

Local Water Done Well update

Presentation to Rotorua Lakes District Council

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Local Water Done Well

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

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

It will do this while ensuring a strong emphasis on meeting rules for water quality and investment in infrastructure.



Fit-for-purpose service delivery models and financing tools



Ensuring water services are financially sustainable



Introducing greater central government oversight, economic and quality regulation

Indicative timeline for Plan development

This indicative timeline builds on the Plan development process and is intended as a guide only (the only formal requirement for Councils is to submit a Plan by 3 September 2025).

Financial viability assessments Councils assess their standalone financial positions	Financial sustainability and delivery model Councils consider their preferred delivery model and explore alternative models	Community consultation Councils decide on their preferred delivery models and consult their communities	Finalise Plans for submission Councils finalise Plans for submission	Department review and acceptance of Plans Councils submit their final Plan. The Department reviews Plans and works with councils who are required to do further work on their Plan.
September – October 2024	November 2024 – January 2025	February – April 2025	May – July 2025	August – September 2025 (and ongoing)
<p>Phase targets:</p> <p>All councils have assessed their own standalone financial positions and discussed with the Department.</p> <p>Councils have completed a stocktake of their current water services delivery arrangements and understand where information gaps are.</p>	<p>Phase targets:</p> <p>Councils are considering their preferred delivery model and exploring alternative models.</p> <p>Councils are discussing with the Department how they plan to address any barriers to financial sustainability.</p>	<p>Phase targets:</p> <p>Councils have decided on their preferred delivery model and have begun consultation with their communities.</p> <p>Some councils may undertake consultation at a later date alongside their annual Plan.</p>	<p>Phase targets:</p> <p>Councils are finalising their Plans for submission to the Department.</p> <p>Councils can request the Department to review their draft Plan.</p> <p>Councils that require an extension have requested an extension (before 3 August 2025).</p>	<p>Phase targets:</p> <p>Councils submit their final Plans (by 3 September 2025).</p> <p>The Department communicates either acceptance or need to resubmit.</p> <p>Clear pathways of support are identified to ensure all Plans are received by 3 September 2025.</p>

What we are hearing through our engagement with councils

1. We are considering continuing with in-house delivery – what are the implications of this?
2. How should councils reflect the proposed wastewater environmental standards in their Water Services Delivery Plans?
3. What are the benefits of joining together with other councils to deliver water services?
4. Does setting up a new water organisation mean our council will lose control of our water assets?
5. Will joining with other councils mean that we end up subsidising the costs of water services for other communities?
6. What are the consultation requirements for future water services delivery models, and why do they differ in the Local Government (Water Services) Bill?
7. Do CCOs really work?



Executive Summary – benefits from establishing a Bay of Plenty Water CCO

There are substantial benefits to Bay of Plenty councils, ratepayers and communities from the establishment of a regional Bay of Plenty Water CCO:

- A Bay of Plenty Water CCO could deliver water services at **lower cost to consumers** than can be achieved by individual councils.
- A Bay of Plenty Water CCO can **access more debt financing** than councils through LGFA. This enables an **immediate uplift in access to funding**, enables the **costs of assets to be spread over their useful lives** (through debt financing new assets), and providing **additional cash reserves and flexibility**.
- A **Bay of Plenty Water CCO can meet expected borrowing covenants** as signalled by LGFA, and access debt financing on improved terms against status quo council borrowing arrangements.
- A Bay of Plenty Water CCO would **ensure financially sustainable water services provision** to consumers, provide resilience, and enable uplifts in water services infrastructure investment over time.
- A Bay of Plenty Water CCO, with improved access to debt financing, enables the **adoption of fit-for-purpose investment, asset management and financing strategies** for water services delivery, which will be more efficient than council in-house delivery.
- Separating water services delivery into a separate organisation will **ensure compliance with ringfencing, financial sustainability and other financial principle requirements** under Local Water Done Well.
- A Bay of Plenty Water CCO would be the regulated party for water quality regulation and economic regulation. **By establishing a water CCO, councils become beneficiaries of the regulatory regime.**
- Establishing a water CCO enables the refinancing of water services borrowings off council balance sheets, resulting in a **material improvement in the financial sustainability and resilience of councils**. This **creates substantial borrowing headroom for councils**, which can **allow general rates to be reduced**.

These **benefits can be realised without requiring price harmonisation** across councils, cross-subsidisation, or shareholding councils having to guarantee each other's proportion of the CCO's borrowings. These are all important establishment considerations, and it is in councils' discretion as to how pricing and debt structuring parameters are set.

These benefits would apply to any regional amalgamated Water CCO of a certain scale, compared to individual council delivery. In order to ensure that any Water CCO configuration would be financially sustainable, it is critical to ensure that financial sustainability issues for each councils' water services provision are addressed prior to establishing a regional Water CCO.

Executive Summary – lower charges

Water services minimum operating revenues (\$m)	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33	33/34	Total
Water services operating revenues - in 2024-34 long-term plans	\$246	\$268	\$295	\$321	\$364	\$406	\$433	\$463	\$514	\$567	\$3,876
Water services operating revenues - financially sustainable individual council service provision	\$246	\$282	\$320	\$362	\$403	\$417	\$424	\$436	\$460	\$489	\$3,838
Water services operating revenues - Bay of Plenty Water CCO	\$246	\$279	\$312	\$349	\$376	\$393	\$404	\$419	\$446	\$476	\$3,700

Water services average charge per connection (\$)	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33	33/34	Total
Average water services charge across BOP councils - in 2024-34 long-term plans	\$1,930	\$2,114	\$2,306	\$2,481	\$2,785	\$3,074	\$3,231	\$3,410	\$3,733	\$4,057	\$29,121
Average water services charge across BOP councils - financially sustainable individual council service provision	\$1,930	\$2,229	\$2,507	\$2,816	\$3,096	\$3,162	\$3,166	\$3,202	\$3,328	\$3,481	\$28,917
Average water services charge across BOP councils - Bay of Plenty Water CCO	\$1,930	\$2,208	\$2,441	\$2,707	\$2,874	\$2,970	\$3,010	\$3,073	\$3,222	\$3,392	\$27,827
Savings: Bay of Plenty Water CCO v 2024-34 LTP / financially sustainable individual council service provision	\$0	\$21	\$65	\$109	\$222	\$192	\$221	\$336	\$511	\$665	\$2,344
Savings as a percentage of 2024-34 long-term plan average charge	0%	1%	3%	4%	8%	6%	7%	10%	14%	16%	8%

Executive Summary – refinancing water debts improves council balance sheets

Reduction in council debt from establishing Bay of Plenty Water CCO (\$m)	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33	33/34
Tauranga City Council	\$604	\$661	\$764	\$850	\$953	\$1,005	\$1,065	\$1,133	\$1,322	\$1,528
Rotorua District Council	\$206	\$229	\$253	\$267	\$279	\$282	\$280	\$275	\$273	\$271
Western Bay of Plenty District Council	\$115	\$165	\$201	\$218	\$225	\$226	\$207	\$196	\$174	\$161
Whakatane District Council	\$87	\$106	\$125	\$141	\$146	\$144	\$144	\$153	\$153	\$156
Opotiki District Council	\$21	\$24	\$28	\$31	\$34	\$37	\$40	\$44	\$46	\$47
Kawerau District Council	\$6	\$10	\$11	\$15	\$18	\$21	\$24	\$24	\$23	\$22
Total reduction in council debt from establishing Bay of Plenty Water CCO	\$1,039	\$1,193	\$1,382	\$1,522	\$1,655	\$1,715	\$1,759	\$1,825	\$1,995	\$2,185

Debt headroom created for councils from establishing Bay of Plenty Water CCO (\$m)	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33	33/34
Tauranga City Council	\$293	\$366	\$416	\$450	\$434	\$386	\$390	\$440	\$498	\$568
Rotorua District Council	\$65	\$74	\$86	\$97	\$96	\$95	\$93	\$89	\$86	\$83
Western Bay of Plenty District Council	\$96	\$121	\$147	\$168	\$181	\$177	\$143	\$111	\$68	\$16
Whakatane District Council	\$47	\$51	\$62	\$70	\$69	\$62	\$64	\$72	\$72	\$75
Opotiki District Council	\$20	\$21	\$23	\$26	\$29	\$32	\$34	\$38	\$39	\$41
Kawerau District Council	\$6	\$7	\$9	\$11	\$14	\$16	\$18	\$18	\$17	\$15
Total council debt headroom created from establishing Bay of Plenty Water CCO	\$526	\$640	\$742	\$822	\$823	\$767	\$750	\$767	\$779	\$797
Total peak council debt headroom created from establishing BOP Water CCO	\$980									

Comparison of scenarios for Rotorua Lakes District Council

Assuming the LTP level of capital investment as constant (\$482 million over ten years) we compare three scenarios:

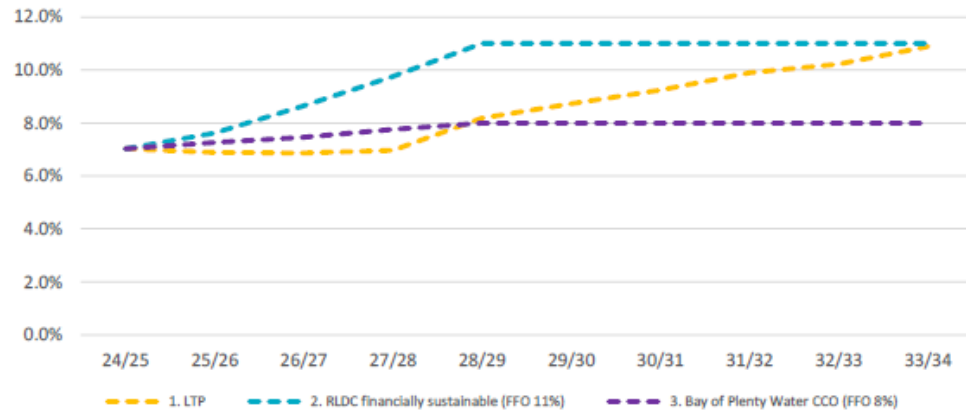
Scenario **1. LTP**: 2024-34 LTP projections;

Scenario **2. RLDC financially sustainable (FFO 11%)**: 2024-34 LTP projections, modified so that a target FFO to debt ratio of 11% is met from 1 July 2028 onwards; and

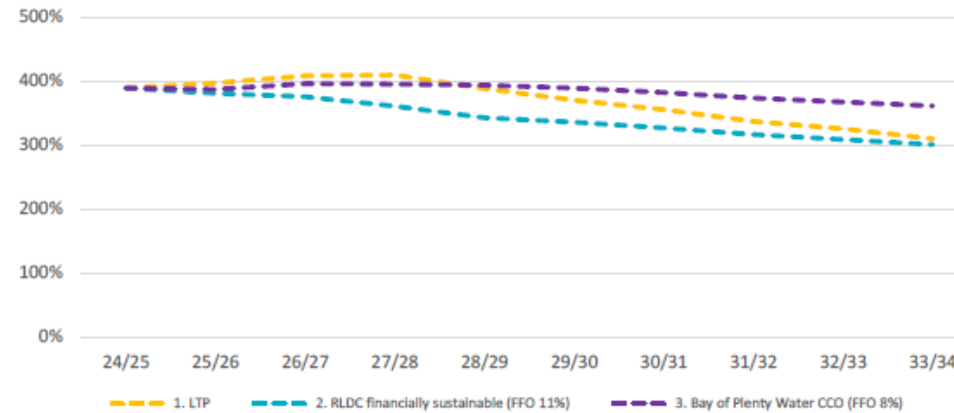
Scenario **3. Bay of Plenty Water CCO (FFO 8%)**: 2024-34 LTP projections, modified so that a target FFO to debt ratio of 8% is met from 1 July 2028 onwards.

Further detail on these scenarios is set out in Annex 6.

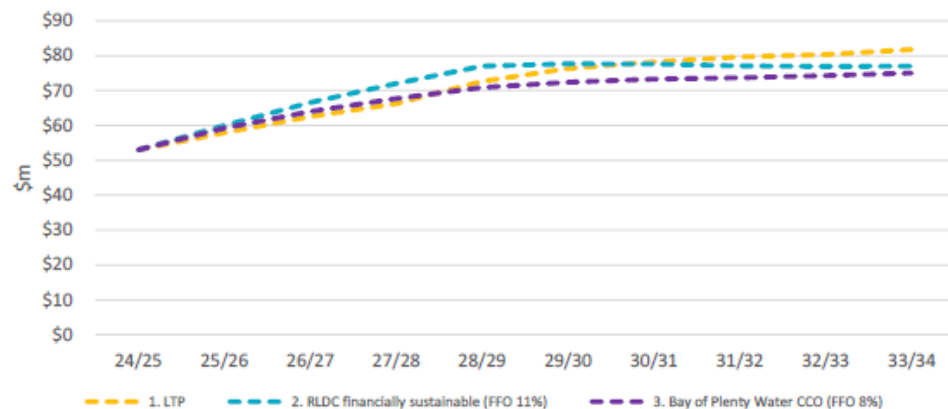
Funds from operations to net debt for water services



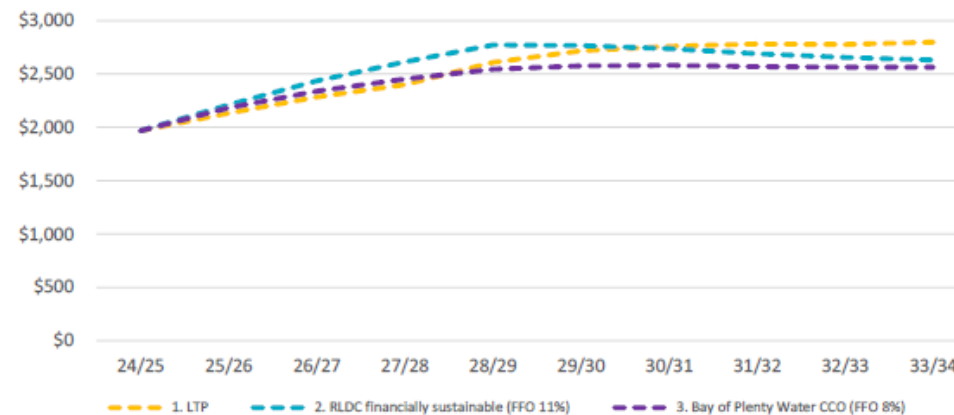
Water net debt to operating revenue



Water services operating revenues



Average water services bill per connection (ex GST)



Explanation:

FFO to net debt is the metric for determining financial sustainability, and it drives revenues, charges and borrowing requirements for water services.

A higher FFO requirement means more revenues to support a given level of borrowings.

The higher the FFO, the more financially sustainable the service.

This, however, needs to be balanced against affordability considerations.

Recommended scenarios:

DIA recommends the key scenarios to form the baseline for RLDC analysis, deciding on preferred delivery model, and completing a Water Services Delivery Plan are:

Scenario 2. RLDC financially sustainable (FFO 11%)

RLDC in-house or new RLDC owned CCO with a minimum FFO to net debt ratio of 11% by 1 July 2028; and

Scenario 3. Bay of Plenty Water CCO (FFO 8%)

A regional CCO owned by Bay of Plenty councils, with a minimum FFO to net debt ratio of 8% by 1 July 2028.

Questions



Te Tari Taiwhenua
Internal Affairs