuika Tūhoe* Tūhourangi* Raukawa Ngāti Awa* Ngāti Manawa* Ngāti Whare* Ngāti Tūwharetoa* Ngāti Hineuru	Settlement legislation and statutory co governance arrangements, supported by protocol committees and site-specific agreements. Engagement reflects a mix of lake, river and catchment-based governance bodies established through Treaty settlements and related instruments.	Engagement occurs primarily through settlement based statutory cogovernance and partnership bodies, supported by protocol committees and council–iwi relationship forums (such as the iwi leaders' forum) and largely structured around lake, river and catchment systems.
Whakatāne	8	Ngāti Awa* Ngāti Mākino* Ngāti Manawa Ngāti Rangitihi* Tūhoe* Tūwharetoa ki Kawerau* Te Whakatōhea Ngāti Whare		Treaty settlement legislation and iwi participation mechanisms, including Mana Whakahono ā Rohe (agreed and under development) and multiple iwi management plans. These provide the baseline framework for iwi involvement in planning, consenting and ongoing relationship management	Engagement is through iwi leadership and relationship forums, supported by Treaty settlement arrangements, iwi management plans and Mana Whakahono ā Rohe, alongside catchment-based engagement mechanisms.
Kawerau	4	Ngāti Awa* Ngāti Rangitihi* Tūhourangi* Ngāti Tūwharetoa (Bay of Plenty)*		River linked statutory rights and Treaty settlement mechanisms, complemented by landowner and site-specific arrangements where water assets or sources are located on Māori land (Māori Investment Ltd).	Primary relationship with Ngāti Tūwharetoa ki Kawerau. Council commits to ongoing dialogue and relationships with tangata whenua/iwi, including via Rautahi Marae and partners like Tūwharetoa ki Kawerau Hauora and Putauaki Trust.
Ōpōtiki	4	Ngāitai (Tōrere) Te Whānau ā Apanui Whakatōhea Tūhoe*		Treaty settlement and deed-based arrangements, including both settled and pre settlement iwi, alongside emerging statutory and co-governance mechanisms and hapū management plans.	Occurs through settlement and deed-based arrangements, and emerging partnership forums (Whakatōhea Kaitiaki Forum), harbour and catchment based relationships.

Asset condition

Asset age

The table to the right shows the average age of piped assets reported in WSDPs (comparability of reporting methods by each council has not been confirmed, so these are indicative only).

These age profiles highlight differing renewal profiles and potential investment needs across the councils.

Asset condition ratings

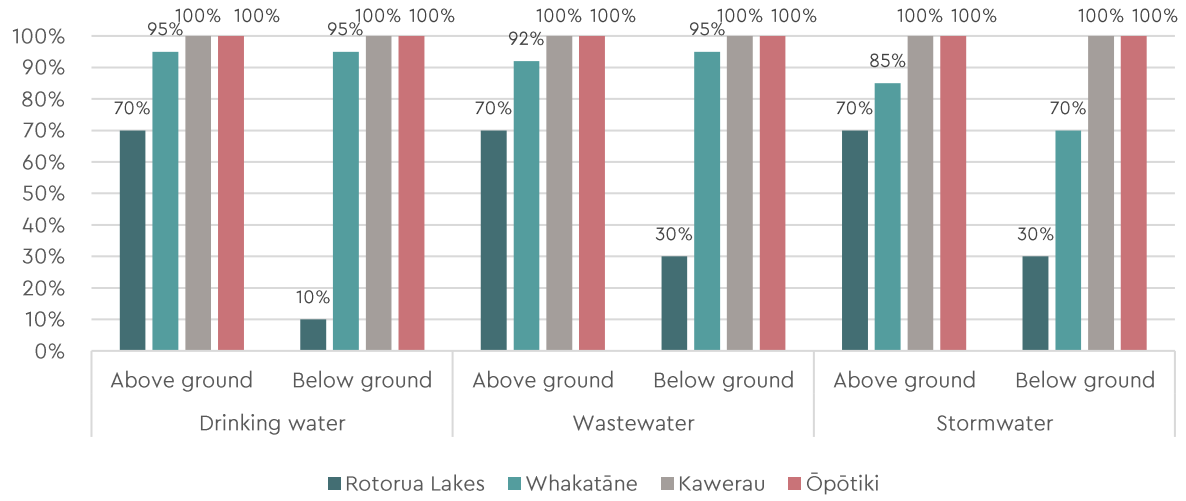
According to WSDPs, 100% of water assets in Kawerau and Ōpōtiki districts have condition ratings. Whakatāne has a very high proportion of its water supply and wastewater assets with a condition rating (92% to 95%), and the proportion of stormwater assets having a condition rating is also relatively high (70% to 85%).

Rotorua Lakes has condition ratings for more of its above ground assets (70%) than its below ground assets (10% to 30%). The council notes that it has information on the age and remaining useful life of 100% of its water services assets, with condition grades applied where physical inspections or robust modelled assessments have been completed.

Average age of network assets in years (pipes)

	Drinking water	Wastewater	Stormwater
Rotorua Lakes	34	35	33
Whakatāne	35	49	43
Kawerau	20	51	56
Ōpōtiki	41	62	53

Percentage of assets with a condition rating



Asset condition

Condition of assets

The condition of three waters infrastructure assets varies significantly across the four councils, reflecting differences in asset age, historical investment levels, and data confidence.

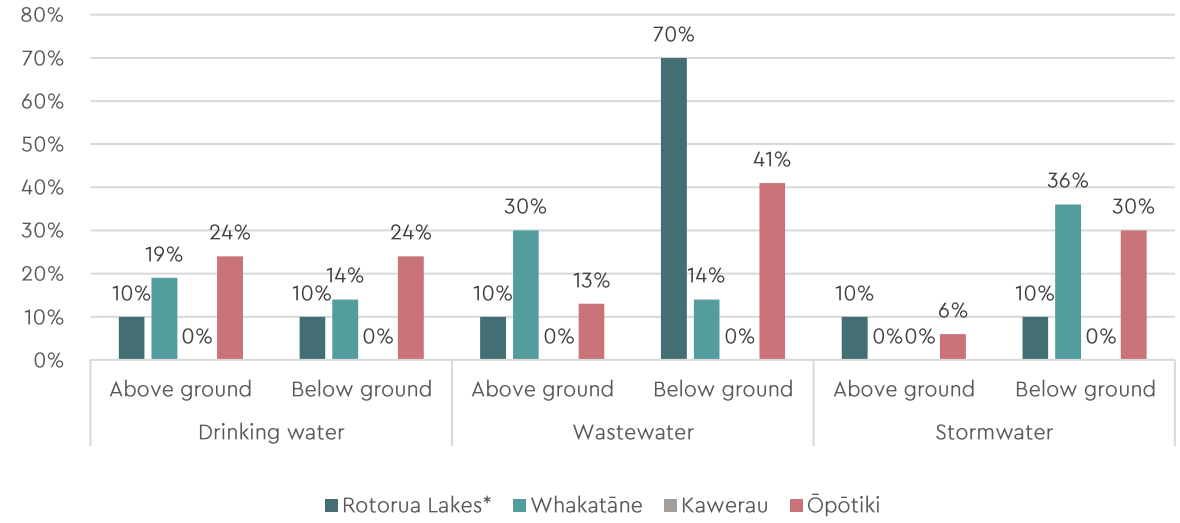
Ōpōtiki District Council reports the highest proportion of assets in poor or very poor condition across all three waters, with 24% of drinking water, 41% of wastewater, and 30% of stormwater assets requiring attention. This reflects a legacy of underinvestment and the age of the network, particularly in wastewater infrastructure.

Whakatāne District Council also faces notable challenges, particularly in its stormwater network, where 36% of assets are in poor or very poor condition. Drinking water and wastewater assets are in comparatively better shape, though 14% of each are still rated as poor or very poor.

Rotorua Lakes Council presents a mixed picture. While drinking water and stormwater assets have relatively low proportions in poor condition (both under 10%), approximately 70% of wastewater gravity mains are assessed as being in poor or very poor condition. This figure is based on age-based assessments.

Kawerau District Council reports no assets in poor or very poor condition. The council has acknowledged accelerated deterioration in geothermal zones, particularly affecting asbestos cement and steel pipes, which are scheduled for replacement by 2029.

Percentage of assets in poor or very poor condition



*The percentage of assets in poor or very poor conditions is calculated based on average- weighted-percent of remaining useful life .

Asset renewals

Asset renewals

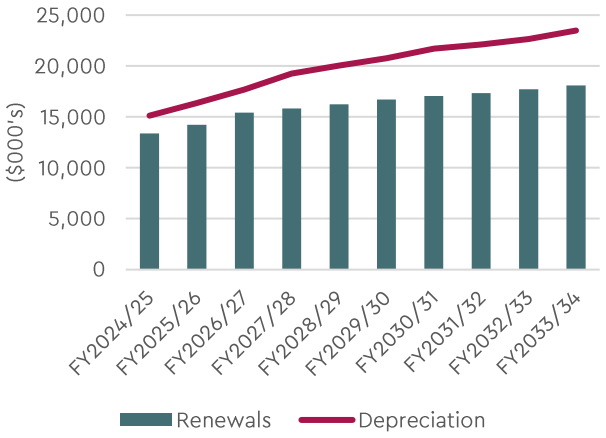
Rotorua Lakes Council's WSDP takes a targeted, evidence-based approach to renewals, investing where assets most need it to maximise their useful life. Over the 10-year period, Rotorua Lakes' planned renewals equate to 81% of depreciation, reflecting efficient use of existing assets rather than underinvestment. By activity, water supply renewals are planned at 123% of depreciation, wastewater renewals at 65% and stormwater renewals at 79%. This approach prioritises renewals based on criticality, condition, performance, and age – ensuring investment is directed to the right assets at the right time.

Whakatāne's total renewals slightly exceed depreciation over 10 years (109%). However, Whakatāne is starting with a significant renewals backlog (~$96m) and its WSDP capex plan does not address this.

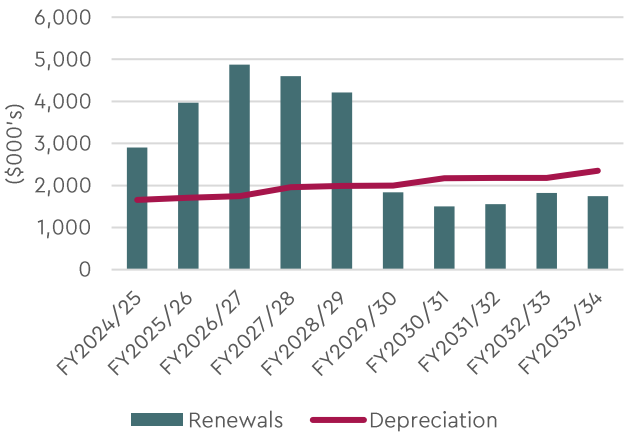
Kawerau shows a highly uneven investment profile. Renewals are front-loaded in Years 1-5 (averaging 222% of depreciation), driven by major AC pipe and geothermal zone pipe replacement programmes. Overall, Kawerau plans to invest in renewals at 131% of depreciation over 10 years.

Ōpōtiki has the highest renewals-to-depreciation ratio of the four councils, with renewals exceeding depreciation every single year (averaging 176% over 10 years). This reflects catch-up investment to address poor asset condition.

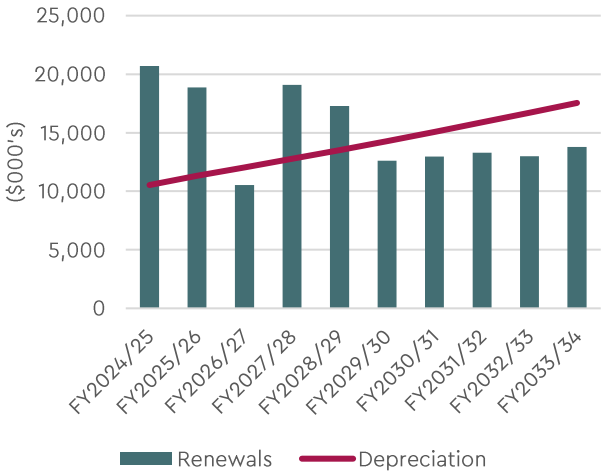
Rotorua Lakes



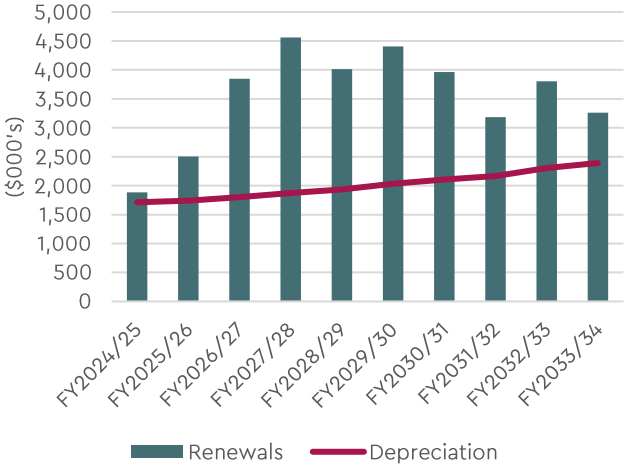
Kawerau



Whakatāne



Ōpōtiki



Drinking water compliance

In FY25, all Rotorua Lakes water supplies were fully compliant with Drinking Water Quality Assurance Rules, and Kawerau's supply met or almost met all requirements.

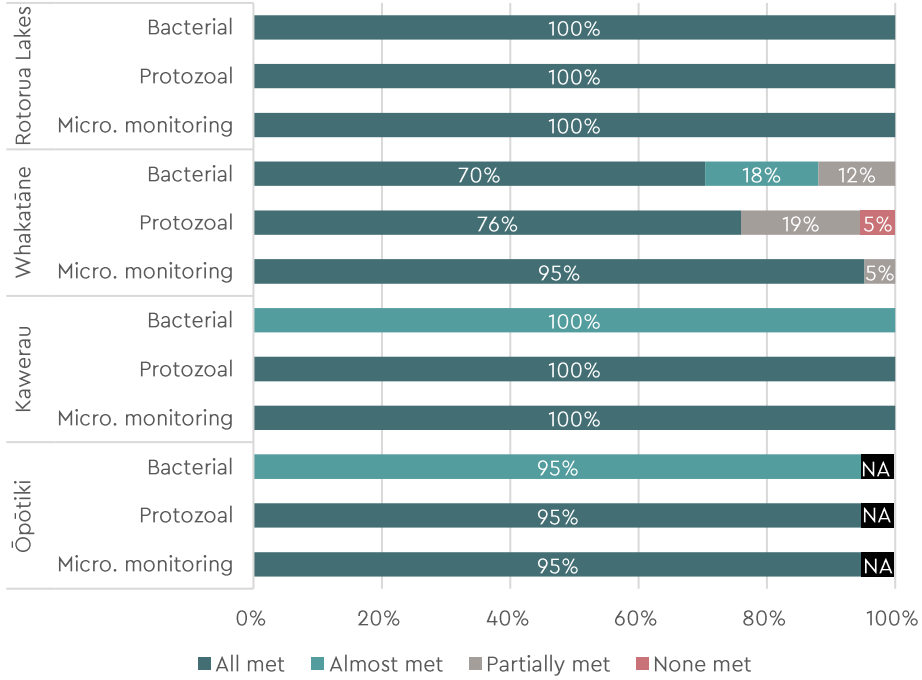
There were varying levels of compliance with the different DWQARs across the Whakatāne water supply schemes. Around 76% of the serviced population in Whakatāne were served by a supply that met protozoal treatment requirements, and 88% were served by a supply that met or almost met bacterial treatment requirements. Supply for 95% of the serviced population met microbiological monitoring requirements.

The largest water supply scheme in Ōpōtiki met protozoal and microbiological monitoring requirements, and almost met bacterial treatment requirements. This scheme supplies water to approximately 95% of the serviced population. The other two schemes in Ōpōtiki are very small and subject to different requirements. The Ohiwa supply (~50 people) met all requirements (two in total), and the Te Kaha supply (~200 people) met one requirement and partially met four (five in total).

Water supply scheme compliance (FY25)

	DWQAR requirement	Water supply scheme				
		Total	All met	Almost met	Partially met	None met
Rotorua Lakes	Bacterial	8	8	0	0	0
	Protozoal		8	0	0	0
	Microbiological monitoring		8	0	0	0
Whakatāne	Bacterial	9	2	5	2	0
	Protozoal		6	0	2	1
	Microbiological monitoring		7	0	2	0
Kawerau	Bacterial	1	0	1	0	0
	Protozoal		1	0	0	0
	Microbiological monitoring		1	0	0	0
Ōpōtiki	Bacterial	3*	0	1	0	0
	Protozoal		1	0	0	0
	Microbiological monitoring		1	0	0	0

Percentage of serviced population with compliant water supply scheme (FY25)



Environmental compliance

Resource consent compliance is generally good across all four councils for water abstraction, wastewater discharge, and stormwater management, with only one active enforcement action across the region.

However, several councils face upcoming consent renewals that will require substantial investment to meet evolving environmental standards.

Compliance with current consents

There were no regulatory enforcement actions related to consent compliance reported for Rotorua Lakes, Kawerau and Whakatāne in FY25.

Ōpōtiki received one abatement notice for wastewater discharge in FY23, specific to overuse of discharge to an engineered overflow pond (i.e. not an uncontrolled discharge). The initial abatement notice has been cancelled but has been replaced with a new abatement notice in November 2025. The council maintains full compliance for stormwater and water take consents. A planned upgrade to the Ōpōtiki WWTP (in current LTP) is intended to address non-compliance.

Expiring consents

43 consents (47% of all consents) across the four councils will be expiring between 2025 and 2034 (the period of the current WSDPs).

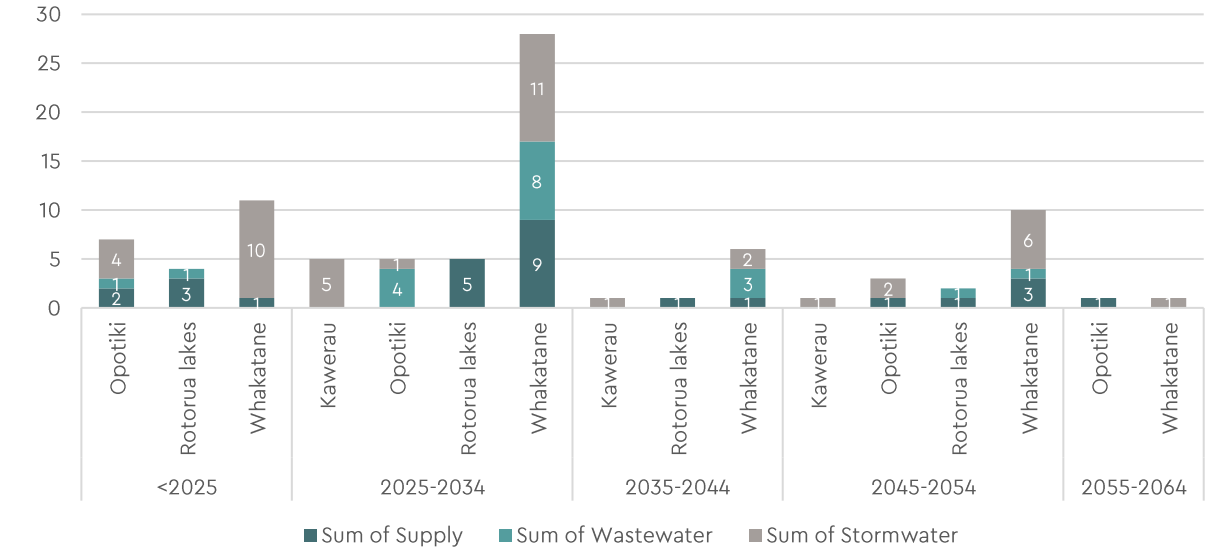
A significant number of consents expire this year (2026), including consents associated with wastewater treatment (8), water supply schemes (10) and various stormwater discharges (9).

Where information is available, many of the expiring consents were granted before the introduction of the RMA in 1991 with compliance requirements set at a 'basic' level meaning that compliance is relatively easily achieved.

New regulatory standards are higher than was typical pre-RMA, so when these consents come up for renewal they are likely to require significant upgrades to networks to meet the new end-of-pipe standards, depending on the characteristics of the receiving environment.

Each council has budgeted for consent renewals, where relevant, in their WSDPs. An overview of upcoming consent renewals for each council is included on the next page.

Expiry dates for resource consents



Environmental compliance

Overview of upcoming consent renewals

	Water Supply	Wastewater	Stormwater
Rotorua Lakes	• 3 expired consents operating under s124 • 4 expiring in 2026 – application preparation and engagement underway	• Rotorua WWTP consent under renegotiation with iwi and stakeholders	• Comprehensive consent recently issued (with increased compliance and reporting requirements).
Whakatāne	• Multiple consents expiring Oct 2026 – reconsenting programme underway	• Major WWTP consents expire 2026 – reconsenting programme underway and upgrades planned	• 43 consents (10 under s124) • Comprehensive consent lodged for Whakatāne, suspended pending hearing preparation • Comprehensive consent for Ōhope will be progressed following completion
Kawerau	• Consent 20329 (Tarawera Park Borefield) expires Oct 2026 - new comprehensive consent application submitted in 2024	• Consents valid to 2032 – may require upgrades to meet National Wastewater Environmental Performance Standards	• Seven active consents (2025–2054) • 17 discharges under existing use rights - comprehensive consent application underway
Ōpōtiki	• Te Kaha consent expired (s124) – new plant and consent planned	• Ōpōtiki WWTP consent expired July 2025 (s124) • Consent application on hold pending iwi/hapū consultation and confirmation of NWEPS.	• Comprehensive consent applications lodged for expired/expiring consents

Service levels – customer complaints

Service levels are measured across each activity by recording the number of complaints per year alongside the time it takes for Council to respond and resolve service issues.

Customer complaints

Customer complaints are measured by the total number of complaints received per 1,000 connections. The figures on the right show that the service level targets set by councils vary significantly. For the most part, councils met their targeted service levels in relation to customer complaints over the period shown.

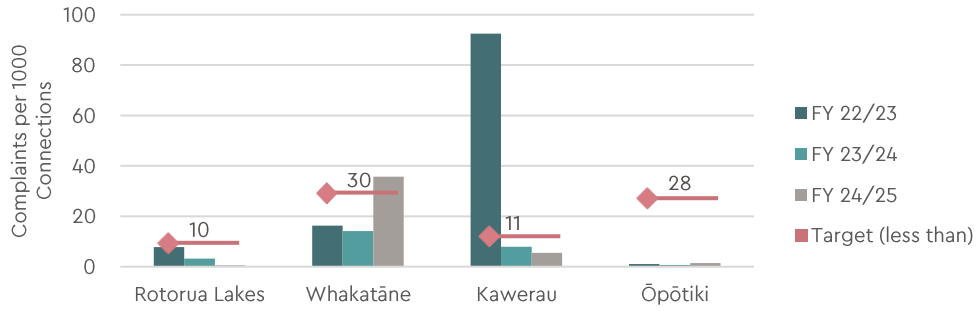
The increase in water supply complaints in Whakatāne in FY25 is a result of a change in method of reporting to align with DIA guidance. It is likely that the different method used in previous years understates the actual number of complaints.

Water supply complaints significantly exceeded targets for Kawerau in FY23. Complaints related to a water clarity issue which was resolved, with high levels of manganese combining with chlorine and oxidising, turning water brown.

In FY24, wastewater and stormwater complaints exceeded targets for Ōpōtiki. The large number of complaints about the performance of the stormwater system related to just one heavy rain event where floodwaters overtopped a bank. There is an active project to install a stopbank, due to be completed by 1 July 2027. This same event partially explains the high number of complaints about the wastewater network.

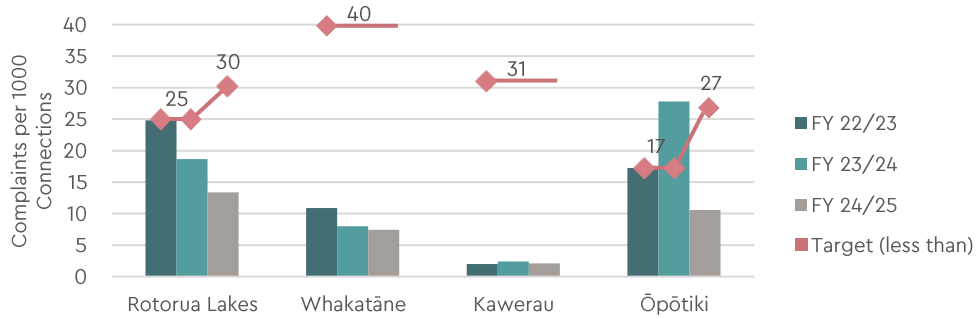
Water supply: Customer complaint rate vs target

Complaints received about drinking water clarity, taste, odour, pressure of flow, continuity of supply and the Council's response to any of these issues.



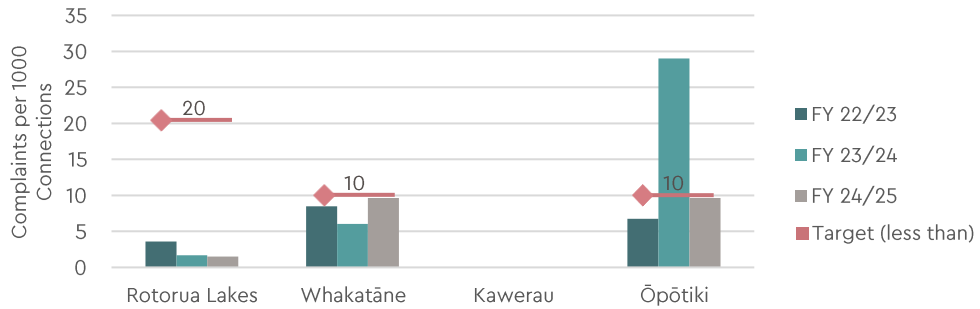
Wastewater: Customer complaint rate vs target

Complaints received about sewage odour, sewerage system faults, system blockages and the Council's response to any of these issues.



Stormwater: Customer complaint rate vs target

Complaints received about the performance of the stormwater system.



**Ōpōtiki has individual targets and results for each element of water supply and wastewater complaints. These have been summed for comparison.*

Service levels – customer resolution

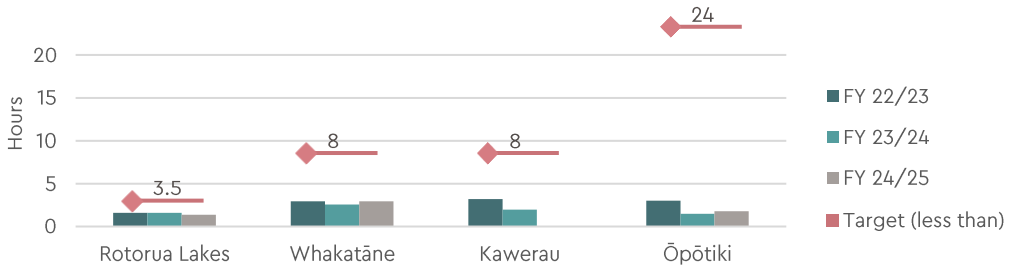
Response times

Response and resolution times are measured by the time it takes for Council to respond, attend and resolve service issues.

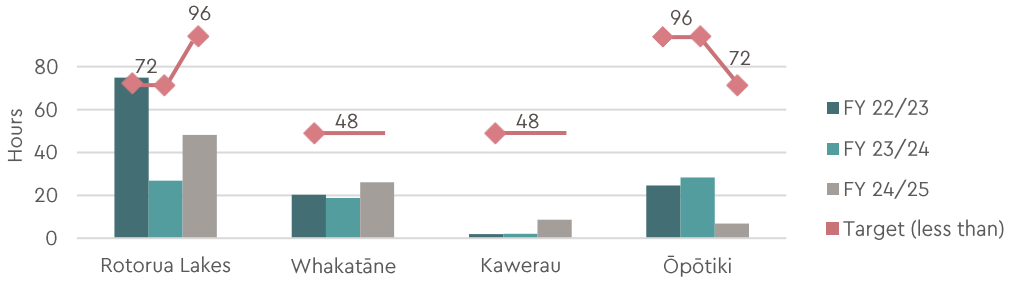
As with service levels for complaints, the figures on the right show that the service level targets set by councils vary for response and resolution. For the most part, all councils met their expected service levels for the period shown. The only exception was for resolution of non-urgent water supply call-outs in FY23, though the target level was only exceeded by a small margin.

Stormwater attendance response times are only reported during flooding events (overflow of stormwater from the stormwater system that enters a habitable floor), therefore the only data reported is Ōpōtiki in FY24.

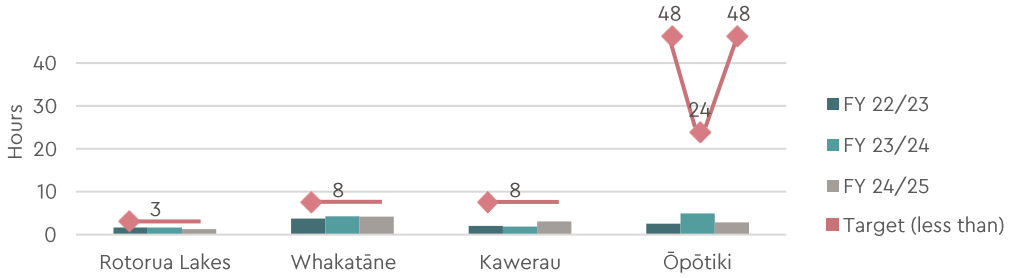
Water supply: Resolution response time against target (urgent)



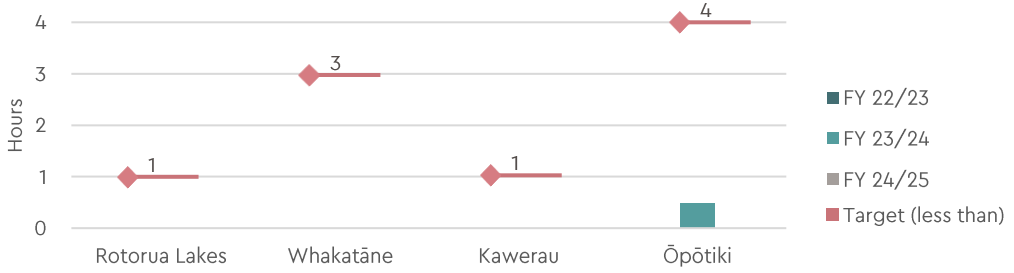
Water supply: Resolution response time against target (non-urgent)



Wastewater: Resolution response time against target



Stormwater: Attendance response time against target



Network performance – wastewater and stormwater

Wastewater

Dry weather overflow is sewage that escapes the sewerage system and enters the environment during periods of dry weather. Target services levels vary across the four councils.

Rotorua Lakes and Whakatāne met their expected service levels across the period shown. Ōpōtiki exceeded their target in 2022/23, but only by a small margin.

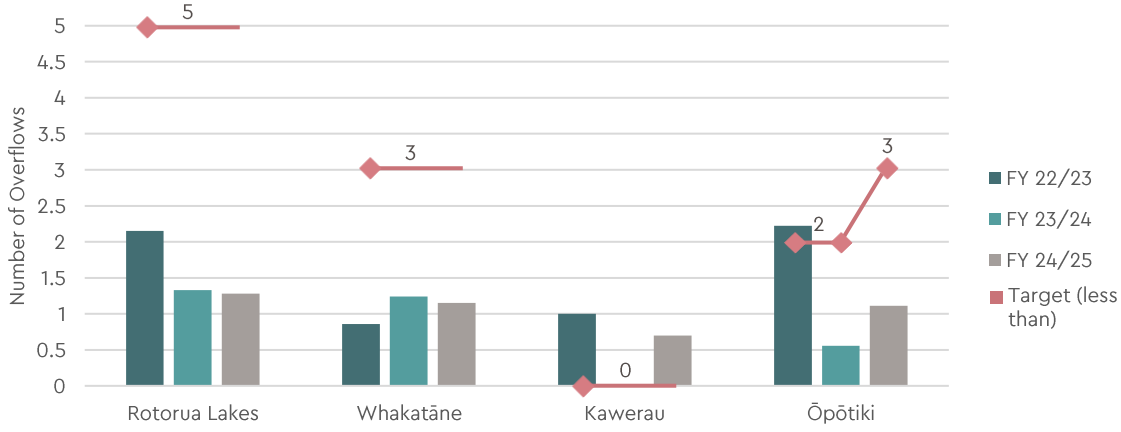
Kawerau has a target of zero dry weather overflows but exceeded this in FY23 and FY25. These levels are comparable or lower to actual service levels achieved by other councils.

Stormwater

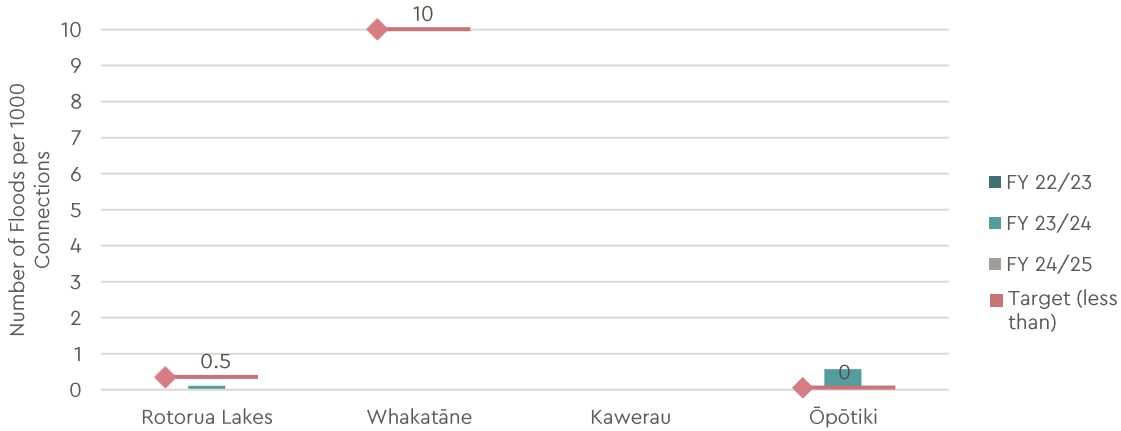
Flooding is measured by the number of habitable floors affected by a flooding event. In FY24, Ōpōtiki exceeded their target level, which has been set at zero.

Whakatāne has a notably higher target limit than the other three councils.

Wastewater: Dry weather overflows



Stormwater: Flooding (habitable floors)



Planned and historic capex (WSDPs)

Rotorua Lakes

Rotorua Lakes plans to invest $482.0 million in water services from 2025–2034. Key drivers include addressing identified network performance issues and growth. The investment is front-loaded in the first five years, and transitions to renewals in later years.

Significant investment in the next five years includes Rotorua WWTP upgrade, Stormwater Infrastructure Acceleration Fund (IAF) projects, Tarawera sewerage scheme and water supply upgrades and growth projects

From 2019-2025 Rotorua Lakes' rate of capital delivery against planned investment was 96%. Rotorua Lakes established a Capital Programmes team in FY25 to lift capability particularly for major projects.

Whakatāne

Whakatāne's capital investment totals $261.7 million over 2025–2034. The plan is driven by regulatory compliance (drinking water by 2028, wastewater by 2032), renewals, and moderate growth. Significant investment is planned to meet consent renewals requirements for wastewater, with major projects including the new Whakatāne/Edgecumbe WWTP, Murupara WWTP renewals and upgrade and the Matatā wastewater scheme.

The investment profile is smoothed to align with delivery capacity and affordability constraints, with a focus on upgrading treatment plants and renewing aging networks.

From 2019-2025 Whakatāne's rate of capital delivery against planned investment was 88%.

Kawerau

Kawerau's $32.3 million capital programme (2025–2034) is focused almost entirely on asset renewals, reflecting its small size and limited growth.

Key drivers include replacing aging infrastructure, maintaining compliance with existing standards, and servicing a single new residential development (Stoneham Park). There are no major capacity or level-of-service upgrades planned.

Kawerau completed 94% of planned water infrastructure projects from 2019–2025.

Ōpōtiki

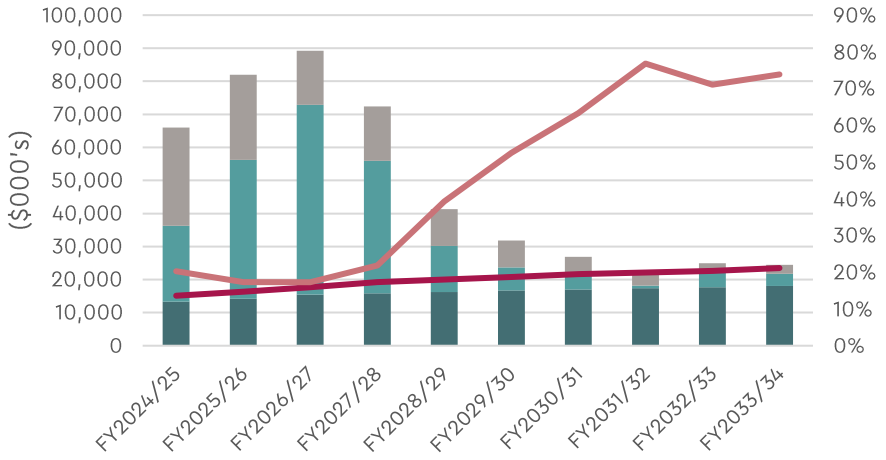
Ōpōtiki plans to invest $69.96 million in water services from 2025–2034, driven by regulatory compliance, asset renewals, and growth in the Hukutaia area. More than half of the planned investment is for wastewater to meet additional demand, improved levels of service and renewals requirements.

The investment is staged and peaks in the late 2020s, with a focus on critical upgrades and affordability management.

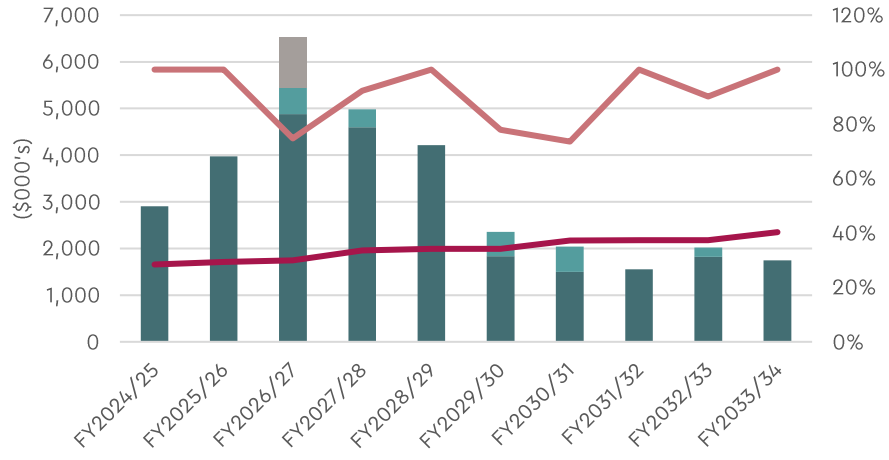
The investment profile represents a significant uplift compared with historic capital delivery levels with only 41% of planned investment being delivered between 2019 and 2025. To improve future capex delivery, ŌDC plans to strengthen its asset management framework, deliver a clear programme improvement plan, and provide strong assurance through a well-defined, forward-looking work programme. This will be supported by clear and accessible procurement processes and by building positive relationships with contractors.

Planned capex (WSDPs)

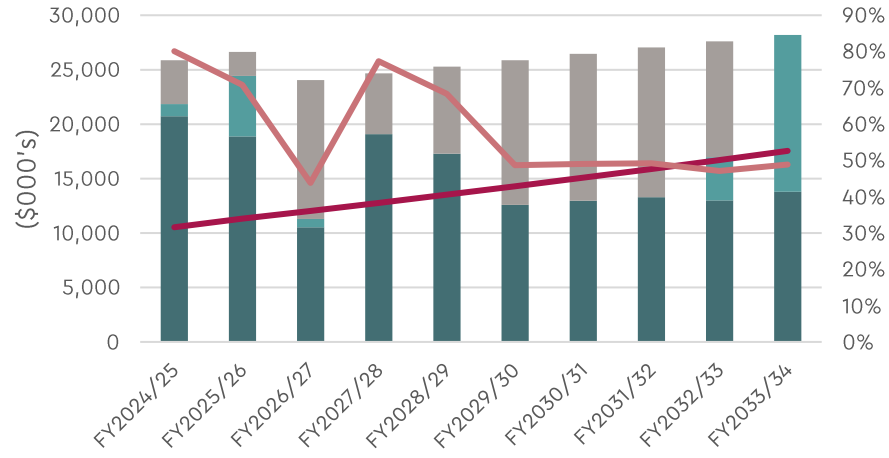
Rotorua Lakes



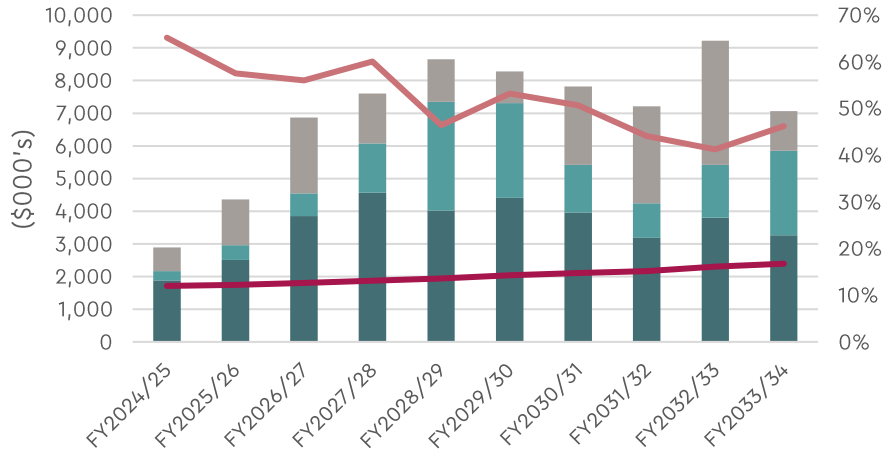
Kawerau



Whakatāne



Ōpōtiki



Historic capex (WSDPs)

Actual investment as a percentage of planned investment in water services

	FY25	FY22 - FY24	FY19 - FY21	Total
Rotorua Lakes	78%*	112%	84%	96%
Whakatāne	101%	79%	94%	88%
Kawerau	138%	77%	119%	94%
Ōpōtiki	25%	54%	33%	41%

* Calculated using actual investment from RLC annual report as not reported in the WSDP.

Net debt-to-revenue for water services (WSDPs)

Net debt-to-revenue for water services compares water-related debt against water services revenue, such as rates and charges.

Councils usually operate within relatively conservative debt-to-revenue limits to protect overall financial sustainability. These limits reflect the need to balance borrowing with funding for a wide range of services. LGFA covenants are typically set at 280% of operating revenue for councils that have a credit rating, and 175% for councils that do not.

Water activities typically operate with higher leverage than non-water council activities, due to their capital-intensive nature.

Projected net debt-to-revenue for water services

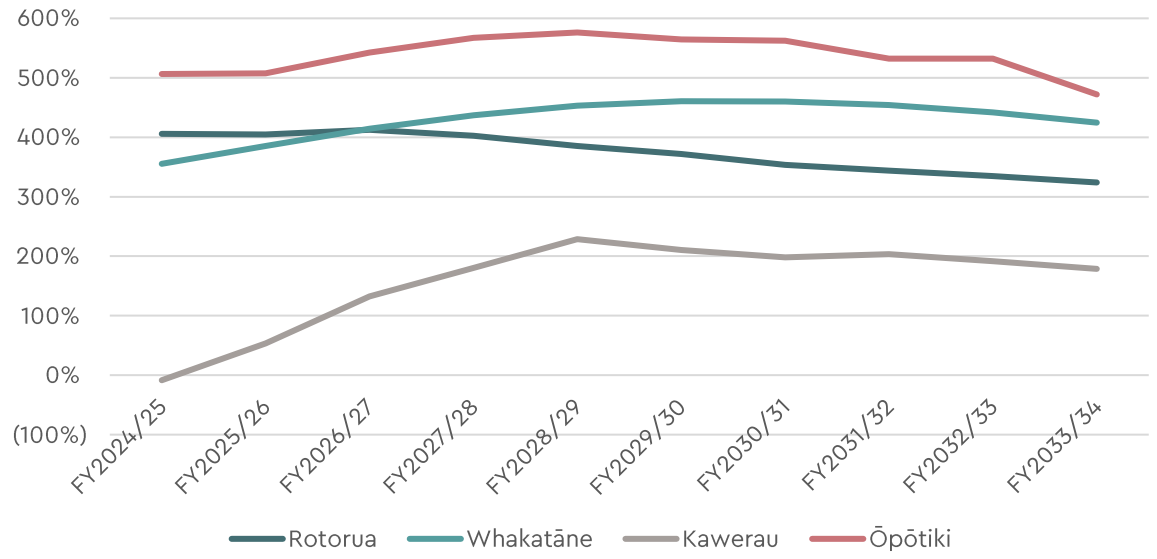
Kawerau demonstrates the most conservative debt profile among the four councils, with net debt to operating revenue peaking at 229% in FY29, then coming down to 179% by FY34.

Rotorua Lakes has the highest absolute debt levels because of its size but maintains a strong revenue base to support borrowing. Net debt-to-revenue peaks at 413% (FY27), then declines to 324% by FY34.

Whakatāne faces substantial debt burdens with limited headroom, though debt levels remain within LGFA limits. Net debt-to-revenue rises from 355% (FY25) to peak at 461% in FY30, declining modestly to 425% by FY34.

Ōpōtiki faces the most acute debt stress, with net water debt-to-revenue peaking at 576% in FY29, falling to 472% by FY34. This indicates the in-house delivery model is only sustainable if whole-of-council debt headroom is used, which may impact council's ability to invest in other services.

Net debt-to-revenue – three waters only



Affordability (WSDPs)

Affordability of water charges

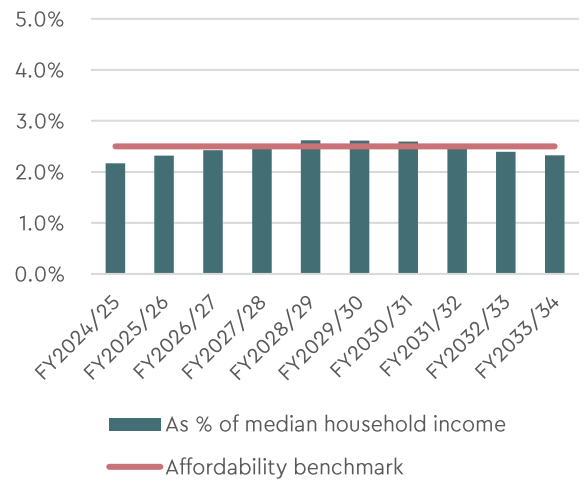
A common international benchmark for water affordability is total annual user charges divided by median household income. This measure was adopted by the Department of Internal Affairs in the template for Water Services Delivery Plans. A threshold value of 2.5% of median household income is typically used to indicate when water charges are beginning to become unaffordable.

Based on projections in each council's WSDP, Kawerau remains below this threshold over the next 10 years (Kawerau used mean rather than median household income in its WSDP). Rotorua Lakes exceeds the threshold by a small amount in the mid years, but is again below by FY33.

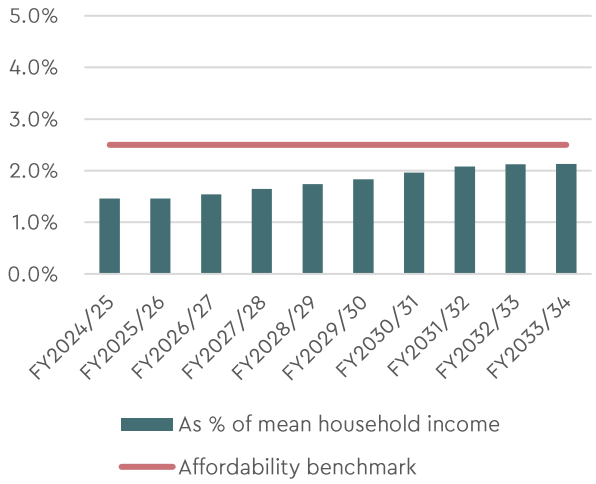
Whakatāne has affordability challenges, exceeding the threshold in 2027/28 and increasing over the remaining period of the WSDP. Ōpōtiki also has a significant affordability challenge, with the threshold breached in every year of the WSDP, nearing 5% by FY34. Both Whakatāne and Ōpōtiki project affordability challenges rising more sharply following the years covered by the WSDP (this was not reported by Rotorua Lakes or Kawerau).

Direct comparisons of affordability reported in WSDPs should be treated with care as the calculations are not based on the same underlying data. For example, as noted above, Kawerau used mean (rather than median) household income data, which presents a more favourable view of affordability. In later sections we adopt median household income as a consistent basis for assessing affordability.

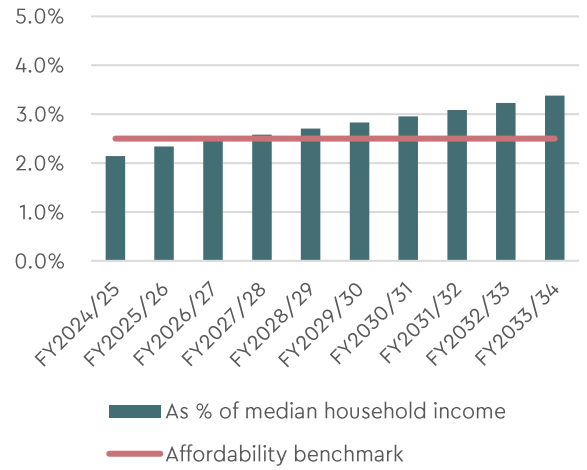
Rotorua Lakes



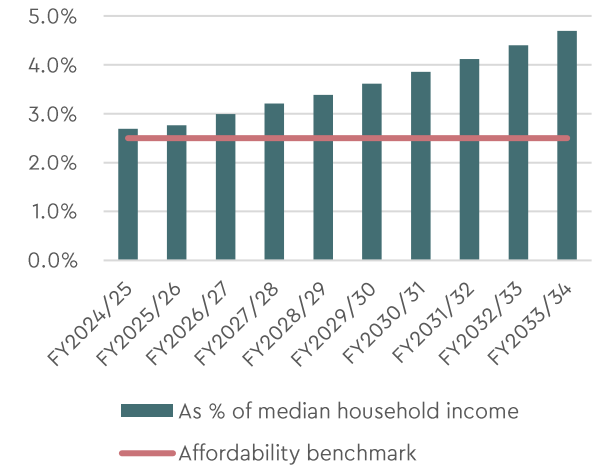
Kawerau



Whakatāne



Ōpōtiki



Risks and challenges

Common across councils

- Ability to prepare for or respond to impacts of geography, natural hazards & climate change – *seismic, geothermal, river flooding, coastal flooding, lake levels and water quality, increasing number of significant rainfall events*
- Increasing costs of statutory and regulatory compliance – *new wastewater standards, ID requirements, new planning and reporting requirements (separate to current processes)*
- Potential for additional regulatory requirements not accounted for (stormwater, economic)
- Workforce challenges – employees, contractors given increased competition from neighbouring districts and regions
- Constrained ability to deliver large planned capital programmes
- Vulnerability to rising costs and supply chain constraints
- Capital goods inflation impact on capex project outturns and asset values, flowing into higher depreciation and renewals costs

Council specific

Rotorua Lakes

- Limited asset condition and information for stormwater networks
- Expiring water take consents may not be renewed at current volumes
- Increased stormwater compliance costs (CSC)
- No metering planned for urban residential – may be a future requirement

Whakatāne

- Consistent drinking water compliance
- Consent renewals, potential upgrade requirements (and renewals backlog)
- Affordability challenges – increasing after 10 years
- Deferred investments for renewals/upgrades and growth
- Minimal debt headroom
- No ability to address unforeseen costs before 2048

Kawerau

- Reliance on industrial customers – financial sustainability vulnerable to business closure or relocation

Ōpōtiki

- Consistent drinking water compliance
- Consistent environmental compliance
- Consent renewals, potential upgrade requirements
- Significant affordability challenges – increasing after 10 years
- Persistent borrowing shortfall for water up to FY33, could impact ability of council to invest in other services if need to use council headroom.
- Deferred investments – growth

Assessing water services delivery options

How we assessed the options

Approach

This investigation has assessed three alternative water service delivery models against a set of seven strategic objectives agreed by the Waters Working Group and reflecting council priorities and the statutory and regulatory requirements for water services.

The options assessment moved through three steps:

- a high-level assessment tested all three options against the strategic objectives, with two carried forward for detailed analysis – the service delivery-only WSCCO (contracted service provider) was discounted at this point
- the WWG considered whether the options should be assessed on a two waters (drinking water and wastewater) or three waters (inclusive of stormwater) basis, and confirmed a three waters scope
- the two shortlisted options, in-house delivery and an asset owning WSCCO, were taken through a full assessment against each strategic objective, including detailed financial modelling.

How this section is structured

This section follows the sequence of the investigation, starting with the objectives that framed the work and ending with the preferred model.

- Strategic objectives. The seven objectives that frame the assessment and what each one covers.
- The three options considered. A short description of the in-house, asset-owning and service delivery-only models.
- High-level assessment and shortlisting. How the three options performed against the objectives and why the service delivery only WSCCO was discounted.
- Two waters or three waters. Why stormwater was assessed separately and the case for a three waters model.
- Detailed financial comparison. Capital and operating expenditure, revenue, debt and price path modelling for the two shortlisted options.
- Detailed assessment against objectives. Side-by-side analysis of in-house delivery and the asset owning WSCCO against each strategic objective.
- Summary and recommendation. The preferred model and the basis for that recommendation.

Supporting information

The analysis in this section draws on a body of work the WWG considered over the course of the investigation. Each piece was developed by the project team, refined with the Steering Group, then taken to the WWG for testing and direction.

This section includes summary material but does not repeat these in full. Readers who want the full underlying analysis on any topic should refer to the published papers from the relevant WWG meeting, or the two companion reports:

- Financial Assessment
- Stormwater Options.

Strategic objectives – the basis of our options assessment

The WWG agreed a set of strategic objectives to reflect councils' priorities alongside the statutory and regulatory requirements for water services delivery. These were shared with each council in workshops in March 2026 and refined on the basis of feedback. The assessment of options considers the degree to which each service delivery model meets these strategic objectives.

- Efficient and financially sustainable delivery of water services for the communities of the District, now and into the future
- Protects and promotes public health and the environment - meeting regulatory requirements
- Water services are resilient to natural hazards, seismic risk and climate change
- Integrated water services and infrastructure planning that promotes efficient, equitable, and integrated delivery
- Affordable, fit for purpose service to consumers and communities that meets the needs, and expectations of the District
- Council obligations to hapū and iwi are valued and honoured
- Impact on remaining council operations and viability

Strategic objectives – the basis of our options assessment
(1/2)

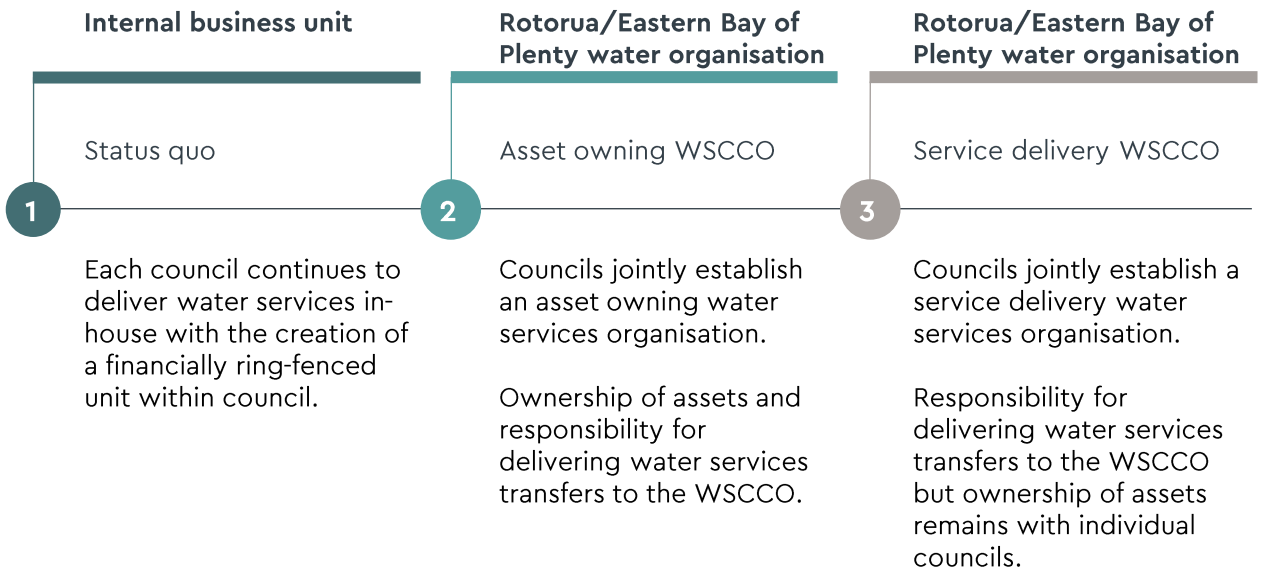
Strategic objective	Key Elements
Efficient and financially sustainable delivery of water services for communities, now and into the future	• **Financial sustainability**, a requirement under the new legislation incorporates: – **revenue sufficiency** – water charges generate sufficient revenue to meet the full costs of service delivery including opex, interest and depreciation – **financing sufficiency** – Council must be able to 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.
Protects and promotes public health and the environment – meeting regulatory requirements	• **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: – maintaining compliance with drinking water standards – maintaining good standards of environmental protection, and – anticipating and planning for meeting national standards and resource consent requirements.
Water services **are resilient to natural hazards and climate change**	• Investment sufficiency to **meet current and future resilience needs, including risks from climate change and natural hazards** • Appropriate level of **financial capacity to respond to unexpected shocks**. • Enable **effective response to emergencies** and natural disasters
Integrated water services and infrastructure planning that promotes efficient, equitable, and integrated delivery	• **Support integrated planning and decision-making** around rural and urban water network planning, including **supporting housing growth and urban development and managing peak (seasonal) demand.** • **Coordination with wider district and infrastructure planning** to align water services planning effectively and efficiently.

Strategic objectives – the basis of our options assessment
(2/2)

Strategic objective	Key Elements
Affordable, fit for purpose service to consumers and communities that meets the needs, and expectations of communities	• **Affordability** – the projected increase in water charges is affordable for the community (now and future generations). • **Appropriate levels of service**, including how these are reflected in differential charges, ensuring equitable access. • **Strength of mechanisms for local voice and influence provided** for in the model, including how council interests are represented and how customers are engaged in decisions relating to service levels, investment and pricing. • **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).
Council obligations to hapū and iwi are valued and honoured	• Giving effect to **Council's responsibilities and obligations 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. • Councils recognise the mana of tāngata whenua.
Impact on remaining council operations and viability	• Councils understand the impacts on the ongoing viability and sustainability. • Asset and debt transfer leaves council in a financially sound position.

Options that were considered

These options were identified for investigation by councils in the Heads of Agreement.



A fourth option was identified in the Heads of Agreement: a service delivery WSCCO that could also deliver other services for the four councils. This option has not been taken forward for further assessment as water organisations are not legally permitted to carry out any other activities. This option would not be viable under the current legislation.

Options assessed

Options:	1 **Internal business unit** *Status quo*	2 **Rotorua/Eastern Bay of Plenty water organisation – asset owning (WSCCO)**	3 **Rotorua/Eastern Bay of Plenty water organisation – service delivery only (WSCCO)**
Description:	Creation of a financially ring-fenced unit within council.	Councils jointly establish an asset owning water services organisation.	Councils jointly establish a water services organisation but retain ownership of assets.
Who owns the organisation?	• Single council-owned as internal business unit – no new organisation is established	• Ownership shared across councils.	• Ownership shared across councils.
What are the governance arrangements?	• Internal business unit responsible to council through established mechanisms under Local Government Act 2002.	• Councils appoint members to a shareholder group, which appoints a competency-based Board, issues the Statement of Expectations, oversees performance.	
Who decides levels of service and investment intentions?	• Council (elected members) determine levels of service and investment and are responsible for ensuring regulatory compliance. • Councils must prepare Water Services Strategy	• Shareholders issue combined Statement of Expectations which may include matters related to service levels and investment. • WSCCO develops Water Services Strategy and budgets to give effect to the Statement of Expectations and meet regulatory compliance.	• Shareholders issue combined Statement of Expectations which may include matters related to service levels and investment. • WSCCO develops Water Services Strategy and budgets to give effect to the Statement of Expectations and meet regulatory compliance. • Shareholders make pricing, investment and funding decisions by requiring final approval of the water services strategy (including financial forecasts and budgets)
Who undertakes strategic planning and delivery?	• Council remains responsible for planning and delivery, working with private suppliers and contractors.	• WSCCO responsible for strategic planning and delivery, in line with Water Services Strategy, working with private suppliers and contractors where appropriate	• WSCCO develops the Water Services Strategy for approval by shareholders and is responsible for delivery in line with the WSS, working with private suppliers and contractors where appropriate.
What are the mechanisms for accountability?	• Accountability for water services to the public through usual local democratic processes. Subject to regulatory oversight by Taumata Arowai, the Commerce Commission and regional council. • A Water Services Strategy and annual report will be completed to enhance current requirements, and requirement to meet Information Disclosure requirements	• WSCCO must prepare water services annual report and at least half-yearly reports to shareholders (shareholders accountable to community). • WSCCO must give effect to SoE and act consistently with statutory objectives. • Subject to regulatory oversight by Taumata Arowai, the Commerce Commission and regional council.	

Options assessed

Options:	1 **Internal business unit** *Status quo*	2 **Rotorua/Eastern Bay of Plenty water organisation – asset owning (WSCCO)**	3 **Rotorua/Eastern Bay of Plenty water organisation – service delivery only (WSCCO)**
Description:	Creation of a (financially) ring-fenced unit within council.	Councils jointly establish an asset owning water services organisation.	Councils jointly establish a water services organisation but retain ownership of assets.
What are the mechanisms for hapū and iwi representation and influence?	• Representation and influence exercised directly with Council members and management within existing structures and Council capacity/capability • Existing mechanisms (MOUs, partnership agreements, Treaty Settlement obligations) in place	• Representation and influence, including on strategic matters, can be designed as part of establishment through range of mechanisms (Statement of Expectations, representative fora) • Existing obligations, including Treaty settlement obligations, would need to be explicitly provided for through new or adapted mechanisms	• WSCCO would have no direct mandate to engage on strategic matters. Therefore, iwi and hapū influence over WSCCO would be via Councils • Existing obligations, including Treaty settlement obligations would need to be explicitly provided for through new or adapted mechanisms
What are the mechanisms for local voice and influence?	• Access to councillors through current mechanisms, consultation on Water Services Strategy.	• Shareholders set local engagement mechanisms during design and establishment of WSCCO. • Shareholders may require public consultation on WSS	• Shareholders set local engagement mechanisms during design and establishment of WSCCO. • Shareholders would need to consult with the public on WSS.
Who owns the assets?	• Assets remain with council.	• Councils transfer ownership of assets. • If choice is not to transfer stormwater, councils could contract services from WSCCO.	• Assets remain with council. This may necessitate contractual arrangements for operations, maintenance and new capital delivery, where the WSCCO does not own the assets.
Who employs staff?	• Staff remain employed by individual council	• Staff substantively delivering water services would transfer to and be employed by the WSCCO.	
How is investment funded / financed?	• Councils borrow within existing LGFA limits (175% debt-to-revenue for unrated to 280% for rated councils), meaning water investment competes with other council priorities. • Water-related debt remains on council balance sheets, reducing flexibility for other services and resilience investments. • Balanced budget rules require full depreciation funding, placing pressure on current ratepayers and limiting ability to spread costs over time.	• WSCCO may borrow directly from the LGFA. Covenants differ to that of councils, using "FFO" (funds from operations), roughly equivalent to ~500% debt-to-revenue, significantly increasing investment capacity compared to councils. • Debt is held by the WSCCO, freeing up council borrowing headroom for other priorities. • Councils must provide a guarantee (e.g., uncalled capital), but water debt is ring-fenced and treated separately from council finances.	• Councils borrow within existing LGFA limits (175% debt-to-revenue for unrated to 280% for rated councils), meaning water investment competes with other council priorities. • Under this option, water-related debt would remain on council balance sheets, reducing flexibility for other services and resilience investments. • Balanced budget rules require full depreciation funding, placing pressure on current ratepayers and limiting ability to spread costs over time.

Shortlisting the options

Determining the options to take forward for detailed assessment

How we shortlisted the options

Legend: *Consistent with objective but has some risks* | *Moderate alignment to objective(s)* | *Stronger alignment to objective(s)*

The three delivery models identified in the Heads of Agreement, in-house delivery, an asset owning WSCCO, and a service delivery only WSCCO, were tested against the seven strategic objectives. The purpose of this step was to identify which options warranted more detailed analysis.

How the options were assessed

The assessment drew on information about current council service delivery, financial information in council's WSDPs and our understanding of the legislative and regulatory context.

Each option was rated against each strategic objective using a three-point scale (shown on the right). The ratings were tested with the Steering Group and the WWG through workshops over the course of the investigation.

The assessment also considered other important factors alongside the strategic objectives, including strategic focus, governance, accountability, and workforce implications.

Results of the assessment

The heat map below summarises the ratings for each option and the next pages set out the key advantages and disadvantages of each option, and the basis on which the service delivery only WSCCO was discounted.

Supporting information

The full high-level assessment was discussed at the WWG's April meeting. Readers wanting further detail should refer to the published papers from that meeting.

Strategic objective	**Internal business unit** *Status quo*	**Rotorua/Eastern Bay of Plenty water organisation – asset owning** (WSCCO)	**Rotorua/Eastern Bay of Plenty water organisation – service delivery only** (WSCCO)
Efficient and financially sustainable delivery of water services			
Protects and promotes public health and the environment			
Resilient to natural hazards and climate change			
Integrated water services and infrastructure planning			
Affordable, fit for purpose service to consumers and communities			
Council obligations to hapū and iwi are valued and honoured			
Impact on remaining council operations and viability			

Summary of high-level options assessment

OPTIONS	CHOOSE OPTION IF	KEY ADVANTAGES	KEY DISADVANTAGES
1 **Internal business unit** *Status quo*	Council wants least change to status quo and is confident it can meet new LWDW requirements in the medium- to long-term. Council doesn't consider advantages of a joint model are strong enough compared to their own in-house delivery model.	• Ease of implementation, and ongoing flexibility. • Integrates well with existing council functions and infrastructure planning. • Unlikely to create stranded costs or adverse impacts on rest of council.	• Potential future affordability and capital delivery challenges. • Additional investment in climate and resilience initiatives likely to present affordability challenges. • Any unexpected water-related costs could impact council ability to invest in other services. • Potential workforce attraction and retention risks, exacerbated if neighbouring councils form a larger entity. • Does not provide any scale economies.
2 **Rotorua/Eastern Bay of Plenty water organisation – asset owning** (WSCCO)	Mutual benefits to Councils collectively from partnering to establish a joint organisation and Council is confident in design of representation, ownership and governance arrangements, and ability for communities to engage and for local voice to be heard.	• Scale efficiencies likely to be greatest under this option. • Potential integration with neighbouring councils to better manage environmental compliance and spatial planning. • Access to debt, and longer-term financing to address future challenges and affordability. • Improved ability to attract and retain workforce.	• Current uncertainty about the design of the model, including mechanisms for agreeing shared priorities and expectations across councils and engaging with hapū and iwi. • Stranded costs are likely (but may be mitigated through careful transition planning). • Potential for diseconomies of scope (e.g., loss of integration with spatial planning, transport). • Higher costs and timeframe for implementation
3 **Rotorua/Eastern Bay of Plenty water organisation – service delivery only** (WSCCO)	Council wishes to retain control over investment and pricing, while seeking benefits from strategic focus and potential operational scale efficiencies, and council is confident that potential disadvantages of distributed accountabilities and potential diseconomies of scope can be managed.	• Potential integration with neighbouring councils to better manage environmental compliance and spatial planning. • Potential scope for operating and capital efficiencies, dependent on scale. • Improved ability to attract and retain key staff but raises questions about local service levels.	• Distributed accountabilities between shareholding councils and service delivery only WSCCO likely to lead to sub-optimal outcomes. • Does not provide any additional access to debt over status quo, and may limit council ability to invest in other services. • Potential for diseconomies of scope (e.g., loss of integration with spatial planning, transport). • Stranded costs are likely (but may be mitigated through careful transition planning).

Shortlisted options

The initial high-level strategic assessment considered how the three service delivery options perform against the strategic objectives agreed by councils.

The analysis confirmed that all are capable of delivering on the strategic objectives, in the short-term at least, albeit through different strengths and trade-offs.

The in-house model offers strong alignment with local planning, direct community accountability, and continuity of existing iwi and hapū relationships.

However, it presents significant and growing challenges in terms of long-term financial sustainability, particularly for councils facing affordability constraints and limited borrowing capacity.

The asset-owning WSCCO model demonstrates the greatest potential to deliver long-term financial sustainability, resilience, and regulatory compliance through enhanced access to capital, economies of scale, and professionalised service delivery. It offers a platform for strengthened regional coordination and the opportunity to embed iwi and hapū partnerships through representative arrangements.

OPTIONS	SHORTLIST?
1 **Internal business unit** *Status quo*	**Yes** – the current delivery models meet statutory requirements over the next 10 years, with approved WSDPs in place for each council. Longer term sustainability is very challenging.
2 **Rotorua/Eastern Bay of Plenty water organisation – asset owning** (WSCCO)	**Yes** – potential for strong future benefits. Detailed financial comparisons and development of possible governance and representation mechanisms will allow fuller consideration of the relative advantages and disadvantages of this option.
3 **Rotorua/Eastern Bay of Plenty water organisation – service delivery only** (WSCCO)	**No** – limited economies of scale, complex accountability arrangements and no investment or financing advantages.

However, it requires careful design to ensure local voice, planning alignment, and Treaty settlement obligations are upheld.

While the service delivery-only WSCCO may deliver some efficiencies, it does not address the core financial and investment challenges facing councils. It introduces additional complexity in governance and accountability without the full advantages of asset consolidation and greater borrowing capacity. As such, it is unlikely to represent a fit-for-purpose or sustainable long-term solution.

Based on this assessment, the WWG endorsed recommendations that:

- councils **proceed to a more detailed comparative analysis of the in-house** (as the status quo) and **asset-owning WSCCO models**, including financial modelling and economic analysis, and options for ownership, representation, and governance arrangements
- the **service delivery-only WSCCO model be discounted** from further consideration at this stage, given its limited ability to meet the full suite of strategic objectives.

Considering stormwater

Determining whether to include stormwater in the detailed assessment of a possible joint WSCCO

Stormwater – in or out?
1 of 2

Before comparing the two shortlisted options in detail, the WWG considered whether the assessment would be on a two waters or three waters basis.

Why stormwater is different

Unlike drinking water and wastewater, stormwater is not a closed network. Stormwater behaves as a catchment-wide system rather than a contained network. Engineered assets (e.g. pipes, drains, pump stations) are only part of the picture, with roads, reserves and overland flow paths all carrying water, and performance shaped heavily by land use and surface cover.

Stormwater also has strong public good characteristics, with benefits shared across communities rather than tied to individual users.

For these reasons, it is typically funded and charged differently from the other two waters

The Local Government (Water Services) Act 2025 provides flexibility on how stormwater is delivered, with councils remaining accountable but able to keep delivery in-house, contract it to a water organisation, or transfer responsibility for it fully. Asset ownership can also be separated from service responsibility.

For these reasons, the WWG agreed stormwater warranted a specific decision within the wider investigation.

How we assessed the options

This investigation assessed three options: stormwater stays with council alongside a two waters WSCCO; council retains responsibility but contracts delivery to the two waters WSCCO; or council transfers both responsibility and delivery, with engineered assets moving to the WSCCO and mixed-use land staying with councils.

Option	Asset ownership	Service delivery
Stormwater stays with council	Council	Council
Council retains responsibility, contracts delivery	Council	2W WSCCO
Stormwater transfers to WSCCO	WSCCO (engineered assets)	3W WSCCO

The options were assessed against the same seven strategic objectives used for the wider comparison, drawing on information about current council service delivery, the updated regulatory context, delivery model choices made by other councils around the country, and our knowledge of the benefits and trade-offs of each approach.

The assessment was tested with the Steering Group and the WWG through workshops over the course of the investigation.

The following pages set out a summary of the options assessment, describing the key advantages and disadvantages for each, and the decision to progress the investigation on the basis of a three waters WSCCO.

Stormwater – in or out?
2 of 2

Results of the assessment

The heat map here summarises the ratings for each option and the next pages set out the key advantages and disadvantages of each option, and the basis on which a three waters WSCCO was chosen for further analysis.

Supporting information

The full analysis sits in the stormwater options companion report. Readers wanting the underlying detail should refer to that document

Strategic objective	Stormwater stays with council	Council retains responsibility and contracts delivery of stormwater	Council transfers responsibility for and delivery of stormwater
Efficient and financially sustainable delivery of water services			
Protects and promotes public health and the environment			
Resilient to natural hazards and climate change			
Integrated water services and infrastructure planning			
Affordable, fit for purpose service to consumers and communities			
Council obligations to hapū and iwi are valued and honoured			
Impact on remaining council operations and viability			

Summary assessment of stormwater options
1 of 2

OPTIONS	CHOOSE OPTION IF	KEY ADVANTAGES	KEY DISADVANTAGES
1 **Stormwater stays with council**	Ease of integration with other council planning processes is a priority. Council is confident it can meet requirements for SW (including financial sustainability and regulatory compliance) in the medium- to long-term and can mitigate workforce attraction and retention risks. Council doesn't consider advantages of 3W CCO are strong enough compared to a 2W CCO with stormwater delivery in-house.	• Easy to integrate stormwater planning with key council strategic planning processes, including spatial, land use and emergency management. • Unlikely to create stranded costs or adverse impacts on rest of council in relation to stormwater • Maintains flexibility if councils want to reconsider stormwater delivery models in future.	• Potential workforce attraction and retention risks, competing for similar skills with 2W CCO and other nearby WSCCOs. • Additional costs due to duplication of planning and reporting requirements • Council and WSCCO would need to coordinate response to emergency events where cross-contamination occurs across different water systems • Potential for confusion for customers as to who is responsible • Potential future affordability and capital delivery challenges. • Additional investment in climate and resilience initiatives may present affordability challenges. • Unexpected stormwater-related costs could impact council ability to invest in other services. • Does not provide any scale economies.
2 **Council retains responsibility and contracts delivery of stormwater**	Council wishes to retain control over planning, investment and pricing for SW, while seeking benefits from potential operating and capital efficiencies. Council is confident that potential disadvantages of distributed accountabilities and reliance on council debt limits can be managed.	• Easy to integrate stormwater planning with key council strategic planning processes, including spatial, land use and emergency management. • Potential scope for operating and capital efficiencies, dependent on scale. • Improved ability to attract and retain key staff (delivery-focused).	• Distributed accountabilities between shareholding councils and service delivery only WSCCO likely to lead to sub-optimal outcomes. • Stranded costs are likely (but may be mitigated through careful transition planning). • Council will need to retain capability for planning, investment and pricing decisions. • Potential for confusion for customers as to who is responsible • Potential future affordability challenges. • Additional investment in climate and resilience initiatives may present affordability challenges. • Unexpected stormwater-related costs could impact council ability to invest in other services.

Summary assessment of stormwater options
2 of 2

OPTIONS	CHOOSE OPTION IF	KEY ADVANTAGES	KEY DISADVANTAGES
3 **Council transfers responsibility for and delivery of stormwater**	Integrated asset management and delivery across three waters is a priority. Council seeks potential operating and capital efficiencies, and access to debt and longer-term financing for stormwater investments.	• Clarity for customers with only one water services provider. • Aligns decision making and incentives for asset stewardship and effective and efficient operations. • Ease of integrated asset management and delivery across three waters. • Scale efficiencies likely to be greatest under this option. • Potential integration with neighbouring councils to better manage environmental compliance and spatial planning. • Access to debt, and longer-term financing to address future challenges and affordability. • Improved ability to attract and retain workforce.	• Current uncertainty about the design of the model, including mechanisms for agreeing shared priorities and expectations across councils and engaging with hapū and iwi. • Stranded costs are likely (but may be mitigated through careful transition planning). • Potential for diseconomies of scope (e.g., loss of integration with spatial planning, transport). Will require agreed ways of working together. • Higher costs and timeframe for implementation (though likely not significantly different to costs for setting up a 2W CCO).

Stormwater – included in a joint WSCCO

This assessment has considered how the three stormwater service delivery options perform against the strategic objectives agreed by councils and other important considerations.

Option 1, where **councils retain responsibility for and delivery of stormwater services**, retains strong local control and integration with land-use, transport, and emergency planning. However, it duplicates regulatory and reporting requirements and may create funding, workforce, and delivery risks for council. It would also potentially create confusion for customers with two water service providers delivering different water services in the district. Over time, constrained debt capacity and capability challenges are likely to limit affordability, resilience, and regulatory performance.

Option 2, where **councils retain responsibility but contract delivery of stormwater services**, offers some operational and workforce benefits from WSCCO scale while preserving Council control over planning and investment. However, split accountability increases governance complexity and risks blurred responsibility for outcomes. Stormwater funding and debt remain with Council, meaning long-term affordability and investment constraints largely persist.

Option 3, where **responsibility for and delivery of stormwater services transfers to the WSCCO**, provides the strongest ability to ensure long-term financial sustainability, regulatory compliance, and climate resilience through scale, specialist capability, and enhanced borrowing capacity. Integration across three waters simplifies accountability for customers and supports efficient asset management. While it requires careful governance design to protect local priorities and iwi/hapū relationships, these risks should be manageable through transition and shareholder arrangements.

Based on this assessment, the WWG endorsed the recommendation that **a joint asset-owning three waters WSCCO is the preferred model, to be further developed and assessed through subsequent stages of the project.** Under this option, responsibility for and delivery of stormwater services would transfer to the WSCCO, as would ownership of engineered stormwater assets, while councils would retain ownership of mixed-use assets (including reserve land) used for stormwater purposes (e.g., detention ponds or overland flow paths on parks and reserves). Councils and the WSCCO would collaborate on preparation of the Stormwater Network Risk Management Plan, given councils retain responsibility for land use planning and stormwater bylaws.

Key financial comparisons

Comparing in-house delivery with an asset owning WSCCO

Financial assessment

Local Water Done Well requires water services delivery arrangements to be financially sustainable and able to meet regulatory requirements.

In determining their preferred approach, each council should consider whether their existing service delivery arrangements will continue to meet community expectations regarding levels of service, achieve compliance with future regulatory requirements, and provide for growth, while also ensuring water services remain affordable for ratepayers.

The Local Government (Water Services) Act 2025 requires that:

- revenue and funding is sufficient to sustain long-term investment in water services while meeting all regulatory requirements
- charges for water are ring-fenced and only used to pay the costs of water services
- a water services provider's revenue, funding and expenses are transparent to the public.

How we assessed the options

The financial assessment compared an in-house delivery model with an asset-owning three waters WSCCO over a 25-year period (FY29-FY54).

Two WSCCO scenarios were modelled against the in-house comparator: an increased investment scenario, where the current price path is maintained and additional investment is enabled by the WSCCO's greater borrowing capacity; and an optimised prices scenario, where investment is held at current planned levels and prices are lowered.

In undertaking this analysis, we have relied on financial information and projections provided by each council and have used assumptions developed with and agreed upon by CFOs of participating councils

What the next pages cover

The following pages set out the comparative capital expenditure, operating expenditure, revenue, debt and price path outcomes for in-house delivery and the asset owning WSCCO, over the LTP period and across the full 25-year horizon.

Supporting information

The full analysis, including scenario detail, sensitivities and district-level breakdowns, sits in the financial assessment companion report. Readers wanting the underlying detail should refer to that document.

Summary of key findings

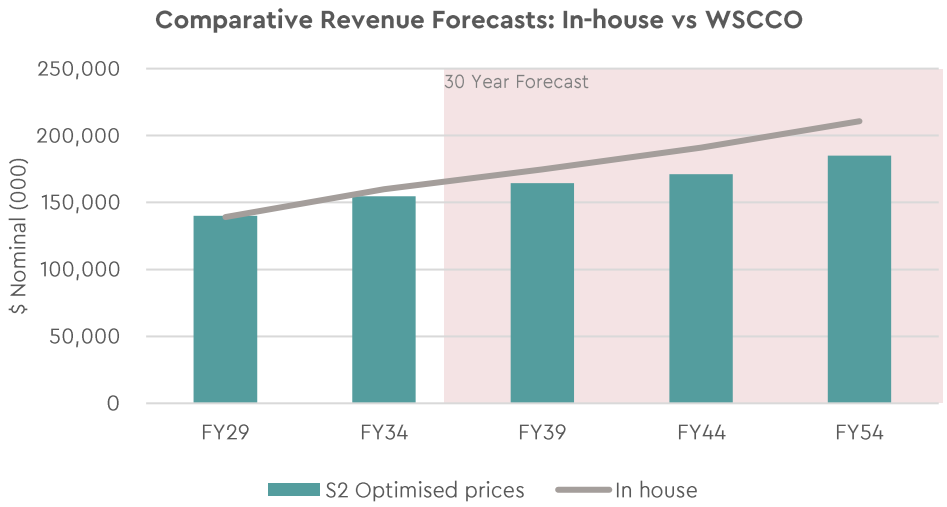
A joint WSCCO would be expected to deliver water services at a lower long-run cost to consumers than individual councils can deliver through current operating models and/or enable greater levels of investment to be delivered within currently projected revenues. Specifically, by FY54, a WSCCO could achieve:

- **Cost efficiencies.** Operating efficiencies are projected to peak at ~11.7% by FY47, delivering ~$180 million in cumulative operating savings to FY54 (~$145 million net of establishment and ongoing incremental costs). Capital efficiencies are projected to peak at ~18.1%, generating ~$185 million in cumulative capex savings - about 11% lower than in-house delivery for the same investment programme.
- **Customer impacts.** Rotorua and Whakatāne consumers are expected to see the largest price reductions (~$5,600 and ~$5,560 cumulative savings per connection to FY54). Ōpōtiki and Kawerau see more modest direct savings (~$1,710 and ~$1,650), but significant benefits would accrue to ratepayers through a reduction in Council debt and lower finance costs. The varied distribution of benefits reflects different starting debt-to-revenue ratios.
- **Council financial flexibility.** A key benefit of the WSCCO is balance sheet separation and capital structure. This creates additional borrowing headroom at the council level, significantly improving financial flexibility and the capacity to manage shocks. For Ōpōtiki and Kawerau, the transfer of water debt to a WSCCO would effectively eliminate council debt, while Whakatāne would also gain significant financial flexibility.

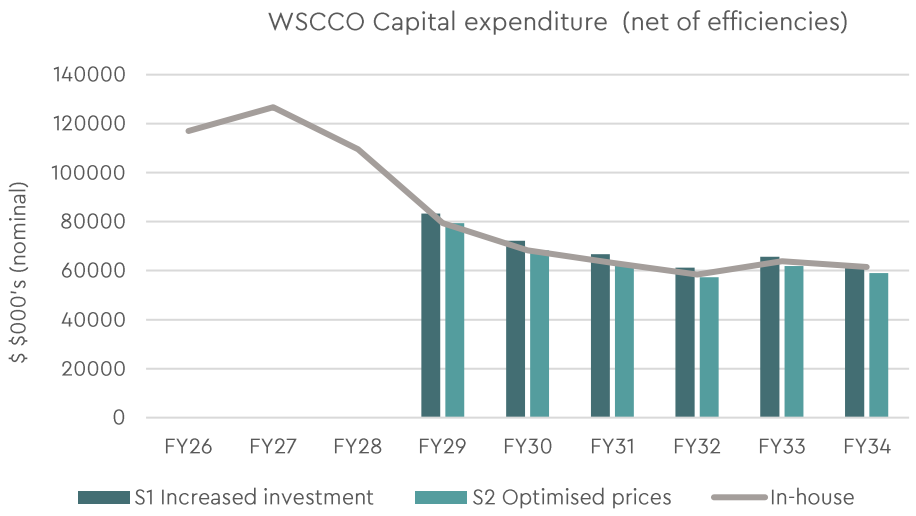
The benefits from the more **efficient capital structure** of the WSCCO model**, combined with the potential for operating and capital efficiencies**, would provide an immediate uplift in borrowing capacity to support required investment; result in fairer intergenerational allocation of costs through funding assets over their useful lives; and enhance investment capacity, infrastructure resilience, and create greater financial capacity for the WSCCO and councils to manage risks and absorb shocks.

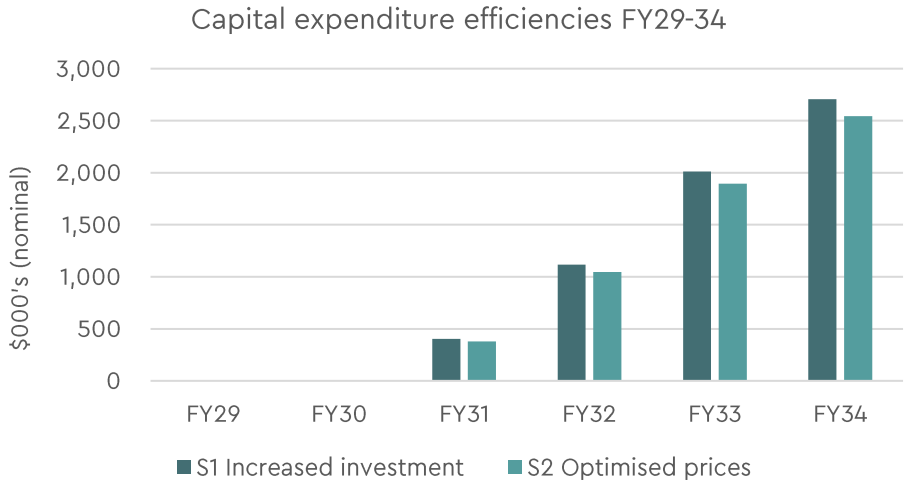
Scenario	Total Savings in water charges per connection (FY29-FY54) ($ real)	Total Capex including efficiencies (FY29-FY54) ($ nominal)	Total Opex including efficiencies (FY29-FY54) ($ nominal)
WSCCO – Optimised Prices	RLC ~ $5,600 WDC ~ $5,560 ODC ~ $1,710 KDC ~ $1,650	~$1,510 million	~$2,120 million
In-house	N.A.	~$1,695 million	~$2,265 million
Cumulative Savings	N.A.	$185 million	$145 million*

* Net of establishment and ongoing incremental costs



Projected capital expenditure





Current Investment Levels

The four councils plan to invest $394 million from FY29-FY34 (being the period of WSCCO operation within the current forecasts).

Investment Scenarios under a WSCCO

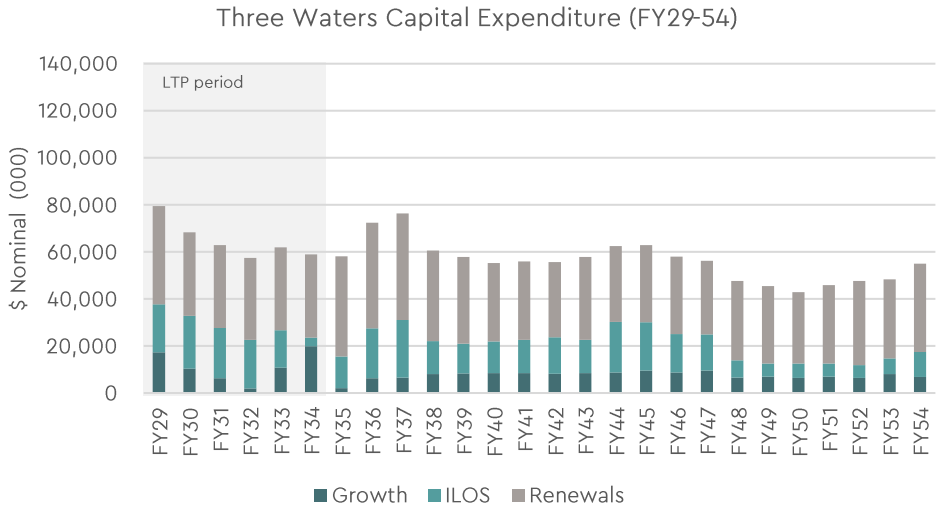
The WSCCO could generate cumulative **capital efficiencies totalling about $6 million by FY34**, meaning the delivery of the same investment for around **$6 million less** than current council arrangements. This should lead to **lower costs for consumers**.

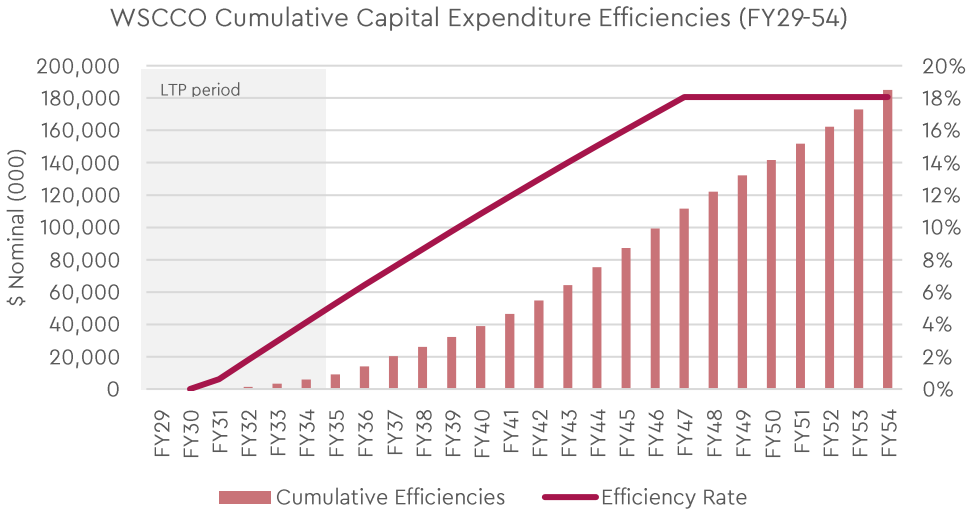
Efficiencies are forecast to reach 4.1% by FY34, which is less than 25% of the peak efficiency rate of 18.1%. By FY54, cumulative efficiencies are much larger, and estimated to total about $185 million over 30 years.

If the **current price path** is maintained, a WSCCO could invest an **additional $17.3 million** between FY29 and FY34, an increase of 4.4% above the in-house forecasts. The absence of 30-year operating cost projections means we are unable to estimate the scope for additional investment over this timeframe, but we expect it would exceed $100 million due to the cumulative efficiencies over this timeframe.

	Total capex including efficiencies (FY29-FY34)	Capex efficiencies (FY29-FY34)
S1-Increased investment	$412 million	~$6.2 million
S2-Optimised Prices	$388 million	~$5.8 million
In-house	$394 million	Nil.

Projected capital expenditure with optimised prices





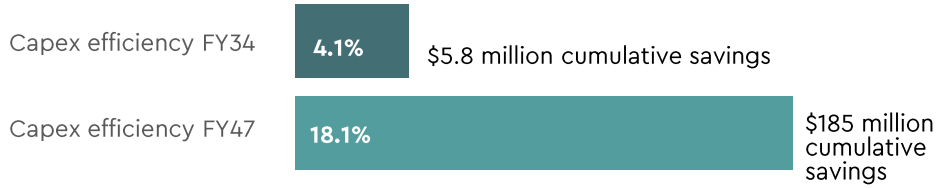
Current Investment Levels

Based on 30-year Infrastructure Strategies, the four councils plan to invest $1.7 billion in water infrastructure over the FY29–FY54 period. The majority of forecast investment is directed towards renewals (55%), with a smaller proportion allocated to levels-of-service improvements (26%) and growth infrastructure (19%).

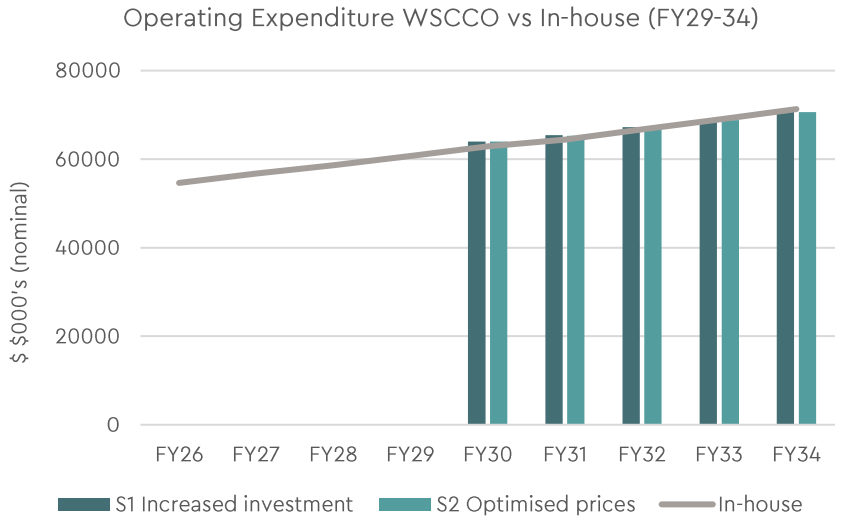
Elevated levels of investment are expected in FY29, FY36–FY37 (Rotorua), and FY42–FY45 (Ōpōtiki) due to major asset replacements and upgrades.

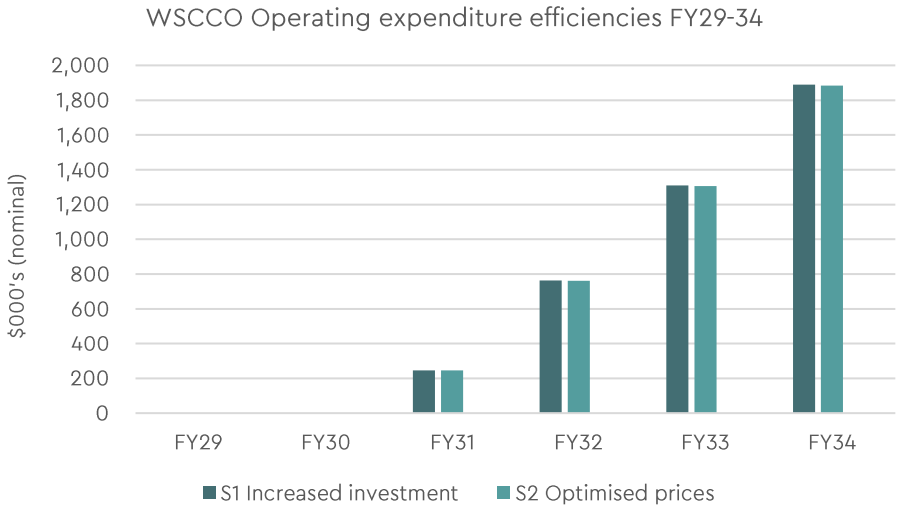
Investment Scenarios under a WSCCO

By achieving modest efficiencies, the WSCCO could generate cumulative **capital efficiencies totalling ~$185 million by FY54**. This equates to being able to deliver the existing capital programme for 11% less than is projected under current in-house delivery models.



Projected operating expenditure





Operating expenditure

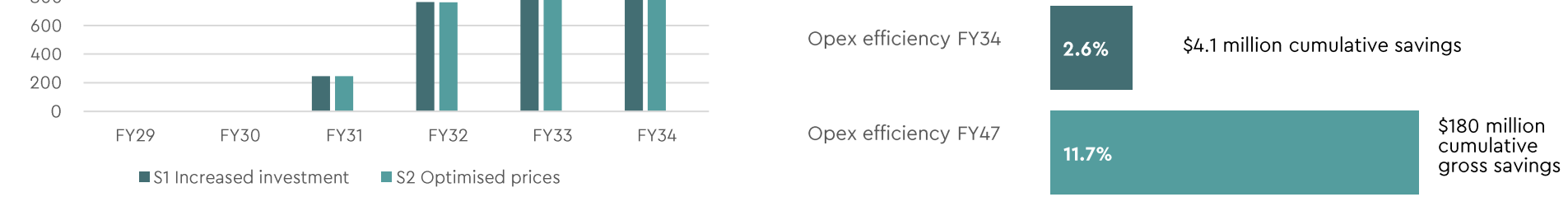
Total operating expenditure is similar across the three scenarios over the LTP period. The additional management and governance costs associated with a WSCCO begin to be offset by the operational efficiencies from FY32.

Efficiency gains are modelled to increase over time, with a two-year ramp-up post-establishment, and the full efficiency benefits reached 15-years thereafter. This means **cost savings will continue beyond the LTP period, delivering significant ongoing savings to communities** (see next page for detail).

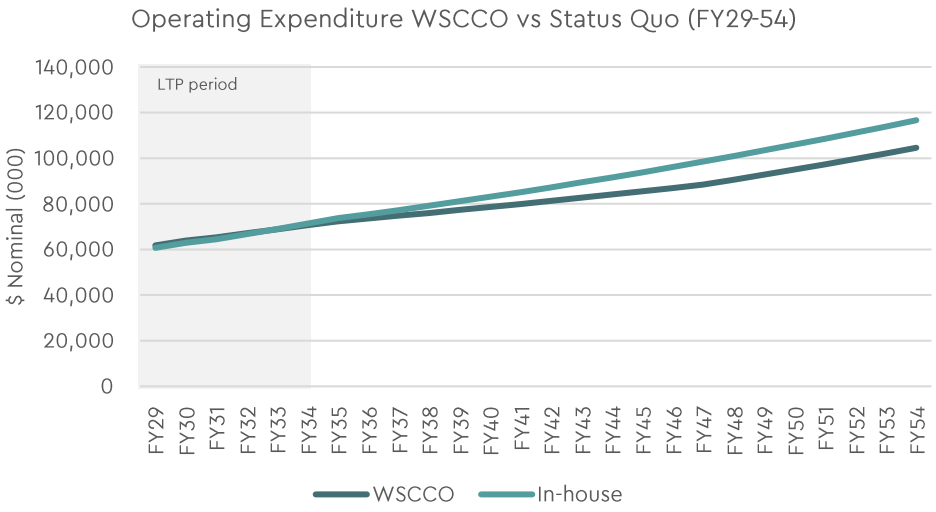
Operating efficiencies have been applied only to core operating costs, excluding depreciation and finance costs.

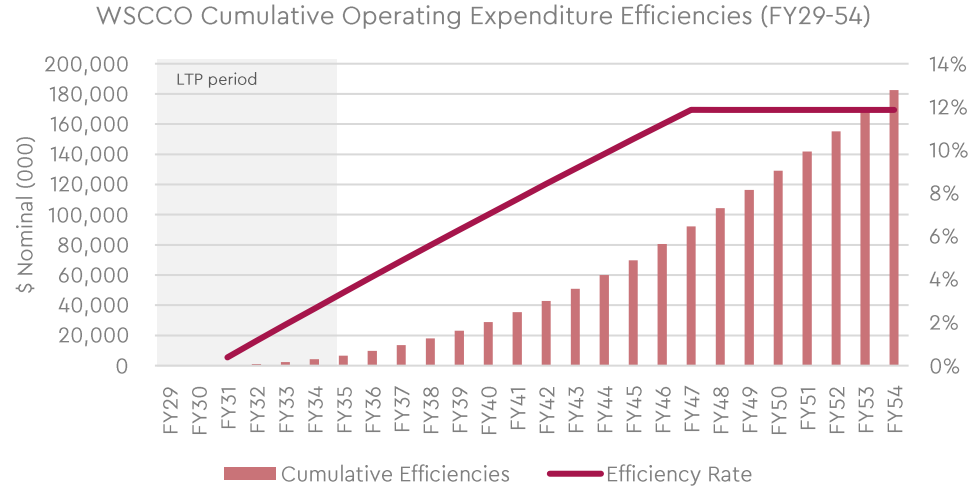
Scenario 1 provides for up to $17 million worth of additional investment, compared with in-house delivery. This creates additional financing and depreciation costs to service this investment. We have assumed this additional capex is primarily directed to improving existing assets and have made a small allowance for consequential operating costs.

	Total Opex including efficiencies (FY29-FY34)	Opex efficiencies (FY29-FY34)
S1 Increased investment	~$398 million	~$4.2 million
S2 Optimised prices	~$397 million	~$4.1 million
In-house	~$395 million	Nil.



Projected operating expenditure with optimised prices





Operating expenditure

Efficiency gains in a WSCCO are modelled to increase over time, with full efficiency benefits peaking at 11.7% per year in FY47. Over the FY29-FY54 period, cumulative efficiencies result in operating expenditure of ~6% less than in-house delivery. The cumulative operating efficiencies are estimated to total ~$180 million by FY54.

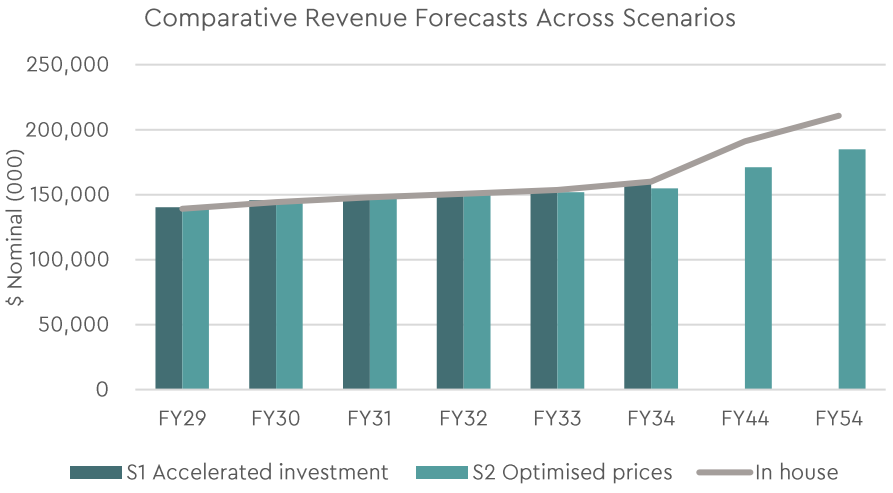
Modelling assumptions

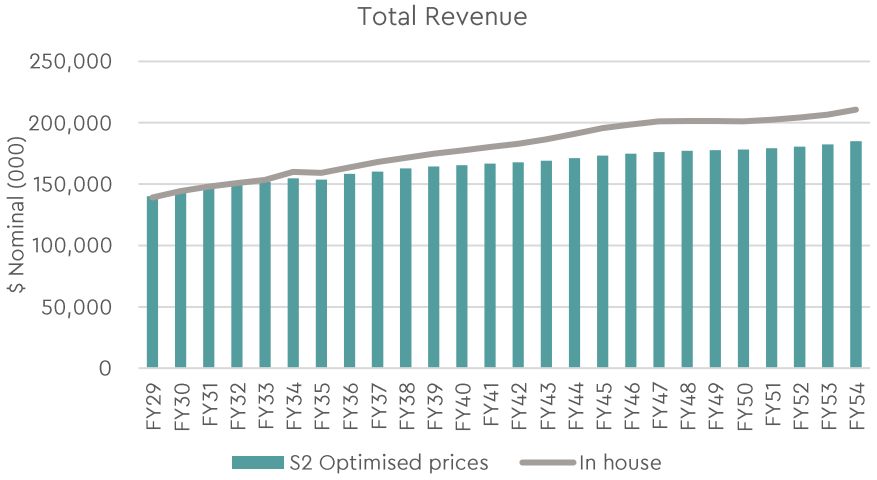
Rotorua provided its own 30-year opex forecasts. For Ōpōtiki, Whakatāne, and Kawerau, operating expenditure was forecast for the period FY34–FY54 using an inflation rate of 3% per year. For Ōpōtiki and Whakatāne, an additional consequential operating expenditure allowance of 1.5% was applied to all growth-related capital expenditure. Kawerau's existing infrastructure network has capacity to capture the expected growth, so no consequential operating cost was included. Finance costs were calculated based on projected debt balances, assuming an interest rate of 5.25%. Refer to the full financial assessment for more detail on assumptions.

	Total Opex including efficiencies (FY29-FY54)	Opex efficiencies (FY29-FY54)
WSCCO scenario	~$2,120 million	~$180 million*
Status Quo	~$2,265 million	N.A.

* After accounting for the additional establishment and ongoing WSCCO costs, the net savings total ~$145 million.

Projected revenues





Determining operating revenues

Under Local Water Done Well, the expectation is that operating revenues pay for operating costs with capital investment funded by capital sources (e.g., borrowing and development contributions).

This means operating revenues (and therefore charges for water services) should be set to recover all cash operating expenses plus a minimum FFO requirement (9%, based on LGFA covenants).

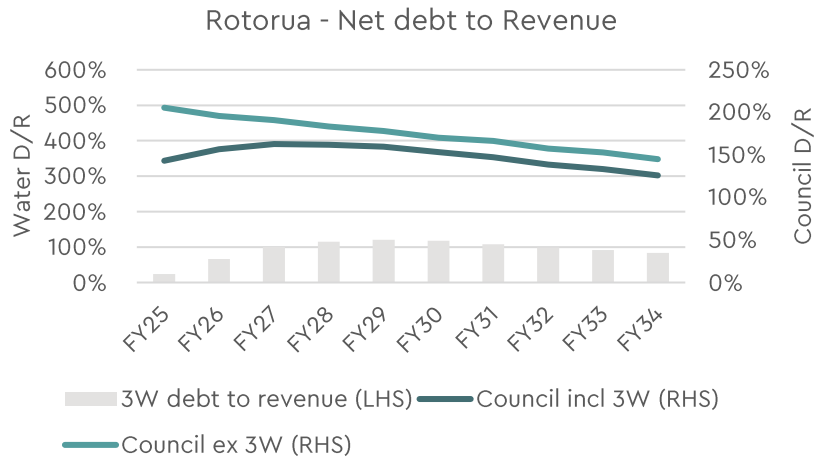
For the purposes of this report, we have assumed a target of 10% FFO-to-debt to provide a buffer above the minimum LGFA required covenant. This ensures an efficient approach to setting water charges while maintaining borrowing at a prudent level.

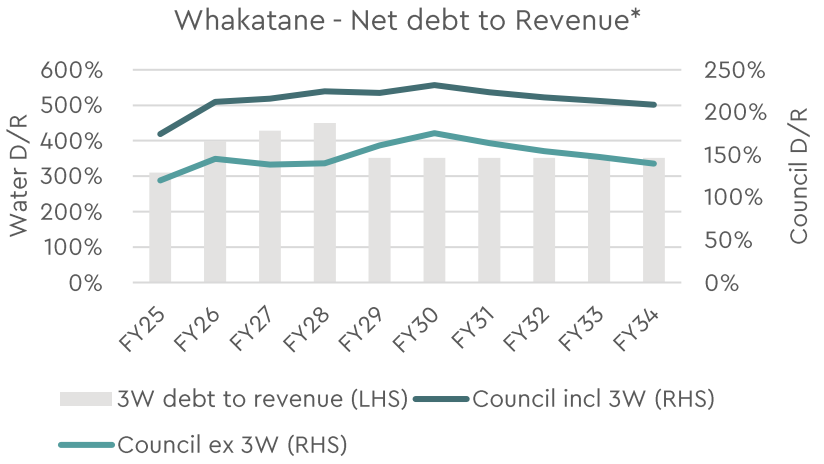
Under the optimised pricing scenario (i.e., where investment is maintained at current projected levels), the operating revenue collected by the WSCCO would be $2 million lower over FY29-FY34 compared with the status quo. How this affects consumers in the respective districts, and the long-term impacts are discussed in detail on the following pages.

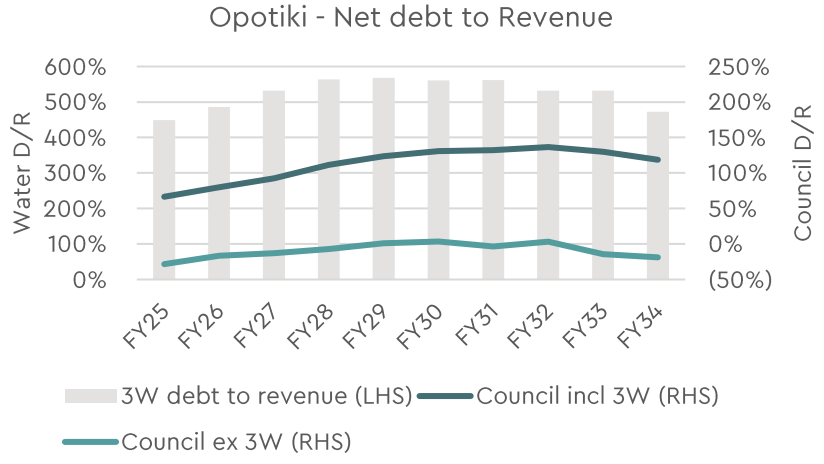
	Total revenue, incl. DCs (FY29-FY34)	FFO-to-debt (FY34)
S1 Accelerated investment	~$876 million	10%
S2 Optimised prices	~$871 million	10%
In-house	~$873 million	11%

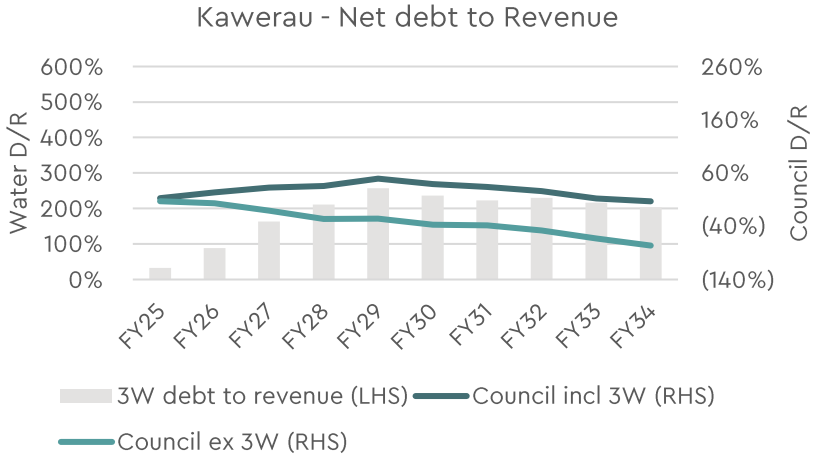
Net Debt to Revenue with and without water services

The four councils operate with significantly different levels of water debt-to-revenue, ranging from Rotorua where water debt-to-revenue peaks at 120% in FY29, to Ōpōtiki where water debt-to-revenue peaks at 568% in FY29. These different levels of gearing result in a different distribution of benefits from a WSCCO. For Whakatāne and Ōpōtiki, and to a lesser extent Kawerau, significant benefits would accrue from a reduction in Council debt burden (and servicing costs) and increased council capacity to manage shocks. The flipside of this benefit is that water consumers benefit less from an increase in the WSCCO's debt capacity.





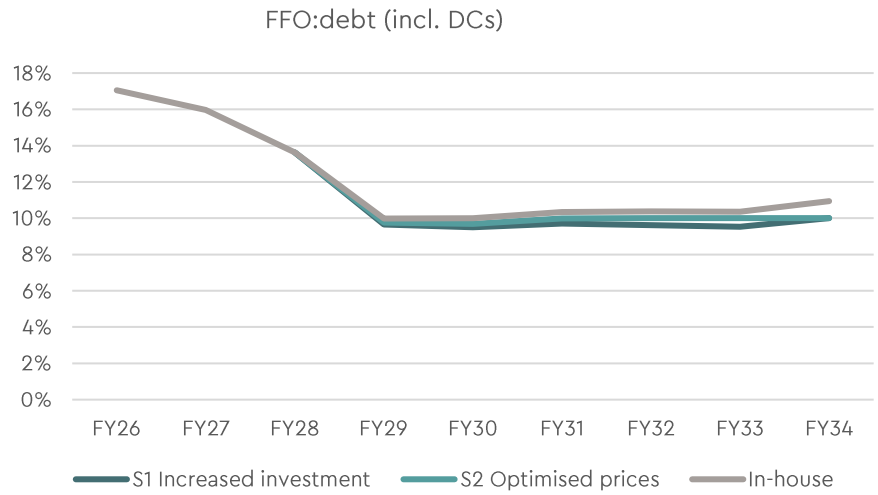


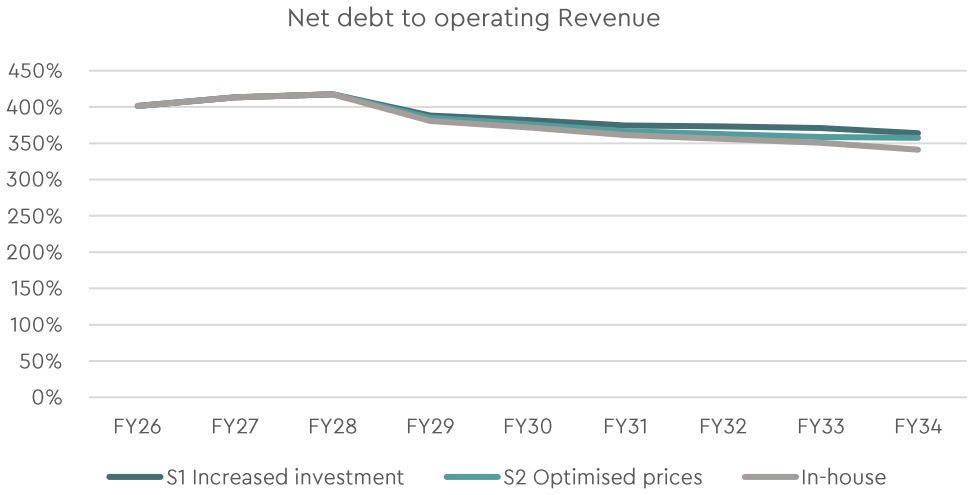


*For Whakatāne MartinJenkins modelled an in-house 3W business unit targeted a debt-to-revenue ratio of 350% from FY29.

WSCCO Debt Sustainability

Under a WSCCO model, the company targets a long-term FFO to net debt ratio of 10%, consistent with minimum LGFA lending covenants plus a one percentage point prudential margin. Compared with In-House delivery, this results in a smoother price path and more consistent financing strategy across the four councils. As noted on the previous page, the transfer of water debt to a WSCCO would reduce the debt-to-revenue ratio for all four councils, effectively eliminating debt in the case of Ōpōtiki and Kawerau.





Borrowing for investment

Based on the information supplied, the funding sources for councils' projected **$389 million of water infrastructure investment between FY29 and FY34** are as follows:

- **$66 million (17%)** is to be debt funded.
- **$47 million (12%)** is to be funded via DCs.
- **$274 million (71%)** is to be funded through operating revenues and
- **$0.8 million (0.2%)** is to be funded by other capital revenue and subsidies.

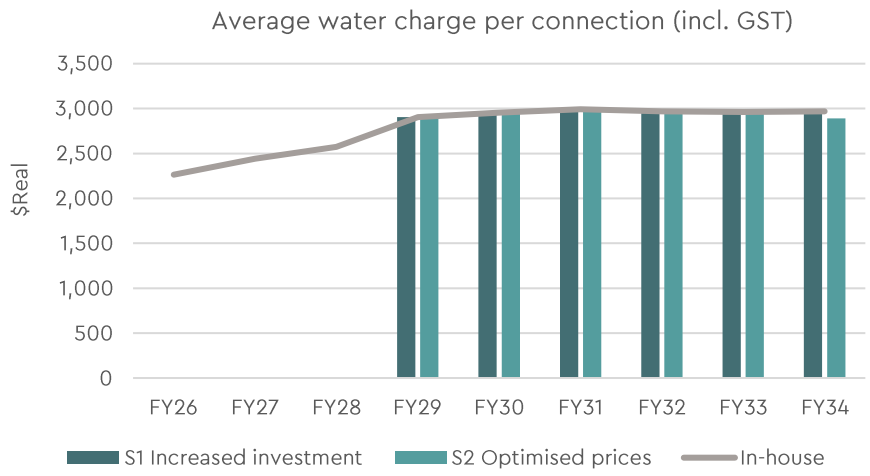
Capital structure

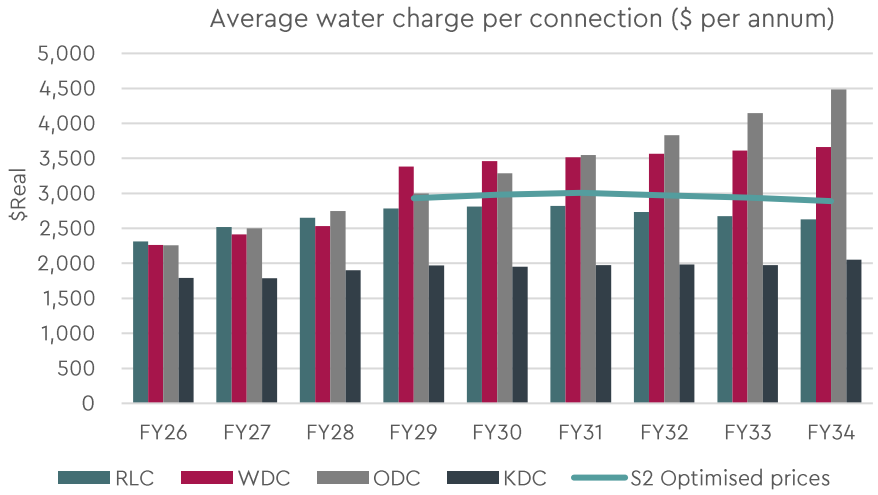
As outlined in DIA guidance, it is inefficient to fund investment in long-lived infrastructure primarily through operating revenues. Under the LWDW framework, capital investment is expected to be funded through capital sources (i.e., borrowing and development contributions), while operating revenues must be sufficient to maintain debt repayments and ensure debt remains within LGFA lending limits* for water CCOs.

Scenarios 1 (increased investment) and 2 (optimised prices) target a FFO-to-debt ratio of 10%.

**If LGFA approved a lower FFO-to-debt ratio for the CCO, then this would further increase the additional investment or further reduce prices relative to the modelled scenario.*

Comparative price paths
1 of 2





Water charges per connection

Under in-house delivery, the average annual water charge per connection across the four councils is projected to exceed **$2,970 per connection in FY34** (in today's terms). A **WSCCO could reduce this to $2,890 per connection** by FY34 across the councils, a reduction of around 3%. Consumers can expect more meaningful differences over a longer time period, as the efficiencies compound.

Indicative cost per connection in FY34 ($real)				
	RLC	WDC	ŌDC	KDC
S2 - Optimised prices	~$2,595	~$3,460	~$3,800	~$1,975
In-house	~$2,630	~$3,660	~$4,485	~$2,055

Comparative price paths
2 of 2

WSCCO cost-to-serve pricing

Average and cumulative forecast savings per connection under a cost-to-serve model versus in-house (FY29-54):

- **Rotorua:** ~$216 per year, cumulative savings of approximately $5,600 (~9%)
- **Whakatāne:** ~$210 per year, cumulative savings of approximately $5,560 (~6%)
- **Ōpōtiki:** ~$70 per year, cumulative savings of approximately $1,710 (~2%)
- **Kawerau:** ~$60 per year, cumulative savings of approximately $1,650 (~3%)

Detailed options assessment

Assessing in-house delivery and an asset owning WSCCO against the strategic objectives

Detailed options assessment

The high-level assessment identified the asset owning WSCCO as offering the strongest potential to deliver against the strategic objectives, with in-house delivery meeting current requirements but under growing pressure over time.

The next step was a detailed comparison to test the WSCCO against the status quo and confirm whether it should be the preferred option, drawing on the detailed financial modelling now completed and further analysis of how each option would perform against each objective in practice.

How we assessed the options

Each option was rated against each of the seven strategic objectives using the same three-point scale used in the high-level assessment.

The assessment drew on information about current council service delivery, the updated regulatory context, and our knowledge of the benefits and trade-offs associated with different delivery models. It was also informed by the detailed financial modelling and cost-to-serve analysis completed by MartinJenkins for this investigation, including the projected impacts of each option on expenditure, debt, financing capacity, affordability and water charges over a 30-year period.

The ratings were tested with the Steering Group and the WWG before this report was finalised.

What the next pages cover

The following pages set out the detailed assessment against each strategic objective, followed by a summary of the advantages and disadvantages of each option and the basis for the preferred model.

Assessment at the council level

This section presents the assessment across the four councils as a whole. Individual council-level assessments, which draw out the specific implications for each district, are included in the Appendix. These provide a more detailed view of how each option would perform in the context of each council's service delivery challenges and financial position.

Assessment of options

1 of 5

Legend: *Red text denotes possible risk* | *Consistent with objective but has some risks* | *Moderate alignment to objective(s)* | *Stronger alignment to objective(s)*

Strategic objective	Internal business unit *Status quo*	Rotorua/Eastern Bay of Plenty water organisation – asset owning (WSCCO)
Efficient and financially sustainable delivery of water services for communities, now and into the future	**Meets the objective in the short term, but with pressure on financial sustainability growing over time** • **Revenue sufficiency holds in the near term**. Approved WSDPs and price paths cover projected costs but will face growing challenges over the longer term. • **Financing sufficiency is constrained**. Water services compete for debt headroom within LGFA covenants of 175%–280% debt-to-revenue, and balanced-budget rules require depreciation to be funded from current ratepayers, limiting use of debt to spread long-lived asset costs. • **Resource sufficiency will be challenged**. Four small in-house teams compete for the same scarce engineering, asset management and regulatory capability across the region. • **Historic capital delivery is uneven**. Historic capex delivery rates were 41% Ōpōtiki, 96% Rotorua, 88% Whakatāne and 94% Kawerau over FY19-25, indicating capacity constraints harder to fix at small scale. • **No scale benefit for regulatory cost absorption**. Each council carries new regulatory compliance costs in full, which are expected to be significant especially for small councils. • **Governance sits with elected members under existing LGA structures**. The model relies on elected members and council officers holding the full breadth of capability needed for an increasingly complex and regulated activity. • Foregoes ~$185m capex and ~$145m opex efficiencies (net of establishment and incremental operating costs) by FY54 • Retention risk grows as neighbouring councils form larger water entities and compete for the same workforce • Limited capacity to lift investment without crowding out non-water services, particularly for Ōpōtiki and Whakatāne • Governance capability harder to sustain as regulatory complexity grows	**Aligns with the objective over the medium to long term, subject to effective establishment** • **Financing sufficiency improved**. A 10% FFO-to-debt covenant provides additional borrowing capacity. • **Earlier investment or lower prices enabled**. Modelling shows ~$17.3m additional investment FY29–FY34, or ~3% lower charges by FY34 (~$2,890 harmonised vs ~$2,970 in-house). Benefits would be significantly larger over 25 years. • **Capital and operating efficiencies at scale**. ~$185m capex savings (~11% of the $1.7b in-house programme) and ~$145m net operating savings by FY54 for optimised price scenario. • **Resource sufficiency strengthened**. A larger, specialised entity supports attraction and retention of critical capabilities. A significant benefit since competition for scarce water specialists is already intensifying with the establishment of WSCCOs in neighbouring regions. • **Improved intergenerational equity**. A more efficient capital structure spreads long-lived asset costs across the asset lives that benefit from them, rather than concentrating cost on current ratepayers. • **Strengthened commercial practice**. Single-purpose entity with a competency-based board and economic regulation — designed to embed asset-management discipline absent in the in-house model. • Establishment costs are front-loaded and occur before efficiencies are realised. • Full efficiencies take ~15 years to compound, with modest gains in the first few years. • Requires capital allocation trade-offs across four shareholders with different financial positions and priorities. • Modelled benefits depend on effective establishment, governance and asset management performance.

Assessment of options

2 of 5

Legend: *Red text denotes possible risk* | *Consistent with objective but has some risks* | *Moderate alignment to objective(s)* | *Stronger alignment to objective(s)*

Strategic objective	Internal business unit *Status quo*	Rotorua/Eastern Bay of Plenty water organisation – asset owning (WSCCO)
Protects and promotes public health and the environment - meeting regulatory requirements	**Meets current requirements unevenly, with limited capacity to lift performance** • **Performance varies across councils**. Rotorua and Kawerau generally meet DWQAR standards, while parts of Whakatāne and Ōpōtiki show more variable compliance outcomes. • **A significant programme of upgrades is required**. Forty three consents (47% of all consents across the four councils) expire between 2025 and 2034, with eight wastewater treatment consents and ten water supply consents expiring in 2026 alone. New wastewater standards will require additional investment over the next decade. • **Capacity to respond is uneven**. Financial and delivery constraints limit the ability of some councils to address compliance gaps quickly. • **Compliance is managed on a council-by-council basis**. This limits opportunities to share capability or coordinate responses to regulatory change. • Limited ability to accelerate upgrades where compliance gaps emerge • Investment requirements may exceed current planning assumptions in some councils	**Better positioned to meet evolving regulatory requirements** • **A more consistent approach to compliance can be supported**. A single entity enables more standardised planning and delivery across the four councils. • **Financing capacity is improved**. Increased borrowing headroom provides flexibility to lift or accelerate investment in treatment upgrades, source security and consent renewals. • **Specialist capability is easier to build and retain**. This supports more proactive asset management and responsiveness to regulatory requirements. • **Regulatory interfaces are simplified**. Proactive asset management and consolidated regulatory relationships with Taumata Arowai, the Commerce Commission and regional council raise the likelihood of consistent compliance. • Funding may be prioritised across the entity in ways that do not match individual council preferences, particularly given Ōpōtiki and Whakatāne carry the largest compliance investment needs.

Assessment of options

3 of 5

Legend: *Red text denotes possible risk* | *Consistent with objective but has some risks* | *Moderate alignment to objective(s)* | *Stronger alignment to objective(s)*

Strategic objective	Internal business unit *Status quo*	Rotorua/Eastern Bay of Plenty water organisation – asset owning (WSCCO)
Water services **are resilient to natural hazards and climate change**	**Capacity to invest in resilience and absorb shocks is constrained** • **Resilience investment is constrained**. Limited borrowing headroom, particularly in Ōpōtiki and Whakatāne, restricts the ability to invest in resilience. • **Trade-offs are already evident**. Some resilience and level-of-service improvements have been deferred in current plans to manage affordability. • **Response capability varies across councils**. Differences in scale and resources lead to uneven ability to respond to shocks. • **Water investment competes with other priorities**. Councils must balance resilience investment against other infrastructure needs. • Deferred investment increases long-term exposure to risk.	**Stronger ability to invest in resilience and respond to shocks** • **Resilience investment can be brought forward**. Greater financing capacity supports earlier upgrades to networks and assets. • **A more coordinated approach is possible**. A single entity can plan across shared risks and catchments, with greater capacity to respond to events. • **Council headroom is improved**. Removing water debt creates flexibility to respond to non-water shocks. • **Planning can occur at a larger scale**. This supports more consistent standards and prioritisation across the region. • Investment decisions may not always align with local priorities. Requires clear shareholder direction on resilience priorities for the combined service area.
Integrated water services and infrastructure planning that promotes efficient, equitable, and integrated delivery	**Strongest on integration within each district.** • **Integration within each council is strong**. Water planning sits alongside land use, transport and growth decisions within a single organisation. • **Established processes support coordination**. Existing planning frameworks enable alignment within districts. • **Local knowledge is embedded**. Decision-making reflects place-based understanding and relationships. • **Cross-council coordination is more limited**. Alignment relies on cooperation between separate organisations. • Regional optimisation depends on informal or bilateral arrangements. Differences in priorities and timing can limit coordination.	**Stronger on cross council coordination, with within district integration becoming an interface to manage** • **Regional coordination is strengthened**. A single entity provides a platform for planning across council boundaries. • **Investment can be aligned at a sub-regional level**. This supports more efficient management of shared assets and catchments. • **Formal interfaces with councils are required**. Coordination with land use and transport planning must be actively managed. • Reduced direct integration with council planning processes. Requires well-defined mechanisms to manage council–WSCCO interfaces.

Assessment of options

4 of 5

Legend: *Red text denotes possible risk* | *Consistent with objective but has some risks* | *Moderate alignment to objective(s)* | *Stronger alignment to objective(s)*

Strategic objective	Internal business unit *Status quo*	Rotorua/Eastern Bay of Plenty water organisation – asset owning (WSCCO)
Affordable, fit for purpose service to consumers and communities that meets the needs, and expectations of communities	**Higher water charges in every council area compared to a WSCCO** • **Water charges are higher**. Every council pays more per connection over FY29–FY54 than under a cost-to-serve WSCCO (optimised price scenario). • **Whakatāne and Ōpōtiki rely on high borrowing to fund water investment in their WSDP**. This flows through to higher rates overall and constrains council flexibility to respond to other pressures. • **Affordability pressures are most acute for Whakatāne and Ōpōtiki**. Absolute water charges are highest for these two councils under in-house delivery and above average levels of socioeconomic deprivation exacerbate affordability challenges. While water charges are projected to be lower in absolute terms in Kawerau, they remain elevated relative to median household incomes. • **Provides for strong local voice and accountability**. The model offers the most flexibility on local service levels and direct accountability to communities through elected members. • Ōpōtiki and Whakatāne communities will face increasing affordability challenges as required investment drives increased revenue requirements. • Kawerau's funding model carries exposure to closure or relocation of major industrial ratepayers.	**Lower water charges in every council area under cost-to-serve** • **Water charges are lower.** WSCCO operating and capital efficiencies flow through to lower prices. Cumulative savings per connection to FY54 total ~$5,613 (Rotorua, 9.1%), ~$5,563 (Whakatāne, 6.1%), ~$1,713 (Ōpōtiki, 2.0%) and ~$1,648 (Kawerau, 2.6%) under the optimised price scenario. • **Whakatāne and Ōpōtiki see more modest per-connection savings**. This reflects their in-house model's heavy reliance on borrowing. Wider ratepayer benefits accrue through the transfer of water debt, lowering finance costs and easing overall rates pressure. • **More intergenerationally equitable.** Costs can be spread over a longer time frame. • **Customer voice mechanisms need to be designed deliberately**. The WSCCO would need to replicate some consumer engagement currently embedded in council processes.

Assessment of options

5 of 5

Legend: *Red text denotes possible risk* | *Consistent with objective but has some risks* | *Moderate alignment to objective(s)* | *Stronger alignment to objective(s)*

Strategic objective	Internal business unit *Status quo*	Rotorua/Eastern Bay of Plenty water organisation – asset owning (WSCCO)
Council obligations to hapū and iwi are valued and honoured*	**Continues current arrangements, with capacity to give effect to obligations over time constrained by council resources** • **Existing relationships are maintained**. Councils continue to engage through established arrangements and forums. • **Approaches reflect local context**. Engagement is tailored to each district and its history. • **Alignment with current boundaries is retained**. This may suit some iwi and hapū preferences. • Ability to sustain capability to meet regulatory and environmental demands and Treaty settlement and other obligations could become limited over the long-term. • Reduced capacity to invest may compromise ability to uphold specific settlement obligations.	**Requires new arrangements, with greater capacity to invest to give effect to obligations** • **New approaches can be developed**. Opportunity to create a bespoke, fit-for-purpose representation and engagement mechanisms. • **Collective voice may be strengthened**. Five iwi have recognised interests across multiple councils. • **Capacity to invest is improved**. Greater financing headroom supports investment in line with Treaty settlement and other obligations, tied to environmental and infrastructure outcomes. • Trust with iwi and hapū would need to be built over time. Any option that weakens existing relationship/instruments will likely be perceived as a step backwards.
Remaining council operations are viable and continue to deliver on communities' expectations	**Sustainable for Rotorua and Kawerau, with significantly greater pressure on Ōpōtiki and Whakatāne** • **Council structures remain unchanged**. No stranded costs and full retention of existing financial flows. • **Financial positions vary across councils**. Rotorua and Kawerau have more debt headroom and financial resilience than Whakatāne and Ōpōtiki. • In Whakatāne and Ōpōtiki, water debt limits investment in other services and means there is limited flexibility to respond to unforeseen costs.	**Returns headroom to councils, with transition costs to manage** • **Council balance sheets are significantly improved.** Creates additional borrowing headroom at the council level, significantly improving financial flexibility. For Ōpōtiki and Kawerau, the transfer of water debt to a WSCCO would effectively eliminate council debt, while Whakatāne would also gain significant financial flexibility. • **Stranded costs will need to be managed**. The transition will likely produce stranded costs, particularly where council overhead and shared services have been allocated to water. These can be mitigated through careful transition planning but cannot be eliminated. • Multiple shareholders will need coordination mechanisms to manage divergence of interests, particularly across councils with different financial positions and community priorities.

* Indicative assessment, not based on direct engagement with hapū and iwi. Each council is undertaking its own engagement with hapū and iwi to inform final decisions.

Summary of detailed options assessment

OPTIONS	CHOOSE OPTION IF	KEY ADVANTAGES	KEY DISADVANTAGES
1 **Internal business unit** *Status quo*	Council considers current arrangements continue to meet community and statutory requirements over the medium to long term and the advantages of a joint model are not strong enough to justify the change.	• Continuity of existing arrangements, relationships and accountability to communities through elected members. • Strong integration within each district between water, land use, transport and growth planning. • Continuity of existing relationships and arrangements with hapū and iwi. • Most flexibility on local service levels. • No stranded costs and full retention of existing financial flows	• Financing capacity constrained by LGFA covenants, with growing affordability pressure for Ōpōtiki and Whakatāne over time. • Capex and opex efficiencies modelled under a WSCCO not captured. • Limited capacity to invest in resilience and respond to shocks, particularly for Ōpōtiki and Whakatāne. • New regulatory compliance costs fall on each council individually, with no scale benefit. • Higher water charges in every council area compared to a WSCCO • Workforce attraction and retention risk grows as neighbouring councils establish larger water organisations.
2 **Rotorua/Eastern Bay of Plenty water organisation – asset owning** (WSCCO)	Council considers the benefits of greater financing capacity, modelled efficiencies and a dedicated water focus outweigh the costs and complexity of transition, and is confident the design of representation, ownership and governance arrangements can support community and hapū and iwi engagement.	• Greater borrowing capacity supports earlier investment or lower charges, with cost-to-serve lower in every district by FY34. • ~$185m capex and ~$145m net opex savings by FY54, after establishment and ongoing entity costs. • Council debt headroom lifted across all four councils, with the largest relief for Ōpōtiki and Whakatāne. • More consistent response to evolving regulatory requirements through a single regulated entity • Greater capacity to invest in support of obligations to hapū and iwi. • Larger entity supports workforce attraction and retention in an increasingly competitive market.	• Modelled benefits depend on effective establishment, governance and asset management, with full efficiencies taking around 15 years to compound. • Establishment costs are front loaded and likely stranded costs need to be managed through transition. • Stranded costs for councils are likely but may be mitigated through careful transition planning. • New coordination mechanisms need to be developed to mitigate loss of integration with other council planning processes.

Agreement to develop the multi-council WSCCO option

The detailed assessment compared in-house delivery and an asset owning WSCCO against the seven strategic objectives agreed by the WWG.

The analysis confirms that both options can deliver against the strategic objectives in the **short-term**, with material differences emerging over the medium- to long-term.

The in-house model offers continuity of existing arrangements, integration within each council, and direct accountability to communities through elected members. Capacity to give effect to the objectives weakens over time, with growing pressure on financial sustainability, regulatory compliance, resilience and affordability. Pressure is most acute for Ōpōtiki and Whakatāne, where limited borrowing headroom constrains the ability to invest in water and other council services.

The asset owning WSCCO offers greater capacity to meet evolving regulatory requirements, invest in resilience and lower cost-to-serve in every district, while increasing debt headroom to councils. The benefits depend on effective establishment, governance and asset management, with full efficiencies compounding over around 15 years.

New arrangements will need to give effect to existing obligations to hapū and iwi, customer voice mechanisms will need to be designed deliberately, and the pace of moving from cost-to-serve to harmonised pricing across councils will need careful management.

OPTIONS	RECOMMENDATION
1 **Internal business unit** *Status quo*	**Not preferred** – meets current requirements but capacity to give effect to the strategic objectives weakens over time, particularly for Ōpōtiki and Whakatāne.
2 **Rotorua/Eastern Bay of Plenty water organisation – asset owning** (WSCCO)	**Preferred** – aligns more strongly with the strategic objectives over the medium to long term, with greater financing capacity, modelled efficiencies and a dedicated water focus, subject to effective establishment and transition.

Based on this assessment, the WWG endorsed the recommendation that councils proceed to **develop ownership, representation and governance arrangements for an asset owning multi-council WSCCO as the alternative water service delivery model**, to support individual council decisions.

WSCCO design

Potential design of a Rotorua/Eastern Bay of Plenty WSCCO

Designing the WSCCO

The detailed assessment identified an asset owning WSCCO as the preferred model. How that entity is designed will shape the extent to which it delivers on the strategic objectives, particularly for financial sustainability, local voice, and obligations to hapū and iwi.

Working through the design choices during the investigation gave the WWG a clear view of the trade-offs and provides councils with enough detail to explain the model to their communities during consultation.

The design choices set out here are indicative, based on initial direction from the WWG. Councils still need to work through and agree the detail on the final shape of the entity, to be confirmed through a Commitment Agreement.

How we approached the design work

The WWG worked through a framework of design choices covering ownership, representative oversight, governance, decision making, and other key settings such as dividends and pricing.

The work drew on the requirements of the Local Government (Water Services) Act 2025 and emerging practice from multi-council WSCCOs at various stages of establishment across the country.

Each design choice was tested with the Steering Group and the WWG through workshops over the course of the investigation.

What the next pages cover

The following pages set out the framework of design choices, and the indicative direction from the WWG on ownership, representative oversight, governance and other key settings.

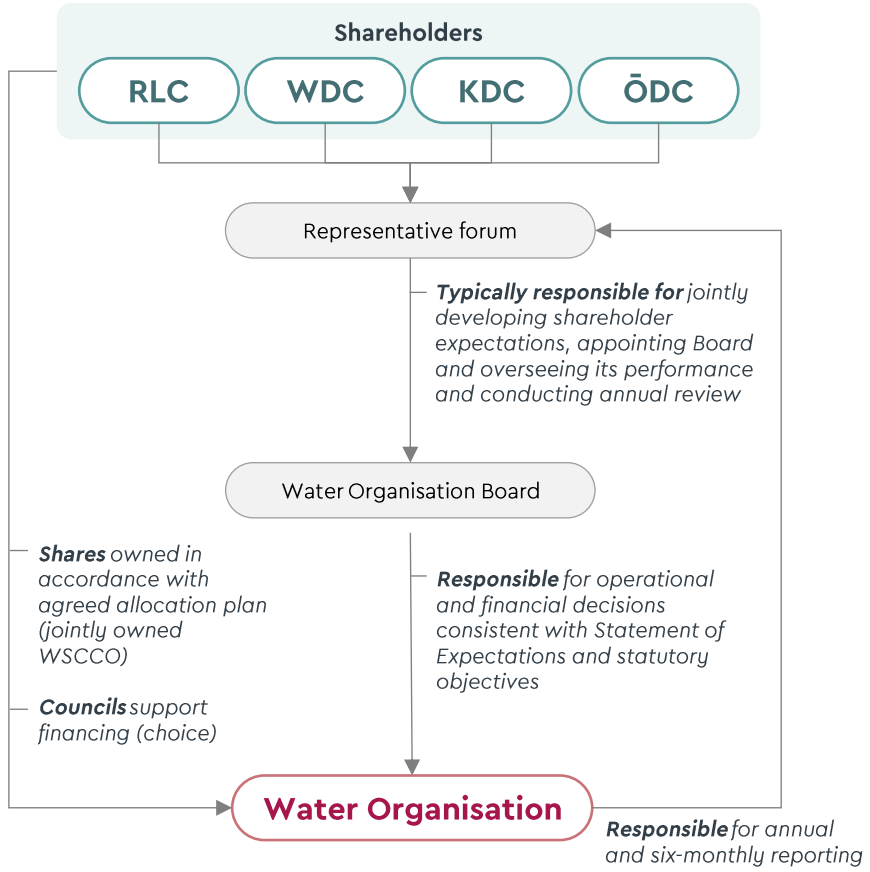
This is represented visually on one page in the accompanying A3.

Supporting information

Options for ownership, representation and governance arrangements were discussed at the WWG's May, June and July meetings. Readers wanting further detail should refer to the published papers from those meetings.

Key features of a jointly owned WSCCO

	Key features
Ownership	• Limited liability company owned by the four 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 representative forum) • Board comprised of independent, professional directors • Shareholding councils agree the process for preparing and providing a combined statement of expectations • Water organisation board prepares water services strategy and consults shareholding councils (following requirements/processes in legislation and constitution)
Accountability	• Water organisation board is accountable to council shareholders and reports regularly on performance (shareholders are accountable to community) • Water organisation required to give effect to a single statement of expectations, operate in line with foundation documents, and meet statutory requirements • Water organisation prepares annual report, including financial statements, and information on performance and other matters outlined in water services strategy
Borrowing	• Borrowing arrangements and credit rating implications dependent on whether shareholding councils provide financial support



Overview of key design choices

The Local Government (Water Services) Act 2025 prescribes some settings for a WSCCO but leaves others to shareholders to decide. This page provides an overview of the key design choices, showing where councils have flexibility to shape the entity.

Ownership

- **Approach to determining share allocation** – matters mainly for dividends (if applicable) and represents economic interests.

Representative oversight

- **Establishment, role and composition of a representative forum** – a representative forum to carry out certain functions on behalf of shareholders, subject to agreed delegations.
- **Participation by hapū and iwi** in oversight arrangements needs to be considered, noting only Councils may be shareholders.

Governance

- **Board composition and appointment process –** determining the size of the WSCCO Board and restrictions, director term length, who appoints and removes Directors etc.

Decision making

Determining how and by whom decisions are made including defining:

- **Matters to be reserved for shareholder decisions** (i.e. not board decisions) – e.g. appointment of directors, onboarding of new Councils / shareholders.
- **How councils exercise shareholder rights** - i.e. where voting happens (shareholder-level, or representative forum), and how.

Other choices

- **Whether to permit dividends**
- **The pricing approach at establishment**

Ownership

The choice

How shares are allocated between the four councils, recognising that only councils (or consumer trusts) can hold shares and that shareholding is distinct from voting.

Shareholding is about ownership and affects some things, but not as many as might be assumed. Shareholder rights are limited as shares cannot be sold, critical assets cannot be divested, and councils retain responsibility for ensuring essential water services are provided in their district.

Economic interests are limited to accounting treatment of potential liabilities and any share in dividends (if any).

By itself, shareholding doesn't determine voting rights and needs to be considered alongside voting mechanisms and decision-making thresholds.

Other things to consider in determining a share allocation method include:

- ease of implementing the allocation method to avoid disagreements and minimise information requirements to support calculation
- transparency and ability to explain it simply for ratepayers and other stakeholders.

Options considered

Equal shares or proportional shares based on a measure such as connections, population or net asset value.

In practice, the proportional options produce broadly similar outcomes.

Rotorua is the largest across every measure, followed by Whakatāne, with Kawerau and Ōpōtiki each holding a smaller share. Differences between connections, population and NAV move each council's share by a few percentage points rather than reshaping the picture.

The equal shares option is the only one that produces a materially different outcome, giving Kawerau and Ōpōtiki the same holding as Rotorua despite the difference in scale.

The indicative preference of the WWG is that **shares be allocated based on net asset value** (asset value less starting debt).

Net asset value reflects the equity each council contributes to the WSCCO through the transfer of assets and liabilities. It aligns ownership with contribution more directly than connections or population but is more complicated and costly to implement.

Further work would be required to determine the valuation methodology and rules for periodic adjustment as new assets are built or councils enter or exit.

Representative oversight

The choice

Whether to establish a representative forum, its role and composition, and how hapū and iwi participate.

A representative forum sits between shareholders (councils) and the Board. It carries out functions on behalf of shareholders under agreed delegations, freeing councils from acting collectively on every decision while retaining accountability to them. Whether to establish one is a design choice; the shape and mandate of the forum is a further set of choices about role, composition and voting.

Other things to consider include:

- how the forum relates to existing iwi and council relationships and settlement obligations
- how to give small councils meaningful voice alongside larger ones.

Options considered

Direct shareholder decision making (no forum) or a forum with delegated functions.

Iwi participation options included no iwi representation, iwi representation with voting rights, and iwi representation with non-voting or advisory status.

The practical difference between the options is significant.

A forum with councils only carries out delegated functions on behalf of shareholders. A forum with iwi representation adds mana whenua participation in oversight, with voting or advisory status depending on how the forum is constituted.

A representative forum is a practical mechanism for achieving coordination between shareholders, and for undertaking key tasks including board appointments, development of the Statement of Expectations, and monitoring board performance. Having no representative forum may make coordination between shareholders difficult and could undermine accountability arrangements.

The indicative preference of the WWG is to **establish a representative forum** to hold delegated functions from shareholders, including developing the Statement of Expectations and appointing directors.

Four shareholders acting separately would be slow and a forum enables efficient collective decision making under delegation.

Iwi representation on the representative forum was generally supported. Iwi representation supports giving effect to Te Tiriti obligations and recognises mana whenua interests in water.

The starting point is four iwi representatives on the forum, to be tested with councils and iwi as design progresses.

The process for nominating or appointing iwi representatives would need to be iwi-mandated.

Decision making

The choice

Which decisions sit with shareholders, which sit with the forum, and which sit with the Board.

Under the Act, the Board is responsible for operational, financial and strategic delivery within the Statement of Expectations.

Shareholders and any forum they establish sit above that, setting expectations and providing oversight, but not running the entity.

Reserved matters are typically the decisions that change the entity itself, or that carry consequences beyond routine oversight.

Delegated matters are those a forum can take on the shareholders' behalf without needing to return to each council.

Options considered

The starting point is the Act, which requires shareholders to retain authority over defined critical decisions affecting ownership, control or risk. Beyond this, shareholders choose:

- *What sits with shareholders as reserved matters*: typically decisions affecting ownership, structure, and major transactions
- *What is delegated to the representative forum*: this depends on how much shareholders want to delegate. If this is set too narrowly, councils still act separately on most decisions and lose the efficiency the forum is designed to create.
- *What sits with the Board*: day-to-day operational, financial and strategic delivery within the Statement of Expectations, and other matters not reserved

The indicative preference of the WWG is that **councils retain a narrow set of reserved matters**: constitutional changes, admission or exit of shareholders, and major transactions above an agreed threshold.

The **forum is delegated decisions on Board appointments and setting the skills matrix**. The forum also develops and approves the Statement of Expectations, oversees WSCCO performance, and reviews the Water Services Strategy and budget. *Further work should consider whether additional decisions are delegated to the forum, once its composition and voting arrangements are decided.*

The **Board sets the Water Services Strategy and Annual Budget and makes operational, financial and strategic delivery decisions** in line with the Statement of Expectations, and other matters not reserved. The Board is accountable to shareholders through the forum, but how the WSCCO runs sits with the Board.

Voting and decision thresholds

The choice

How votes are weighted for shareholder reserved matters and for forum decisions, and what thresholds apply to different classes of decision.

Votes and thresholds work together. Votes determine each party's weight in a decision. Thresholds determine how much collective support is needed to pass it. Both need to be designed together, as changing one shifts influence in ways that may not be intended.

Voting is separate from shareholding. Councils can hold shares in proportion to NAV or water connections but vote equally for example. Forum voting sits differently again, as iwi representatives are not tied to shareholding.

Options considered

Weighting options: equal votes regardless of shareholding; votes in line with shareholding; or weighted differently for different classes of matter.

Threshold options: simple majority (more than 50%); supermajority (typically 65%, 75% or 80%); or unanimity.

How the combination shapes influence

Votes in line with shareholding and simple majority lets larger councils carry decisions on their own. Rotorua alone would be close to that threshold on most measures.

Votes in line with shareholding and supermajority means larger councils still have more weight but need at least one smaller council to agree.

Unanimity gives every council an effective veto regardless of shareholding, and weighting becomes irrelevant.

Equal votes and simple majority allows three smaller councils to outvote Rotorua despite the shareholding position.

Why set high thresholds

High thresholds protect smaller shareholders on decisions that could materially change their position, and give the entity stability by making fundamental change harder to force through.

The trade-off is that a high decision-making threshold gives a small group (or individual shareholder) the power to block decisions the entity needs to make, which can stymie decision making (i.e., risk of veto by a single shareholder or minority shareholding group).

The usual approach is to reserve high thresholds for a defined set of significant decisions

The indicative preference of the WWG is that **votes are weighted by shareholding for shareholder reserved matters with varied thresholds**. Further work is required, but this is likely to be simple majority for routine reserved matters, supermajority for decisions that materially affect the entity or shareholder positions, and possible unanimity for the most fundamental decisions.

Forum voting and thresholds remain to be determined, including how iwi representatives vote alongside council members and the threshold for forum decisions.

Example of possible decision-making framework

Decision	Board	Representative forum (delegated by shareholders)	Shareholding councils
Developing / amending the WSO's constitution		*Make recommendation*	✓✓
Council financial support	*Make recommendation*	*Make recommendation*	✓
Approving a major transaction – including any additional related revenue	*Make recommendation*	*Make recommendation*	✓✓
Entry or exit of a shareholder (Council)	*Make recommendation*	*Make recommendation*	✓✓
Issuing Statement of Expectations	*Comment on*	✓	*Consulted on*
Development of KPIs	*Make recommendation*	✓	
Monitoring performance		✓	*Receives reports*
Appointment of Board Chair		✓	
Appointment of Director(s)		✓	
Removal of Director(s)		✓	
Appointing the WSCCO CEO	✓		
Borrowing within LGFA approved covenants	✓		

✓ = simple majority (>50%) ✓✓ = super majority (>75% and majority of shareholders)

Governance

The choice

Size and composition of the WSCCO Board, term length, and the approach to appointing and removing directors.

The Local Government (Water Services) Act 2025 requires directors to be appointed on skills, knowledge and experience relevant to the entity's objectives. Elected members and employees of a shareholding council or the WSCCO cannot be directors.

Within those constraints, the design choice is how to size the Board, how long directors serve, who appoints and removes them, and whether to build in additional skills requirements to reflect local needs.

Options considered

Board size: size needs to balance diversity of perspectives and workability. A range gives scope to have more or less directors depending on the number required to cover the full range of capabilities. An odd total helps avoid deadlocks.

Term of directors: typically no more than three or four years, with reappointment limits. Reappointment limits balance continuity with the opportunity to bring new perspectives to the Board as required.

Appointment and removal: retained by shareholders or delegated to the representative forum. Voting thresholds can differ for appointments (e.g. majority) and removals (e.g. supermajority) to give directors protection from being removed on narrow grounds.

Skills requirements: rely on the Act's minimum, or specify additional requirements in the Constitution or Statement of Expectations to reflect local needs.

The indicative preference of the WWG is that the Board is comprised of a **minimum of five and maximum of seven** directors. Directors would have **terms of up to three years**, with **reappointment permitted up to three times**. These are in line with Board composition decisions by emerging WSCCOs in New Zealand.

Appointment and removal of directors would be delegated to the representative forum. Decision thresholds are to be determined.

Skills requirements should be developed by the forum as part of the Board skills matrix. This does not need to be fixed in the Constitution, rather keep flexibility for requirements to change as the WSCCO matures.

Pricing approach

The choice

Whether charges are harmonised across the region or reflect the cost of serving each district.

Regardless of the pricing approach chosen, the WSCCO retains flexibility in how pricing is structured. The two options sit on a spectrum, and there is scope to differentiate by customer type and to determine both whether to harmonise and how far harmonisation extends.

Options considered

Harmonised pricing applies a single water charge across all four districts, with connections of the same type paying the same charge, analogous to electricity lines companies charging one rate across their network. It promotes equity across the region, is simpler to administer, and aligns with a "one entity, one price" philosophy.

The modelling over FY29 to FY54 (real terms) shows Kawerau saves around $17m, Ōpōtiki around $57m and Whakatāne around $372m, while Rotorua pays around $133m more than under a cost-to-serve model. In effect, lower cost-to-serve areas subsidise higher cost-to-serve areas, and there is more emphasis on growth paying for growth where districts grow at different rates.

Cost-to-serve pricing sets each district's (or scheme's) charge to reflect the infrastructure, debt and operating costs specific to that area, analogous to regional council rates varying by district. Each district (or scheme) bears its own cost burden, which is likely to be seen as fairer at establishment, when councils are coming in with very different starting positions on infrastructure, debt and operating costs.

The modelling over FY29 to FY54 (real terms) shows all four councils benefit relative to in-house delivery, with Kawerau saving around $11m, Ōpōtiki around $10m, Whakatāne around $113m, and Rotorua around $179m. Affordability pressures continue in Whakatāne and Ōpōtiki, and smaller councils remain exposed to price volatility from lumpy capital programmes and localised natural disasters. Administration is also more complex.

The indicative preference of the WWG is for a **cost-to-serve pricing approach at establishment, with provision for this to be reviewed within five years.**

The modelling shows cost-to-serve delivers lower prices than the status quo for all four councils across the 30-year period, so every council benefits from day one.

Immediate harmonisation could shift costs sharply between districts before the WSCCO has integrated its operations or realised efficiencies.

Starting with cost-to-serve preserves fairness at establishment and supports buy-in across the region, particularly from the largest ratepayer base.

The pricing approach can evolve over time. How and when charges might move toward harmonisation is not being decided at this point and will be worked through by the Board and shareholders as the WSCCO matures.

Dividends

The choice

Whether the WSCCO can pay dividends to shareholding councils.

Under the Act, any dividends are subject to financial sustainability requirements and cannot compromise investment or service delivery. The design choice sits within those constraints.

Practically this decision is about whether councils want to keep the option open for the longer term, given the WSCCO's investment demand at establishment.

Options considered

No dividends: rules dividends out through the Constitution or Shareholders' Agreement. Clearest signal that all revenue supports investment and services.

Dividends permitted subject to financial sustainability: keeps the option available. Requires the Board to be satisfied on sustainability, investment demand and LGFA covenant compliance before any distribution.

The indicative preference of the WWG is that **the WSCCO does not pay dividends**

The financial modelling assumes all operating surpluses are retained to support the capital programme, sustain the target FFO to net debt ratio of 10 percent, and preserve headroom against LGFA covenants.

Ruling dividends out sends a clear signal to ratepayers and communities that value stays in the water system, funding investment and keeping water charges as low as sustainability allows.

Next steps

Next steps

The Waters Working Group has identified an asset-owning multi-council WSCCO as the preferred water service delivery model and has developed indicative design settings covering ownership, representation, governance, decision-making, pricing and dividends.

The next step is for each council to consider the findings of this investigation and determine whether it wishes to progress the WSCCO option for consultation with its community.

To support decision-making, a high-level implementation plan has also been prepared. The plan identifies a pathway to establishment by 1 July 2028, along with the key decisions, agreements, resourcing requirements and transition activities that would be required (see published papers from the June WWG meeting).

If councils choose to proceed, further work would be required to:

1. confirm participation by each council
2. undertake engagement with hapū and iwi on the proposed arrangements
3. refine the detailed design of the WSCCO
4. prepare for and undertake public consultation
5. develop a Commitment Agreement between participating councils
6. undertake detailed establishment planning and transition activities.

Appendix

Individual council assessments

Individual council assessments

The detailed assessment in the main body of this report considers the performance of the two shortlisted delivery models across the four councils as a whole. While that regional perspective is important, the implications of the options are not the same for each council.

The following pages provide an individual assessment for Rotorua Lakes Council, Whakatāne District Council, Kawerau District Council and Ōpōtiki District Council. They draw on the information presented throughout this report and identify the factors most relevant to each council's circumstances.

The assessments use the same seven strategic objectives that underpin the regional assessment. They consider the current state of water services, financial position, regulatory and compliance challenges, asset condition, growth pressures, Treaty settlement context, and the implications of each delivery model for council operations and communities.

Where the assessment considers financial sustainability, affordability and council viability, it draws on the financial modelling undertaken by MartinJenkins specifically for this investigation rather than relying solely on the councils' Water Services Delivery Plans. This includes the 30-year modelling of capital expenditure, operating expenditure, debt, revenue and water charges under both the in-house and WSCCO scenarios.

The purpose of these assessments is not to revisit the regional recommendation, but to provide a council-specific view of the opportunities, risks and trade-offs associated with each option. They are intended to support councils in understanding how the findings of the investigation apply within their own district alongside the wider regional picture.

Rotorua Lakes Council

Rotorua Lakes is the largest of the four councils, with 27,185 drinking water connections, 25,964 wastewater connections and 24,989 stormwater connections. Total replacement asset value sits at $1,349.7m, over half the regional total.

Historic capex delivery has run at 96% over 2019–2025, with a Capital Programmes team established in FY25 to lift delivery capability.

The council operates within a complex Treaty settlement landscape and has more than Treaty obligations to consider. Decisions are influenced by legal, cultural, contractual and property relationships with mana whenua. Rotorua Lakes Council notes that the district includes 17 Treaty settlements and ~35 Post-settlement Governance Entities, alongside hapū authorities, Māori Incorporations, ahu whenua trusts, Māori land trusts and so on. These relationships need to be honoured across any future water services delivery.

Summary assessment

Rotorua Lakes has less immediate financial pressure than the other councils and is better positioned to continue delivering water services in-house over the medium term. It starts from a strong compliance position, has a comparatively large asset base and customer base, and retains some capacity to fund future investment within existing arrangements.

The WSCCO nevertheless offers material long-term benefits. The WSCCO delivers the largest per-connection savings of the four councils, with average charges around $216 per year lower than in-house delivery, totalling ~$5,600 cumulative savings across FY29–FY54 (around 9%). Rotorua also benefits from greater financing capacity, stronger access to specialist capability, and a larger organisation better able to respond to future regulatory, resilience and workforce pressures.

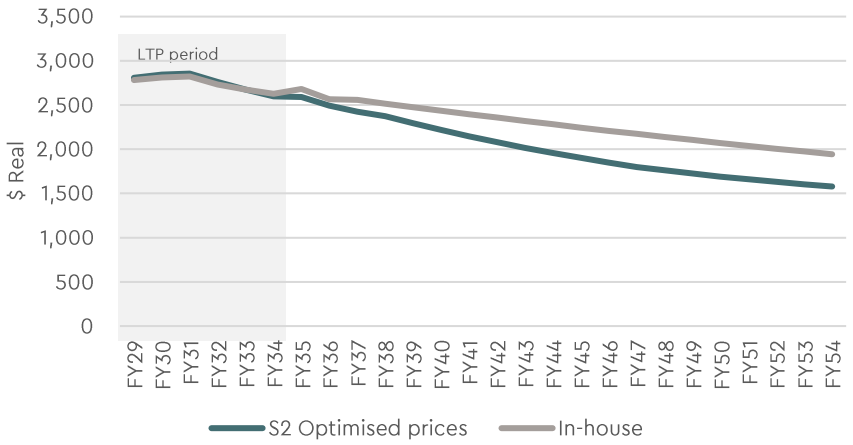
The key trade-off is the need to ensure strong coordination between the WSCCO and Rotorua's wider planning environment, including its complex network of statutory co-governance arrangements, settlement obligations and lake-based management frameworks.

Engagement with iwi and hapū would be required to complete the assessment against objective 6.

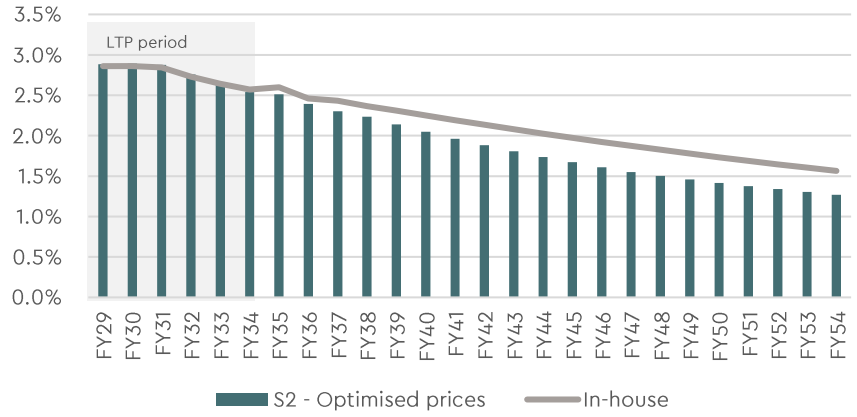
Rotorua Lakes Council

Key financial comparisons

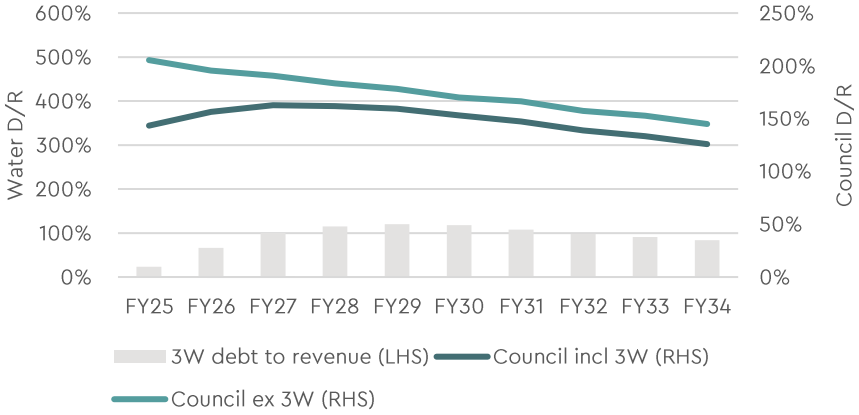
Rotorua - Average charges per connection ($ per annum)



Rotorua - Average water charges per connection (% of median household income)



Rotorua - Net debt to Revenue



Water charges per connection: Charges are forecast to trend downward from FY31 as capex reduces and inflation erodes the real value of debt. Under the Optimised Prices WSCCO scenario, average charges are around $216 per year lower than in-house delivery, totalling ~$5,600 across FY29–FY54 (around 9%). By FY54, charges are around 19% lower than in-house delivery. Differences for consumers emerge after FY34.

Affordability of water charges: By FY54, water charges reach 1.6% of median household income under in-house delivery, compared with 1.3% under a WSCCO.

Financial flexibility: Water debt-to-revenue peaks at 120% in FY29 and declines to 83% by FY34 under in-house delivery. Under a WSCCO, water debt transfers to the entity. The change in council debt headroom is modest for Rotorua compared with the other three councils, reflecting Rotorua's stronger starting financial position.

Rotorua Lakes Council

Assessment against strategic objectives 1 of 2

Legend: *Consistent with objective but has some risks* | *Moderate alignment to objective(s)* | *Stronger alignment to objective(s)*

Strategic objective	Internal business unit *Status quo*	Rotorua/Eastern Bay of Plenty water organisation – asset owning (WSCCO)
Efficient and financially sustainable delivery of water services for communities, now and into the future	• Water debt-to-revenue peaks at 120% in FY29, declining to 83% by FY34. Whole-of-council debt-to-revenue remains within LGFA limits across the WSDP period. • Strong revenue base but resource sufficiency is a longer-term risk as neighbouring councils form larger water entities. • Historic capex delivery of 96% reflects capacity constraints; new Capital Programmes team recently established. • Longer-term financial sustainability uncertain as regulatory requirements evolve.	• Average charges are around $216 per year lower than in-house delivery, totalling ~$5,600 across FY29–FY54 (around 9%). By FY54, charges are around 19% lower than in-house delivery. • Scale benefit is smaller for Rotorua than the other councils, given existing size.
Protects and promotes public health and the environment - meeting regulatory requirements	• Starts from a low-risk compliance position: all water supplies fully compliant with DWQARs in 2024/25 and no regulatory enforcement actions. • Pressure is holding that position through the upcoming programme, not fixing existing gaps.	• Greater financing capacity supports the pace and scale of treatment upgrades and consent renewals, particularly the Rotorua WWTP.
Water services **are resilient to natural hazards and climate change**	• Seismic, geothermal, river flooding, lake levels and climate exposure are common risks. • Lake water quality carries specific settlement-linked obligations that resilience investment must give effect to. • Some borrowing headroom to support resilience investment but this competes with the renewals and upgrade programme already planned.	• Greater financing capacity supports resilience investment across shared catchments. • A single entity can plan across shared risks and coordinate investment more efficiently.
Integrated water services and infrastructure planning that promotes efficient, equitable, and integrated delivery	• Tightest link between spatial and water infrastructure planning, with decisions internalised. Rotorua Lakes has 10 water supply areas, 13 wastewater areas and 14 stormwater catchments across urban and lakeside areas, with growth pressures.	• Integration becomes an interface to manage across four councils. • Well-defined coordination mechanisms needed to preserve alignment on growth planning, stormwater on mixed-use land, and lake water quality obligations.

Rotorua Lakes Council

Assessment against strategic objectives 2 of 2

Legend: *Consistent with objective but has some risks* | *Moderate alignment to objective(s)* | *Stronger alignment to objective(s)*

Strategic objective	Internal business unit *Status quo*	Rotorua/Eastern Bay of Plenty water organisation – asset owning (WSCCO)
Affordable, fit for purpose service to consumers and communities that meets the needs, and expectations of communities	• Cumulative cost per consumer of ~$61,938 across FY29–FY54. • Costs stay manageable relative to the other councils, reflecting Rotorua's stronger revenue base and lower starting water debt. • Longer-term affordability less certain as pressure builds beyond the WSDP period with continued regulatory investment and renewals. • Local voice mechanisms strong through elected members and existing consultation processes.	• Average charges are around $216 per year lower than in-house delivery, totalling ~$5,600 across FY29–FY54 (around 9%). By FY54, charges are around 19% lower than in-house delivery. • Rotorua sees the largest percentage saving of the four councils, with WSCCO operating and capital efficiencies flowing through to lower water charges. • Local voice mechanisms will need deliberate design
Council obligations to hapū and iwi are valued and honoured*	• 21 iwi entities with recognised interests. • Engagement primarily through settlement-based statutory co-governance and partnership bodies, protocol committees, and iwi leaders' forum, largely structured around lake, river and catchment systems.	• Existing obligations would need to be explicitly provided for through new or adapted mechanisms. • Greater investment capacity supports action on environmental and infrastructure outcomes tied to settlement obligations.
Remaining council operations are viable and continue to deliver on communities' expectations	• Whole-of-council debt-to-revenue remains around 130–160% across the WSDP period, providing headroom for other services. • No stranded costs and full retention of existing financial flows.	• Transfer of water debt lifts council headroom, but the change is modest compared with the other councils given Rotorua's stronger starting position. • Stranded costs likely, particularly where council overhead has been allocated to water, and will need careful transition management.

* Indicative assessment, not based on direct engagement with hapū and iwi. Rotorua Lakes has been engaging directly with hapū and iwi per their individual engagement plan supporting the WSDP and expects feedback and views from iwi and hapū for elected members' consideration during decision-making.

Whakatāne District Council

Whakatāne is the second largest of the four councils, with 13,200 drinking water connections, 12,240 wastewater connections and 10,674 stormwater connections.

Total replacement asset value sits at $765.9m. Historic capex delivery has run at 88% over 2019–2025, with a Project Management Office established to lift delivery capability.

The council has a significant renewals backlog (~$96m) not addressed in its current WSDP, major wastewater consent renewals underway, and stormwater assets in comparatively poor condition (36% below ground rated poor or very poor).

Whakatāne operates within a Treaty settlement landscape with eight iwi entities, supported by Mana Whakahono ā Rohe (agreed and under development) and multiple iwi management plans.

Summary assessment

Whakatāne faces significant long-term pressures in water services delivery. The council has a substantial renewals backlog, major consent renewals and infrastructure upgrades ahead, increasing affordability pressures, and limited headroom to respond to future investment needs. The detailed assessment indicates these pressures are likely to become more pronounced over time under continued in-house delivery.

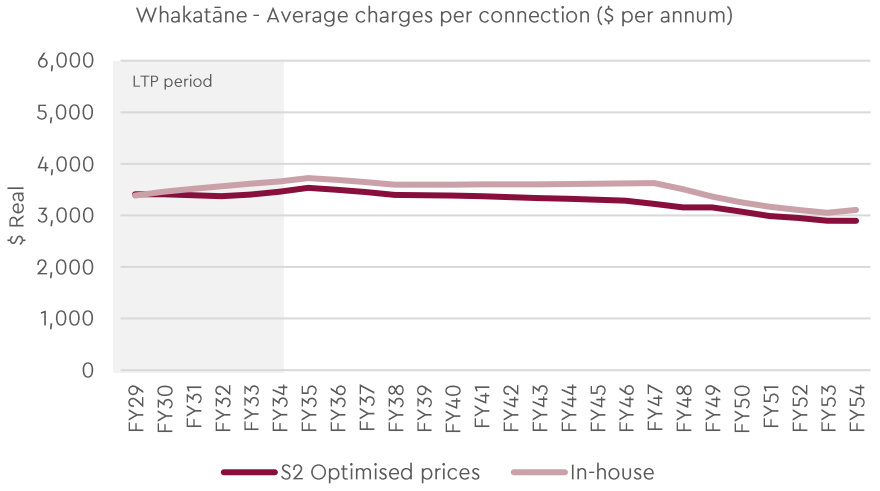
The WSCCO provides a stronger pathway to address those challenges. Cost-to-serve pricing delivers cumulative savings totalling ~$5,560 per connection across FY29–FY54 (~$210 per year). The percentage saving on water charges is more modest than for Rotorua because Whakatāne's in-house model relies heavily on borrowing, which flows through to higher rates overall. Wider ratepayer benefits accrue through the transfer of water debt, lowering finance costs and easing overall rates pressure. Above-average levels of socioeconomic deprivation amplify the importance of these savings.

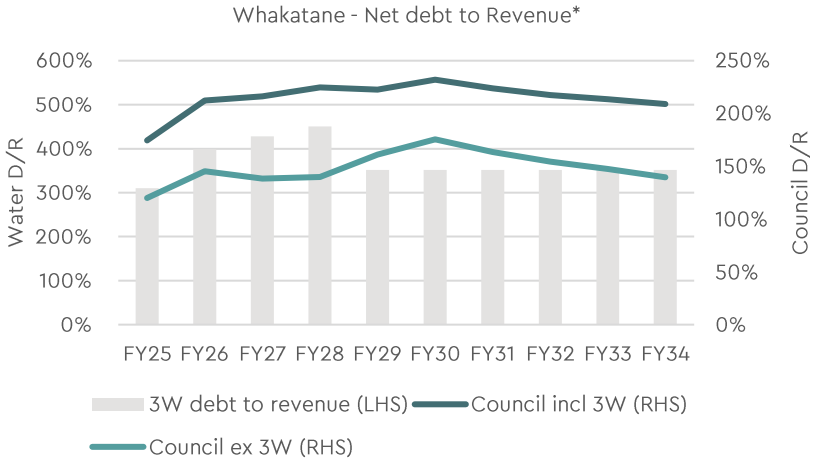
Affordability pressures are eased but not resolved under the WSCCO. The key question for Whakatāne is whether a larger organisation, combined with debt transfer, is better positioned to manage future investment requirements while maintaining service levels and council financial flexibility.

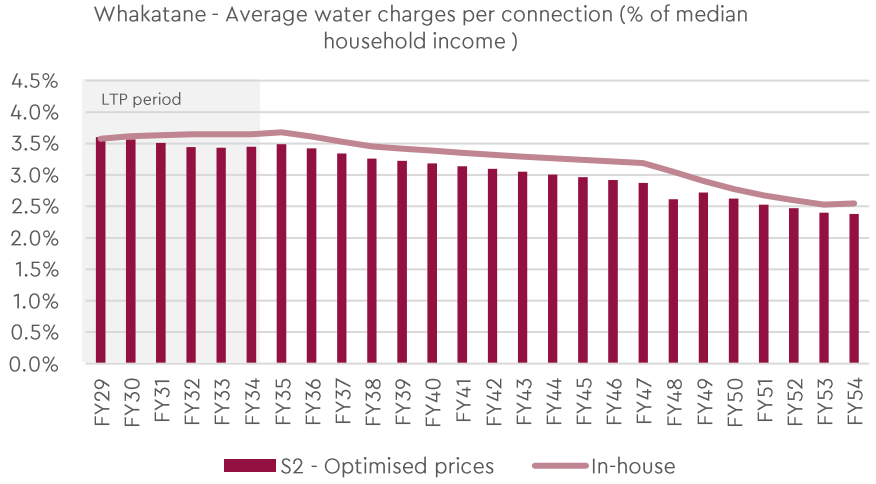
Engagement with iwi and hapū would be required to complete the assessment against objective 6.

Whakatāne District Council

Key financial comparisons







Water charges per connection: Between FY29 and FY54, Whakatāne's average price per connection is projected to trend sideways before decreasing from FY47. Under the Optimised Prices WSCCO scenario, average charges are around $210 per year lower than in-house delivery, totalling ~$5,560 across FY29–FY54 (around 6%).

Affordability of water charges: Affordability is expected to improve for the Whakatāne community under a WSCCO compared with in-house service delivery. By FY54, the in-house water charge is projected to reach 2.5% of median household income, compared to 2.4% under the WSCCO. Savings to customers would be higher, relative to in-house delivery, if the Council was not already projecting significant borrowing for three water investment.

Financial flexibility: The transfer of water debt to a WSCCO would significantly improve Council's financial flexibility and capacity to absorb shocks, reducing peak debt-to-revenue from 232% to 176%.

*For Whakatāne MartinJenkins modelled an in-house 3W business unit targeted a debt-to-revenue ratio of 350% from FY29.

Whakatāne District Council

Assessment against strategic objectives 1 of 2

Legend: *Consistent with objective but has some risks* | *Moderate alignment to objective(s)* | *Stronger alignment to objective(s)*

Strategic objective	Internal business unit *Status quo*	Rotorua/Eastern Bay of Plenty water organisation – asset owning (WSCCO)
Efficient and financially sustainable delivery of water services for communities, now and into the future	• Water debt-to-revenue rises from 310% in FY25 to peak at 450% in FY30, declining to 352% by FY34. • Significant renewals backlog (~$96m) not addressed in current WSDP. • Resource sufficiency is a longer-term risk, with in-house teams competing with neighbouring councils forming larger water entities. • Historic capex delivery of 88% reflects existing capacity constraints.	• Average charges are ~$210 per year lower than in-house delivery, totalling ~$5,560 in savings per connection across FY29–FY54. • Access to WSCCO borrowing covenants (roughly 500% debt-to-revenue equivalent) provides room to address the renewals backlog over time. • Resourcing efficiency lifts through consolidation of specialist capability.
Protects and promotes public health and the environment - meeting regulatory requirements	• Varying drinking water compliance across schemes (76% of serviced population met protozoal requirements). • Major WWTP consents expire 2026, with upgrades planned. • Comprehensive stormwater consent lodged for Whakatāne, suspended pending hearing preparation.	• Greater financing capacity supports treatment upgrades and consent renewals.
Water services **are resilient to natural hazards and climate change**	• Significant flood and coastal risk exposure. • Some resilience investment already deferred to manage affordability. • Limited financial capacity to respond to shocks.	• Greater financing capacity supports earlier resilience investment. • Council debt headroom freed for non-water resilience investment. • A single entity can plan across shared risks and coordinate investment more efficiently.
Integrated water services and infrastructure planning that promotes efficient, equitable, and integrated delivery	• Tight interface with district land use, transport and growth planning across urban and rural areas.	• Integration becomes an interface to manage across four councils. • Coordination mechanisms needed for growth planning, rural network decisions and stormwater on mixed-use land.

Whakatāne District Council

Assessment against strategic objectives 2 of 2

Legend: *Consistent with objective but has some risks* | *Moderate alignment to objective(s)* | *Stronger alignment to objective(s)*

Strategic objective	Internal business unit *Status quo*	Rotorua/Eastern Bay of Plenty water organisation – asset owning (WSCCO)
Affordable, fit for purpose service to consumers and communities that meets the needs, and expectations of communities	• Cumulative cost per consumer of ~$90,908 across FY29–FY54, the highest of the four councils. • Whakatāne's in-house model relies on high borrowing to fund water investment. This flows through to higher rates overall, not just water charges. • Absolute water charges are high under in-house delivery and above average levels of socioeconomic deprivation exacerbate affordability challenges. • Whakatāne communities will face increasing affordability challenges as required investment drives increased revenue requirements. • Local voice mechanisms strong through elected members and existing consultation processes.	• Average charges are ~$210 per year lower than in-house delivery, totalling ~$5,560 in savings per connection across FY29–FY54. • The percentage saving on water charges is modest because Whakatāne's in-house pricing reflects high borrowing to fund water investment. • Wider ratepayer benefit is amplified by the transfer of water debt, which frees council headroom and reduces overall rates pressure. • Local voice mechanisms will need deliberate design.
Council obligations to hapū and iwi are valued and honoured*	• Eight iwi entities with recognised interests. • Engagement through iwi leadership and relationship forums, supported by Treaty settlement arrangements, iwi management plans and Mana Whakahono ā Rohe.	• Existing obligations would need to be explicitly provided for through new or adapted mechanisms. • Greater investment capacity supports action on environmental and infrastructure outcomes tied to settlement obligations.
Remaining council operations are viable and continue to deliver on communities' expectations	• Water debt limits investment in other services, with restricted headroom to respond to unforeseen costs. • Whole-of-council debt-to-revenue peaks at around 232% in FY30.	• Transfer of water debt returns meaningful headroom to council, second only to Ōpōtiki. • Council debt-to-revenue excluding water falls to around 140% by FY34. • Stranded costs likely, particularly where council overhead has been allocated to water; will need careful transition management.

* Indicative assessment, not based on direct engagement with hapū and iwi. Each council is undertaking its own engagement with hapū and iwi to inform final decisions.

Kawerau District Council

Kawerau is the smallest of the four councils by asset value ($120.5m), with 2,917 drinking water connections, 2,922 wastewater connections and 2,920 stormwater rating units.

The council has one drinking water and one wastewater scheme, with stormwater largely handled on-property. Historic capex delivery has run at 94% over 2019–2025.

Kawerau has consistent drinking water and environmental compliance, and no assets currently rated as poor or very poor condition, though accelerated deterioration in geothermal zones is acknowledged.

Kawerau operates within a Treaty settlement landscape with four iwi entities, with a primary relationship with Ngāti Tūwharetoa ki Kawerau.

Summary assessment

Kawerau's current water services position is relatively stable. Asset condition is generally good, current compliance performance is strong, and projected water debt remains lower than for the other councils. However, the small scale of the district creates long-term challenges around workforce capability, resilience and exposure to future regulatory requirements.

The WSCCO delivers cumulative savings totalling ~$1,650 per connection across FY29–FY54 (~$60 per year). Absolute per-connection savings are modest because Kawerau's in-house price base is already low, but the wider ratepayer benefit is significant. The transfer of water debt effectively eliminates council water debt and reduces overall rates pressure. Kawerau also gains access to a larger organisation with greater specialist capability, stronger resilience and reduced dependence on a small number of key staff.

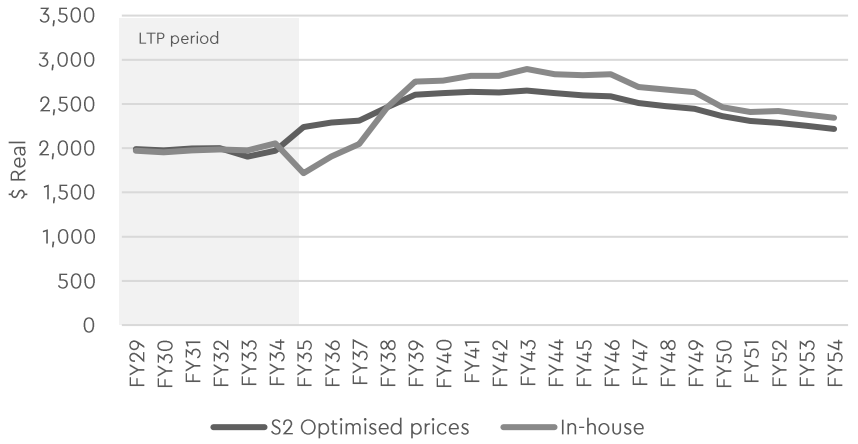
A particular consideration for Kawerau is its reliance on a small number of industrial customers to support water revenues, which sits alongside high evels of socioeconomic deprivation that limit the community's ability to absorb cost shifts if industrial revenue were lost. WSCCO efficiencies and the transfer of water debt ease this exposure by lowering the underlying cost base and reducing overall rates pressure, though they do not remove it entirely under cost-to-serve pricing.

Engagement with iwi and hapū would be required to complete the assessment against objective 6.

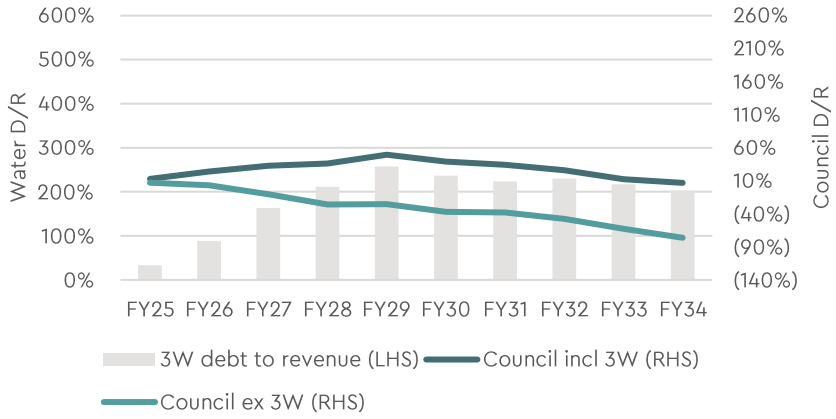
Kawerau District Council

Key financial comparisons

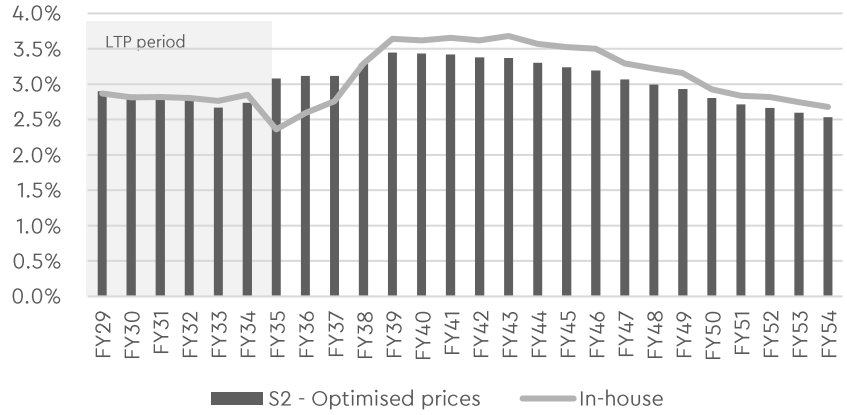
Kawerau - Average charges per connection ($ per annum)



Kawerau - Net debt to Revenue



Kawerau - Average water charges per connection (% of median household income)



Water charges per connection: Under in-house delivery, water services rates rise cumulatively by 110% over 10 years. Under the Optimised Prices WSCCO scenario, average charges are ~$60 per year lower than in-house delivery, totalling ~$1,650 in savings per connection across FY29–FY54.

Affordability of water charges: Water charges are expected to become more affordable for the Kawerau community under a WSCCO model compared to an in-house model. The in-house option is forecast to reach 2.7% of median household income by FY54, whereas the cost-to-serve rate in a WSCCO is forecast to be 2.5%.

Financial flexibility: The WSCCO does not deliver savings for consumers that are proportionate to the operational savings achieved due to the in-house model's significant reliance on debt. If water debt was transferred to a WSCCO, this would create significant additional flexibility and capacity to absorb shocks, effectively eliminating council borrowing.

Kawerau District Council

Assessment against strategic objectives 1 of 2

Legend: *Consistent with objective but has some risks* | *Moderate alignment to objective(s)* | *Stronger alignment to objective(s)*

Strategic objective	Internal business unit *Status quo*	Rotorua/Eastern Bay of Plenty water organisation – asset owning (WSCCO)
Efficient and financially sustainable delivery of water services for communities, now and into the future	• Water debt-to-revenue peaks at 229% in FY29, declining to 179% by FY34. • Revenue sufficiency vulnerable to closure or relocation of major industrial ratepayers. • Resource sufficiency is a longer-term risk, with a small in-house team competing with neighbouring councils forming larger water entities.	• Average charges are ~$60 per year lower than in-house delivery, totalling ~$1,650 in savings per connection across FY29–FY54. • Concentration of risk on industrial revenue remains under cost-to-serve. Harmonisation over time would reduce this exposure. • Resourcing sufficiency lifts through consolidation of specialist capability into a larger entity that is much better positioned than Kawerau alone to attract and retain critical skills.
Protects and promotes public health and the environment - meeting regulatory requirements	• Compliance position currently sound: drinking water supply meeting DWQARs, wastewater operating within consent limits. • Comprehensive consent application underway for Tarawera Park Borefield. • Wastewater consents valid to 2032, may require upgrades to meet NWEPS.	• Greater capacity to invest in upgrades as regulatory requirements evolve.
Water services **are resilient to natural hazards and climate change**	• Geothermal risk affects asbestos cement and steel pipes in the geothermal zone, scheduled for replacement by 2029. • Broader climate exposure.	• Greater financing capacity supports resilience investment.
Integrated water services and infrastructure planning that promotes efficient, equitable, and integrated delivery	• Tight interface with district land use, transport and growth planning across urban and rural areas.	• Integration becomes an interface to manage across four councils.

Kawerau District Council

Assessment against strategic objectives 2 of 2

Legend: *Consistent with objective but has some risks* | *Moderate alignment to objective(s)* | *Stronger alignment to objective(s)*

Strategic objective	Internal business unit *Status quo*	Rotorua/Eastern Bay of Plenty water organisation – asset owning (WSCCO)
Affordable, fit for purpose service to consumers and communities that meets the needs, and expectations of communities	• Cumulative cost per consumer to FY54 is ~$62,612, around $1,648 more per connection than under a cost-to-serve WSCCO. • Lowest absolute charges of the four councils but charges remain elevated relative to median household incomes. • Longer-term affordability uncertain as regulatory requirements evolve and the small ratepayer base absorbs cost increases.	• Average charges are ~$60 per year lower than in-house delivery, totalling ~$1,650 in savings per connection across FY29–FY54. • Lower cost base and reduced overall rates pressure improve the community's ability to absorb shocks, though exposure to industrial revenue loss remains under cost-to-serve pricing. • Local voice mechanisms will need deliberate design.
Council obligations to hapū and iwi are valued and honoured*	• Four iwi entities with recognised interests. • Primary relationship with Ngāti Tūwharetoa ki Kawerau, supported by ongoing dialogue with tangata whenua including via Rautahi Marae and partners. • Site-specific arrangements where water assets are on Māori land.	• Existing obligations would need to be explicitly provided for through new or adapted mechanisms. • Greater investment capacity supports action on environmental outcomes.
Remaining council operations are viable and continue to deliver on communities' expectations	• Council debt-to-revenue including three waters remains moderate.	• Transfer of water debt effectively eliminates council water debt and returns headroom to council. • Stranded costs likely, particularly where council overhead has been allocated to water; will need careful transition management given the scale of the council.

* Indicative assessment, not based on direct engagement with hapū and iwi. Each council is undertaking its own engagement with hapū and iwi to inform final decisions.

Ōpōtiki District Council

Ōpōtiki is a small council with 2,834 drinking water connections, 1,851 wastewater connections and 1,851 stormwater connections. Total replacement asset value sits at $136.6m.

Historic capex delivery has run at just 41% over 2019–2025, with the council planning to strengthen its asset management framework and delivery capability.

Ōpōtiki reports the highest proportion of assets in poor or very poor condition across all three waters (24% drinking water, 41% wastewater, 30% stormwater), reflecting a legacy of underinvestment. Growth in the Hukutaia area adds demand.

Ōpōtiki operates within a Treaty settlement landscape that includes Ngāitai, Te Whānau ā Apanui, and Whakatōhea (with some overlap with Tūhoe boundaries), with settlement, deed-based and emerging co-governance mechanisms.

Summary assessment

Ōpōtiki faces the greatest long-term challenges of the four councils. It has the highest projected debt burden, the highest affordability pressures under current arrangements, significant regulatory and compliance challenges, and a history of difficulty delivering planned capital programmes. Asset condition issues and exposure to flooding and climate-related risks add further pressure.

The WSCCO delivers cumulative savings of ~$1,710 per connection by FY54 (~$70 per year), the smallest percentage saving of the four councils. This reflects Ōpōtiki's heavy reliance on borrowing to fund water investment under the in-house model, which flows through to higher rates overall. The largest wider ratepayer benefit comes through the transfer of water debt, which effectively eliminates council water debt and materially reduces overall rates pressure. Above-average levels of socioeconomic deprivation amplify the importance of these savings.

Substantially greater financing capacity, improved access to specialist capability, and stronger programme delivery capability provide further confidence that future investment and regulatory obligations can be met.

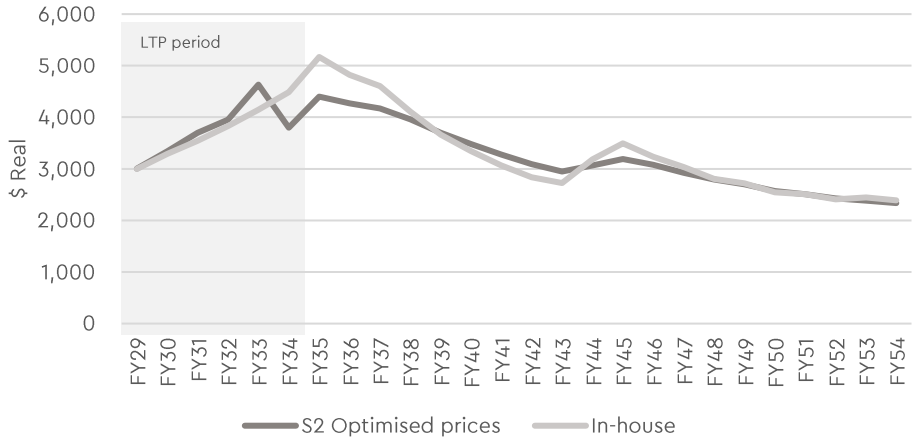
The assessment therefore suggests the WSCCO offers the greatest relative benefit for Ōpōtiki of any of the four councils, primarily because it addresses capability, financing and delivery constraints that are difficult to overcome at the council's current scale.

Engagement with iwi and hapū would be required to complete the assessment against objective 6.

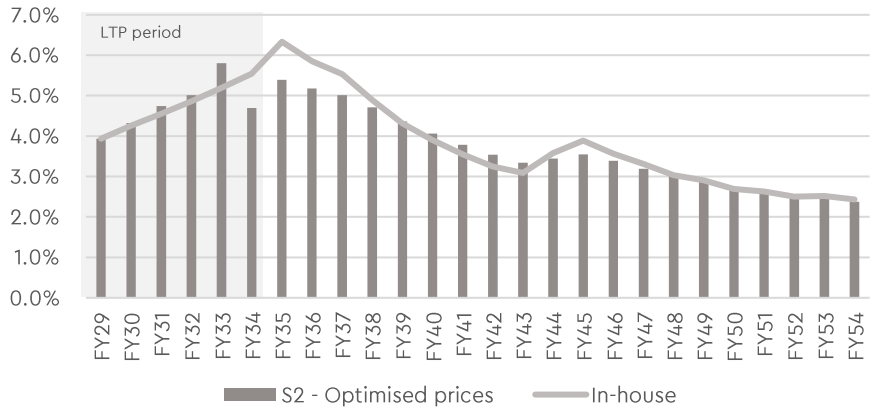
Ōpōtiki District Council

Key financial comparisons

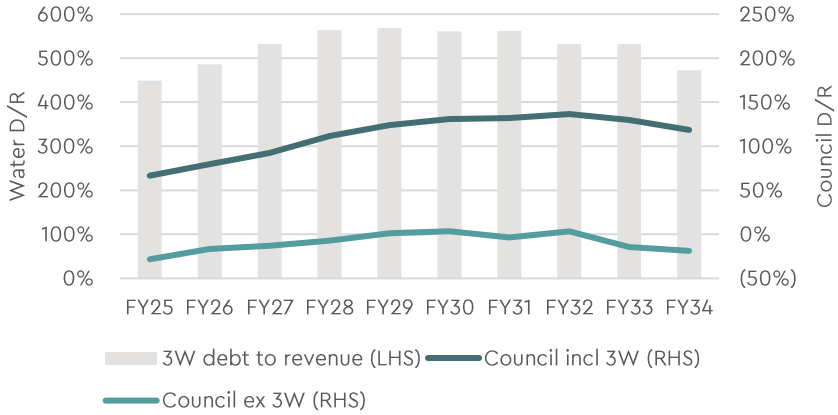
Ōpōtiki - Average charges per connection ($ per annum)



Ōpōtiki - Average water charges per connection (% of median household income)



Ōpōtiki - Net debt to Revenue



Water charges per connection: After an initial increase in prices over the LTP period, prices are expected to trend downwards, albeit with variability due to peaks in the capital programme. Customers are expected to save on average about $70 each year under a WSCCO model compared to in-house delivery over the FY29-FY54 period. This represents a total saving of around ~$1,710 per connection by FY54.

Affordability of water charges: Water charges are forecast to become more affordable for the community under either model, decreasing from above 5% of median household income to less than 3% by FY54. However, affordability outcomes are not significantly different between the two models due to the in-house model's high reliance on borrowing to fund investment over the forecast period.

Financial flexibility: Savings under a WSCCO are smaller than the operational efficiencies achieved, because the in-house model relies heavily on debt to fund water investment. Transferring water debt to a WSCCO would materially strengthen councils' financial flexibility and capacity to absorb shocks, cutting peak debt-to-revenue from 137% to 3% and effectively eliminating council borrowing.

Ōpōtiki District Council

Assessment against strategic objectives 1 of 2

Legend: *Consistent with objective but has some risks* | *Moderate alignment to objective(s)* | *Stronger alignment to objective(s)*

Strategic objective	Internal business unit *Status quo*	Rotorua/Eastern Bay of Plenty water organisation – asset owning (WSCCO)
Efficient and financially sustainable delivery of water services for communities, now and into the future	• Water debt-to-revenue peaks at 568% in FY29, declining to 472% by FY34. • Historic capex delivery of 41% is well below the other councils, suggesting significant capacity constraints. • Resource sufficiency is a significant risk at small scale, with in-house teams competing with neighbouring councils forming larger water entities. • Long-term financial sustainability is uncertain.	• Customers are expected to save on average about $70 each year under a WSCCO model compared to in-house delivery over the FY29-FY54 period. This represents a total saving of around ~$1,710 per connection by FY54. • Access to WSCCO borrowing covenants provides significant additional capacity to address the investment needs. • Resourcing efficiency lifts materially through consolidation of specialist capability into a larger entity. • Delivery capability strengthened through shared programme management.
Protects and promotes public health and the environment - meeting regulatory requirements	• Highest proportion of assets in poor condition across all three waters. • One active abatement notice for wastewater discharge.	• Greater financing capacity and specialist capability materially lift the likelihood of meeting evolving standards.
Water services **are resilient to natural hazards and climate change**	• Significant exposure to river and coastal flooding. • Limited financial capacity to invest in resilience under existing debt levels.	• Resilience investment could be brought forward. • Council debt headroom freed for non-water resilience investment.
Integrated water services and infrastructure planning that promotes efficient, equitable, and integrated delivery	• Tight interface with district land use, transport and growth planning across urban and rural areas.	• Integration becomes an interface to manage across four councils.

Ōpōtiki District Council

Assessment against strategic objectives 2 of 2

Legend: *Consistent with objective but has some risks* | *Moderate alignment to objective(s)* | *Stronger alignment to objective(s)*

Strategic objective	Internal business unit *Status quo*	Rotorua/Eastern Bay of Plenty water organisation – asset owning (WSCCO)
Affordable, fit for purpose service to consumers and communities that meets the needs, and expectations of communities	• Cumulative cost per consumer to FY54 is ~$87,418, around $1,713 more per connection than under a cost-to-serve WSCCO. • Ōpōtiki's in-house model relies on high borrowing to fund water investment. This flows through to higher rates overall, not just water charges. • Absolute water charges are high under in-house delivery and above average levels of socioeconomic deprivation exacerbate affordability challenges. • Ōpōtiki communities will face increasing affordability challenges as required investment drives increased revenue requirements. • Local voice mechanisms strong through elected members and existing consultation processes.	• Customers are expected to save on average about $70 each year under a WSCCO model compared to in-house delivery over the FY29-FY54 period. This represents a total saving of around ~$1,710 per connection by FY54. • The percentage saving on water charges is modest because Ōpōtiki's in-house pricing reflects high borrowing to fund water investment. • Wider ratepayer benefit is amplified by the transfer of water debt, which frees council headroom and reduces overall rates pressure. • Local voice mechanisms will need deliberate design.
Council obligations to hapū and iwi are valued and honoured*	• Four iwi entities with recognised interests. • Engagement through settlement and deed-based arrangements, and emerging partnership forums (Whakaōhea Kaitiaki Forum), harbour and catchment-based relationships.	• Existing obligations would need to be explicitly provided for through new or adapted mechanisms.
Remaining council operations are viable and continue to deliver on communities' expectations	• Water debt currently constrains investment in roads, community facilities and other council services, with limited headroom to respond to unforeseen costs. • Highest whole-of-council debt burden of the four councils.	• Transfer of water debt returns significant headroom to council. • Stranded costs will need careful management given the small overall size of the council, particularly where council overhead has been allocated to water.

* Indicative assessment, not based on direct engagement with hapū and iwi. Each council is undertaking its own engagement with hapū and iwi to inform final decisions.

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