Local Water Done Well Business Case

FINAL

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Contents

Executive Summary

Introduction

New Zealand is facing growing challenges in providing sustainable and affordable water services. Infrastructure issues, environmental and public health obligations, climate change impacts, and growth demands necessitate urgent reforms. Through Local Water Done Well (LWDW) the Government aims to transform New Zealand's approach to water delivery, empowering communities and councils to manage water services while ensuring compliance with key standards. By September 2025, councils must submit detailed Water Service Delivery Plans which show how they will meet existing and significant new regulatory requirements for water services.

Accordingly, HCC and WDC need to change their approach towards water delivery services. The historical approach is increasingly inadequate and councils will need a delivery model which complies with new legislations, ensures both Councils can service significant urban growth and development , and ensures resilience, efficiency, affordability and sustainability in water service delivery.

Scope of Business Case

The purpose of this business case is to provide HCC and WDC with high-level analysis, mainly focused on strategic case and option consideration. The business case has been developed to support HCC and WDC decision making and serve as a foundation for each Council's separate public consultation on available and preferred options for the future delivery of water services.

Excluded from the scope of this business case was the following:

- Detailed business case that would typically be required if following the BBC methodology.
- Detailed analysis to explore pathways to price harmonisation, including a detailed review of tariff structures.

Limitations

The purpose of the financial model and financial analysis to support this Business Case was to compare the Options to inform each Council's decision on the Preferred Option. More detailed work will be required to optimise and refine the Preferred Option once decided..

Nine years of projected financial information (through to 2033-34) has been included in the forecasts. Given the long lifespan of infrastructure assets (often 20 to 50+ years), nine years is not adequate to capture the full economic lifecycle of these assets or the full benefit of each option.

Further legislation (The Local Government Water Services Bill) (Bill 3) is due in December 2024 and will provide more detail which may impact on the assumptions underpinning the projections in this Business Case. The financial analysis is subject to refinement based on this Bill and any other changes that are subsequently announced.

Options Consideration

Current Status of Water Service Delivery

HCC currently operates and maintains all three waters (3W) as cost centre departments within Council. Since water activities form part of Council operations there is a sense of local ownership in the community regarding the water activities.

WDC had a 30-year contract with Watercare for the delivery of water services. Recent negotiations with Watercare has allowed for early termination of the contract and the contract will now end on 30 June 2028. Under the current contract, WDC own all the assets, while Watercare manages the water, wastewater, and stormwater infrastructure above and below ground.

Defining Options

Three options were identified through focused workshops between HCC and WDC staff and reviewing existing supporting materials (including the Cranleigh Business Case (2015), HCC and WDC agendas, minutes, and decisions related to LWDW, and both the 2016 and current working draft Record of Agreement). Under all the options, ownership of stormwater assets is retained by the respective Council. The options analysed in further detail as part of this business case are:

- **Option A – Enhanced Status Quo:** Under this option, WDC will continue its contract with Watercare, however, this contract is set to end on June 30, 2028, at which stage it would retender for a replacement contractor (**Option A1**). For HCC, this option represents the creation of a compliant and financially sustainable business unit within HCC, with ring-fenced financials (**Option A2**). This option represents the minimum response to "Local Water Done Well."
- **Option B - HCC Waters CCO:** Under this option, HCC would be the sole owner of a CCO created to own water and wastewater assets and to provide stormwater services to HCC.
- **Option C - Joint CCO:** It is a compliant, financially sustainable water and wastewater asset-owning entity that provides drinking water and treats and disposes of wastewater (water services) across Hamilton City and Waikato District. The CCO will also provide stormwater services under contract to both HCC and WDC.

Critical Success Factors

All defined three options either passed or are capable of passing the Critical Success Factors (CSFs) as part of the design of the new entity or business unit. Eight critical success factors were identified as follow:

CSFs	Description
Regulatory compliance	• Achieve all compliance requirements (including environmental, water quality, health and safety, RMA requirements and other relevant legal and regulatory requirements).
Alignment	• Meet agreed customer expectations. • Be capable of managing future environmental/regulatory outcomes. • Maximise influence over regulatory outcomes. • Ensure strategic alignment between HCC and WDC (relevant only for the Joint CCO option
Clear communication	• Ensure that the community clearly understands any change. • Ensure that the communication to Councillors is clear to enable sound decision-making at every step along the way (i.e., avoid the risk of decisions made now being overturned / changed later)
Environmental and public health	• Ensure health and safety regarding the provision of water services.
Ease of implementation	• Can be implemented given organisational capability, and change tolerance
Financial sustainability	• Generate sufficient income to cover all operational and funding costs in long term. • Sufficient projected investment to meet level of service and supports growth and urban development for both Councils
Ownership	• Ensure ratepayers/community retain ownership of the assets
Operational effectiveness	• Meet the agreed investment objectives, related business needs, service requirements, future growth and integrates with business strategies and plans.

Options Assessment

The multicriteria analysis is used to score non-financial and financial evaluation criteria in the decision process. Evaluation criteria were developed in close collaboration between both HCC and WDC and were used to compare the options against each other. Several workshops were held between WDC and HCC to I) weight the relative importance of a range of evaluation criteria against which to assess the option and ii) score each option against the evaluation criteria.

Each option was scored using a scale of 1 to 5. The following definitions were applied to each score:

- Strongly Enables Criteria + Benefits (Score 5): The option fully aligns to all aspects of the evaluation criteria and provides additional benefits.
- Strongly Meets Criteria (Score 4): The option strongly aligns to the evaluation criteria, with no additional benefits.
- Moderately Meets Criteria (Score 3): The option moderately aligns to the evaluation criteria but has some deficiencies.
- Meets Criteria (Score 2): The option only somewhat aligns to the evaluation criteria and has substantial limitations.
- Fails to Meet Criteria (Score 1): The option fails to align to the evaluation criteria.

The total multi-criteria score for each option is shown in the following table.

Evaluation Criteria	Description	Weight	WDC Status Quo	HCC BU	HCC Waters CCO	Joint CCO
Te Ture Whaimana	• Gives effect to Te Ture Waimana • Supports the health of the awa (which includes the health of the people)	12.50%	3	3	3	5
Supports coordinated and boundaryless planning and investment	• Responds to growth, and community needs • Supports Housing & Development including the ability to respond to Fast Track consents • Is capable of providing water services for multiple areas • Allows for coordinated investment planning across boundaries • Aligns water investment decisions to where they are needed to drive economic growth in the region.	12.50%	2	2	2	4
Customer experience	• Provides for coordinated customer planning • Creates an even playing field for customers • Allows for price harmonisation • Delivers consistent levels of service • Puts the customer at the centre	12.50%	3	3	4	5
Financial efficiency	• Improves financial efficiency of the delivery of water services. • Improves affordability for the ratepayers. • Reduces cost (relative to the status quo) option over the long term • Optimises value for money and minimises associated risk • Provides the ability to smooth capital investment over the long term and manage costs to ratepayers	12.50%	2	3	4	4
People and Capability	• Attracts and grows a highly skilled workforce	12.50%	3	3	4	4
Operational effectiveness	• Creates a stable and secure operating environment (supports long-term decision-making, is resilient against fluctuations in political cycles, withstands changes in the ability or willingness of partner councils to collaborate, and responds to emergency situations)	12.50%	2	2	3	5
Opportunities of scale	• Matches the ability of potential service providers to deliver • Appeals to service providers • Enables engagement in a coordinated way with third parties • Enables the use and funding of an asset management system	12.50%	2	3	3	5
Regional contribution	• Ensures regionalisation of skills and capability • Enables other local authorities to join and expand the benefits	12.50%	1	1	3	5
Overall Weighted Score		**100%**	**2.3**	**2.5**	**3.3**	**4.6**

Preferred Option

The joint CCO has the highest score and therefore is recommended as the preferred option. It meets all the critical success factors well and strongly aligns to the evaluation criteria and it provides some additional benefit in some criteria.

The Joint CCO has been assessed as the highest scoring option with a weighted score of 4.6. The Joint CCO not only meets all the evaluation criteria but also offers additional benefits in key areas. As such, it is the preferred option for both councils.

Some of the key benefits identified during the evaluation process include:

- Strengthens the ability to give effect to Te Ture Whaimana by improving sub-regional coordination and enhancing the management of water takes and discharges along a larger stretch of the Waikato River than any of the standalone options leading to more effective control and mitigation of environmental effects and contributing to the health of the awa.
- Aligns better and better supports the agreed Futureproof settlement pattern. This option allows far greater coordination and integration of resources through boundaryless investment to support urban growth and development. This option will facilitate expedited growth around the city including a far better ability to respond to Fast Track Consents and it better aligns water investment decisions with the scale that is needed to drive economic growth. None of the other options offer an effective way of responding to growth and supporting boundaryless investment or Fast Track Consents.
- The ability to prioritise customer experience for waters customers more effectively than each council.
- In the long term, this option improves affordability for ratepayers. It offers the highest debt headroom, providing greater financial flexibility to smooth costs over time and respond to unexpected challenges. It also has the greatest scope to optimise capital expenditure to meet the growing demands of population and economic development.
- Due to its scale this option enhances training and upskilling opportunities for staff, improves resource allocation and operational efficiency, enables expertise sharing and specialist employment across the region, supports employee mobility and career growth, and reduces competition between HCC and Waikato for personnel.
- Enhances operational resilience, emergency response flexibility, and effectiveness through resource pooling and standardized protocols. In addition, operating independently of council politics ensures stability and focus on its mandate.
- Enables strategic planning, optimised resource allocation, cost efficiencies, streamlined procurement, and integrated infrastructure planning by enhancing project bundling.
- Enables the identification of synergies, the reduction of duplication, and improvements in operational and asset management systems.
- Enables improvements to responses to non-customer third parties, regulatory authorities, and suppliers by aligning with regional economic objectives.
- The option allows for other CCOs to join, facilitating the future development of a joint-CCO. This option This approach has been designed to promote greater collaboration among multiple parties and help resolve challenges more effectively.

The other options score more poorly in relation to:

- Supporting boundaryless planning and investment
- Operational effectiveness
- Opportunities for scale
- Regional contribution.

Of these the most critical difference is the ability to support boundaryless planning and investment. Options that do not support effective investment in the waters infrastructure needed to support urban growth and development across the administrative boundary between Waikato District and Hamilton City will not address the key growth challenges facing the two local authorities.

Critically, other than contract savings which are certain and quantifiable, the financial analysis for the Joint CCO option does not include any assumptions around further efficiencies that might be realised from the greater scale and footprint that the Joint CCO will have. This deliberately conservative approach means that the Financial Analysis does not include efficiency savings, such as those suggested in the Cranleigh Report, which could range anywhere from 7.5% to 11.4%. Analysis completed by the Water Infrastructure Commission for Scotland, indicated Scottish Water had achieved a 52% improvement in investment unit costs over 30 years. This indicates that the Joint CCO has the potential to create longer-term cost efficiencies,. Despite the exclusion of these benefits the Joint CCO is the clearly the best of the options considered.

2 Strategic Case

1 Strategic Case

Safe, affordable, and reliable drinking water and wastewater services, combined with functional networks, pumpstations, reservoirs and treatment plants that are fit-for-purpose and meet environmental, public health, economic, and cultural expectations, are essential to advanced societies, serving as the foundation for public health and economic activity. Recognising this importance, the Local Water Done Well (LWDW) initiative has been introduced to make a significant shift in New Zealand's approach to water delivery, aiming for compliance with economic, environmental, and water quality standards (explained in more detail in the strategic context). This section outlines the current strategic context, and the case for change, details the investment objectives, and describes the business case scope and methodology.

1.1 Strategic Context

The provision of safe, sustainable, and affordable water services is a growing issue across New Zealand, necessitating urgent reforms. This section begins by reviewing the current state of water and wastewater service delivery in Hamilton and the Waikato District, followed by insights into stormwater management. It then identifies key factors accelerating the need for a new approach to water and wastewater service delivery, including infrastructure challenges, environmental and public health obligations, legislative changes, climate change impacts, and growth demands.

Scale and Reach of Water services in Hamilton and Waikato district:

- According to Waikato District Council (WDC) 2021-2031 Long-Term Plan (LTP), adopted in June 2021, the depreciated replacement values of the water supply and wastewater systems in Waikato District are reported at $171 million and $186 million, respectively.
- The Hamilton City Council (HCC) 2024-2054 Infrastructure Strategy placed the depreciated replacement cost of the city's water supply network at $524 million as of June 30, 2024. This network serves more than 58,000 households and 5,600 commercial, industrial, and rural sites, along with additional properties in the Waikato and Waipā districts. Hamilton's wastewater network, valued at $766 million, supports approximately 64,000 properties, and the stormwater system, valued at $729 million, drains an urban catchment of around 9,000 hectares, with a total catchment of approximately 30,000 hectares feeding into the Waikato River.
- According to the 2023 Census, the populations of Hamilton City and Waikato District are approximately 175,000 and 86,000, reflecting population growth of 23.4% and 35.6%, respectively, from 2013 to 2023, significantly outpacing the national growth rate of 17.7% over the same period.
- HCC 2024-2034 LTP projects 65,106 rating units in the area. WDC serves around 19,278 water-paying ratepayers.

Stormwater

Stormwater systems are markedly different from water and wastewater networks. WDC and HCC believe these differences require a different approach for stormwater management.

- Water and wastewater networks and assets are well-defined and operate as closed networks. Water networks take water, treat it, and reticulate it for use through a pipe network, while wastewater networks collect wastewater, treat it, and discharge treated effluent from the network.
- Water and wastewater charges are determined by balancing two key factors: the cost of having a network (the availability of the service); and the volume of water used, and wastewater generated for treatment and disposal.
- In contrast, the stormwater system is an open network that includes natural streams, heavily modified streams, overland flow paths, roads, parks and reserves, green space, water retention devices, both natural and artificial wetlands, as well as a piped network that collects stormwater and discharges it into waterways.
- There is a cross-over between the major river flood control schemes that regional councils operate, and the stormwater schemes operated by local authorities and (in some cases) private individuals or groups.
- Stormwater schemes lend themselves to being funded based on the value of the assets protected (property value) or in a way that recognises the extent to which the activity on some land causes or exacerbates the generation of stormwater and activity on other land. These are factors that a local authority can use in setting rates. They are not necessarily the charging powers that can be expected of a Waters Council Controlled Organisation (CCO).
- For both HCC and WDC, the ability to provide adequate stormwater solutions is critical to the planning process and the ability to zone land for more intense (urban) activities. This means that stormwater decision-making is critical to the planning process.
- In recognising the difficulty of clearly identifying stormwater assets and the extent of stormwater systems and networks, the Government has decided that stormwater will remain a Council responsibility and that Councils will be able to continue to rate for stormwater. The regulatory framework for stormwater will be developed over a longer timeframe (undetermined) than the economic regulatory framework for water and wastewater.
- It is necessary to manage all three water services in an integrated manner to achieve the most overall efficient use of all three water services.
- It is the view of WDC and HCC that retaining stormwater assets within the respective councils is the best approach. However, it makes strong sense for both Councils to

transfer all waters-related delivery and related staff to a CCO and to purchase stormwater services from the CCO. This approach would provide the greatest scale in the CCO, would provide for the greatest synergies and efficiencies in developing waters expertise, and would provide a key mechanism for maintaining a close working relationship between the CCO and the Council.

Infrastructure Challenges:

Outside of the natural environment, water is transported to the point of consumption (or discharge) through thousands of kilometres of reticulated pipe networks. Reticulation networks are supported by a complex array of dams, reservoirs, stop banks, pumping stations, tunnels, complex energy, process and data management systems such as power houses, Supervisory Control and Data Acquisition (*SCADA*) and treatment plants. There are significant challenges facing water infrastructure, as outlined in the following reports and investigations:

- Investigations by the Parliamentary Commissioner for the Environment, such as those in Aging Pipes and Murky Waters (2000) and Beyond Aging Pipes (2001), revealed New Zealand's aging water infrastructure and the challenges in maintaining and replacing old pipes and inadequate treatment plants.
- According to the 2011 National Infrastructure Plan, water infrastructure ranked the lowest among all New Zealand's infrastructure sectors in terms of investment analysis, resilience, funding mechanisms, accountability, performance, and regulation.
- In 2013, the Local Government Infrastructure Expert Advisory Group (EAG) produced a report which suggested regionalising water services and operating them independently from political influence. These recommendations were backed by international research and experience, which indicated that larger water utilities owning enterprises can achieve greater economies of scale due to lower marginal production costs.
- The 2014 amendment to the Local Government Act 2002 introduced reforms aimed at addressing some of the shortcoming identified by the 2011 National Infrastructure Plan, such as encouraging councils to collaborate through shared services, mandating a review of the cost-effectiveness of service delivery arrangements every three years, requiring the development of 30-year infrastructure strategies, implementing new asset management planning requirements, requiring disclosure of information about rating bases in LTPs, annual plans, and annual reports, and mandating the disclosure of risk management arrangements for physical assets in annual reports.
- In 2015, the Thirty-Year New Zealand Infrastructure Plan, prepared by the Treasury's National Infrastructure Unit, emphasised the critical importance of enhancing the resilience, efficiency, and sustainability of water infrastructure. The plan highlighted the urgent need for substantial investment due to ageing assets, with many parts of the water network being over 100 years old.
- The latest Hamilton Metro Prospectus report[1], emphasises that the consequences of underinvestment in the three waters networks are currently being experienced in Hamilton, alongside infrastructure nearing the end of its lifespan. Existing networks were built to accommodate specific types of development, with standards suitable for their time; however, a significant increase in investment is now required to achieve the desired future outcomes.

Environmental and Health

- The 2024–2034 HCC LTP highlights that Hamilton's natural environment faces risks due to historical degradation, with the Waikato River—a critical freshwater resource—under significant pressure. Water availability remains limited despite population growth and therefore higher demand for water and water services. Climate change may further intensify these constraints. Effective water management is essential to sustaining the river and preserving biodiversity.
- There have been several national discussions on the state and health of New Zealand's rivers, considering the impact of agricultural practices and wastewater discharges.
- The 2017 Havelock North Inquiry report emphasised the critical issues surrounding drinking water quality and public health.

[1] https://storage.googleapis.com/hccproduction-web-assets/public/Uploads/Documents/Content-Documents/Strategies-Plans-and-Projects/Hamilton-Kirikiriroa-Metro-Prospectus.pdf

Legislative and policy standards

- Council operates within a complex legislative and policy environment, with increasing environmental, safety and compliance expectations. Several councils have already faced compliance issues in terms of drinking water and wastewater standards. Existing infrastructure, built to past standards, now faces new legislation, and increased environmental standards, particularly regarding the Waikato River. This drives the need for further costly investment.
- In response to a 2016 gastroenteritis outbreak in Havelock North affecting over 5,000 people, the New Zealand Government launched the Three Waters Review in 2017. This review led to the creation of Taumata Arowai as the national water regulator.
- In 2020, the Three Waters Reform Programme was introduced to address infrastructure issues, under-investment, and regulatory challenges aiming to improve efficiency, public ownership, and affordability in water services.
- In November 2023, the government announced plans to repeal the previous Three Waters reforms, replacing them with the Local Water Done Well (LWDW) initiative. This new framework emphasises local decision-making, allowing communities and councils to manage water services while ensuring compliance with economic, environmental, and water quality standards. The reforms are being rolled out in stages, with the first stage repealing the previous Government's water services legislation , and the second requiring councils to submit detailed Water Service Delivery Plans by September 2025. The final stage [Bill 3] will establish new regulatory and delivery systems for water services, marking a significant shift in New Zealand's approach to water infrastructure management.

Climate Trends

- According to the 2024 New Zealand Infrastructure Commission report[2], Freshwater sources are coming under increasing stress due to sea-level rise and changing rainfall patterns. In some regions, climate change is expected to threaten water security. In the past decade, New Zealand has experienced the highest frequency of drought conditions since recordkeeping began 80 years ago. Indeed, the National Climate Change Risk Assessment identifies the risk to potable water supplies as the most urgent threat facing New Zealand.
- Hamilton is expected to face various impacts of climate change, including warmer days and nights, making it challenging to cool the city and provide heat relief. Additionally, more extreme weather events, such as intense storms, rainfall, and shifting wind directions, are likely to occur, potentially affecting the city's infrastructure, community, and environment in numerous ways. Historically, infrastructure has been developed to withstand current climate conditions; however, with the anticipated changes, it must now be designed to endure new climate realities over its lifespan. Without these adjustments, there are significant risks to public health and well-being, including disruptions to water and wastewater treatment, storage and distribution, increased flooding, heightened urban heat, and impacts on mobility within the city. Preparing existing infrastructure and rethinking future projects is essential to address these challenges.

Growth

- The rapid growth within Hamilton and Waikato has placed considerable strain on existing services, including roads, stormwater, water, and wastewater systems, and community spaces. Furthermore, planned growth exceeds the capacity of existing services and consented limits on water and wastewater infrastructure. Essential networks for water, wastewater, and stormwater are critical to support continued growth; however, the infrastructure in place was designed to meet standards and demands relevant to an earlier time. As a result, the increased population density and development demands have exceeded the capacities of these three waters networks in some areas, presenting challenges in sustaining adequate service levels for the city's growing population.
- Changes to the Resource Management Act include new provisions to enable Fast Track consents. The relevant jurisdictional authority will be required to support that new growth under the requirements of the water services delivery plan.
- Obtaining resource consent for new or increased wastewater discharges and water abstractions is costly and time consuming, with uncertain outcomes and uncertain compliance standards. Equally, the cost of upgrading existing pipes or building new dams, reservoirs or treatment facilities is daunting. In addition to environmental and financial constraints, major new investments can also impose a range of property and cultural impacts.

[2] New Zealand Infrastructure Commission, 2024 report, Valuing water: Sustainable water services and the role of volumetric charging.

1.2 Case for Change

Given the strategic context canvassed earlier, along with the establishment of Taumata Arowai as the national water regulator and the introduction of the LWDW framework, HCC and WDC need to change their approach towards water delivery services.

The historical approach by both HCC and WDC to manage water services is increasingly proving insufficient and not fit for purpose in addressing affordability and current challenges, and it will not be adequate for the future. In fact, despite significant recent investments, new compliance and environmental challenges, residual ageing infrastructure, coupled with rapid population growth, continue to put pressure on existing systems.

This has led to significant challenges, including frequent service disruptions, inefficiencies, and escalating directives from regulators. In addition, the current WDC contract with Watercare will end on 30 June 2028, requiring WDC to decide on a new water service delivery approach to address these issues.

As a result, there is a clear and urgent need for a new water service delivery approach that complies with new legislation obligations, significant growth servicing expectations, and ensures resilience, efficiency, and sustainability in water service delivery. This will pave the way for the investment objectives detailed below, which will measure both HCC and WDC success in addressing the challenges highlighted.

1.3 Investment Objectives

Following several workshops with HCC and WDC, the following investment objectives have been identified:

1. Give effect to Te Ture Whaimana and support the health the awa.
2. Enable coordinated and boundaryless planning and investment.
3. Enhance customer service delivery.
4. Improve financial efficiency.
5. Attract and develop a highly skilled workforce.
6. Create a more stable and secure operating environment.
7. Increase opportunities for economies of scale.
8. Ensure regional contributions.

1.4 Key Service Requirements

There are some key service requirements, to ensure the investment objectives are fulfilled, many of which are driven by recently introduced or otherwise pending regulations and legislation. Every option being considered by HCC and WDC will, at the minimum, need to meet these requirements to warrant being considered as a viable option:

- Economic regulation is a central component of the "Local Water Done Well" approach, with new rules anticipated to oversee investment levels (both under- and over-investment), manage costs and cost recovery (including pricing and charges), and ensure transparency and disclosure of costs and revenues.
- In addition, there are currently environmental regulations covering water use, wastewater, and stormwater management by Taumata Arowai.
- The economic regulation will be phased in gradually, beginning with an information disclosure. However, there are some direct consequences of moving water services into the framework of Part 4 of the Commerce Act [3].
- The Commerce Commission is expected to introduce price-quality regulations for waters services, enabling it to establish a methodology for setting price and quality, determining price caps, establishing revenue limits, and setting quality standards that apply for periods of five years. In addition, there is a requirement to support the territorial authority's housing growth and urban development which will include new government mandated Fast Track consents for housing and economic activity. Non-compliance will incur penalties under the Act.
- The information disclosure and transparency regime will require HCC and WDC and any waters CCO to be fully transparent in relation to the revenue collected and costs incurred for each of the three waters - water supply, wastewater, and stormwater- and to ensure that collected funds are ringfenced to the water services for which they were raised for.
- HCC and WDC also need to be able to present distinct accounts and balance sheets for three waters to meet the expected requirements. This means waters related revenue needs to be separated from general rates and/or Uniform Annual General Charges (UAGC). It is important to highlight that WDC has already established a clear

[3] Part 4 of the Commerce Act sets out the particular goods and services that are subject to regulation and the legislative rules governing that regulation. It also sets out the process for us undertaking inquiries into whether regulation of other goods and services may be needed.

separation of its funding streams, with water revenue distinctly allocated and independent from UAGC. While HCC and WDC will retain the ability to fund water services through rates, a waters CCO will lack rating powers. However, a waters CCO with independent revenue will have access to higher debt to revenue ratios than will be available to HCC and WDC. The ability of a Waters CCO to charge will be limited to fixed charges, volumetric charges (based on actual use), variable charges (for instance based on location), a connection charge, and a capital works contribution charge (like a development contribution). The limited range of charges available to a waters CCO impacts the choices that HCC and WDC have in separating waters charges from the general rate/UAGC.

- To produce a *Water Service Delivery Plan,* a Council must determine its water service approach early enough to consult and make informed decisions.
- Any new water CCO will have to prepare a Water Service Strategy in which it sets out its intended activity, capital works, operating costs, tariffs, and charges, etc. This means that a new CCO would need to be established early enough to prepare a Water Service Strategy before the year in which it starts billing customers.
- The final legislative piece of Local Water Done Well, which will set out a range of changes to the water services delivery and regulatory system, has yet to be introduced.

1.5 Scope and Methodology

The purpose of this business case is to provide HCC and WDC with high-level analysis to support informed decision-making and will serve as a foundation for each Council's separate public consultation on available and preferred options for the future delivery of water services.

Scope

This business case is a high-level business case that is mainly focused on the strategic case and options consideration. Given the reliance on inputs provided by both HCC and WDC and several workshops undertaken, the business case has been developed in such a way as to support HCC and WDC decision making and subsequent (separate) public consultation by each Council.

Scope exclusions

Excluded from the scope of this business case was the following:

- Detailed business case that would typically be required if following the BBC methodology.
- Detailed analysis to explore pathways to price harmonisation, including a detailed review of tariff structures.

Methodology

To prepare this business case, the following activities have been conducted:

- Gathering and reviewing existing supporting materials, including the Cranleigh Business Case (2015), HCC and WDC agendas, minutes, and decisions related to LWDW, and both the 2016 and current working draft Record of Agreement).
- Conducting focused workshops with HCC and WDC to carefully consider all important aspects of the business case. In total, four workshops were run as shown in following table.
- Compiling and combining inputs from the workstreams (e.g., transaction design and financial modelling) being run by both HCC and WDC to support the design and consideration of the options.
- Ensuring that given the reliance on inputs provided by HCC and WDC, the business case will be of a standard that is fit for purpose and provide HCC and WDC with sufficient information to make decisions which allow HCC and WDC to take a view on their preferred option.

Workshop	Objective
HCC/WDC workshop on 2024/10/17	To confirm the scope of strategic case
HCC/WDC business case workshop _ Option assessment criteria on 2024/10/31	To identify the design principles, critical success factors and evaluation criteria
HCC/WDC Transaction workshop on 2024/11/07	To confirm principles on transaction structure
HCC/WDC business case workshop scoring options on 2024/11/14	To score each option against evaluation criteria
Various meetings held over the period 1 November 2024 to 28 November 2024	To confirm various principles and matters discussed


3 Options Consideration

2 Options Consideration

2.1 Current State of Water Services Delivery

Hamilton City Council

HCC currently operates and maintains all three waters as cost centre departments within Council. These cost centres benefit from the support of corporate services such as HR, IT and accounting and they are ultimately responsible through the Chief Executive to the elected Council. Because water activities form part of Council operations there is a sense of local ownership in the community regarding the water activities. The water departments can also be supportive of other Council activities and can liaise directly with other Council departments such as planning, roading, and economic development.

Waikato District Council

Following the previous attempt to establish a jointly owned future proof Waters CCO, WDC entered a 30-year contract with Watercare for the delivery of water services. Under the current contract, WDC own all the assets, while Watercare manages the water, wastewater, and stormwater infrastructure above and below ground.

WDC retains responsibility for:

- Customer engagement: initial customer contact regarding complaints (call centre), new connections, disconnections, change in ownership, etc.
- Billing and the collection of revenue: noting that all charges (including volumetric water charges) are charged as rates (a charge against the property)
- Capital expenditure decisions: Currently Watercare recommends capital expenditure through Activity Management Plans which are considered by the Water Governance Board, who in turn recommend it to Council.
- Funding for all activities.
- Securing consents, consent compliance, and any liability associated with non-compliance.

Watercare has responsibility for:

- The operation of all plants and piped networks, including the purchase and supply of all necessary inputs (power, chemicals, staff, contractors, etc.)
- Operating the networks within agreed operating parameters / performance levels and within agreed budgets
- Operating all plants and networks as a lifeline utility operator in the case of a civil defence emergency
- Maintaining all asset and network related data and records
- Responding to / resolving complaints and processing customer service requests that are conveyed to Watercare by Council.
- Reading all water meters and providing the data necessary to support Council billing.
- The design, contracting, delivery and commissioning of all capital works.
- Assisting the Council to secure new resource consents as necessary.
- Regular reporting to the WDC Waters Governance Board
- Preparing the AMP
- Providing Strategic Planning advice and waters related input to all consent applications, District Plan process and development approvals.

Watercare had previously advised WDC that it would be withdrawing from providing services to Waikato district on 30 Jun 2026. However, following recent negotiation, the contract will now be extended to 30 June 2028. This extension provides WDC with additional time to define the future of the district's water services under the Government's LWDW framework.

2.2 Critical Success Factors (CSFs)

LWDW provides a national framework and tools that enable councils and communities to make informed choices about future water service delivery. It is essential that as HCC and WDC review the options, they consider the critical success factors that are essential to the success of the change in water service delivery. All options that were considered as part of the Options Assessment, either passed, or were capable of passing the CSFs as part of the design of the new entity or business unit.

Eight critical success factors were identified, and they are:

1. **Regulatory compliance:** Compliance is essential for the success of the project, **encompassing** adherence to environmental standards, water quality regulations, health and safety protocols, and any growth or legal requirements under the Resource Management Act (RMA) or other relevant frameworks. The program must achieve full compliance with all applicable regulations to ensure safe and lawful operations across every aspect of its scope.
2. **Alignment:** The organisation must be capable of meeting agreed customer expectations while at the same time not compromising on environmental and regulatory compliance. Additionally, strategic alignment between HCC and WDC is essential, particularly under the Joint CCO option.
3. **Clear communication:** Effective communication is critical, both with the community and internally, as well as other stakeholders. It is essential that the community clearly understands the changes that will occur, fostering transparency and trust. Additionally, consistent, and clear communication with Councillors is required to support informed decision-making, minimising the risk of future reversals or modifications to decisions made now.
4. **Environmental and public health:** Ensuring the health and safety of the community with respect to water service provision remains paramount.
5. **Ease of implementation**: The implementation process should be feasible and must acknowledge the organisational capability and change tolerance. Assessing and preparing for any potential challenges will ensure a smooth transition and successful execution of plans.
6. **Financial sustainability:** Generating sufficient income to cover all operational and funding costs in the long term is critical. Additionally, it is important to project sufficient investment to meet the level of service expected, while also supporting the growth aspirations of HCC and WDC.
7. **Ownership:** Ensuring that ratepayers and the community retain ownership of the assets is a priority. This fosters a sense of local control and accountability, which is fundamental to maintaining public support and trust.
8. **Operational effectiveness:** Meeting the business needs, and service requirements is essential. The organisation must also accommodate future growth and integrate with business strategies and plans to ensure comprehensive and effective operations between it and the rest of council's operations and activities.

2.3 Defining the Options

The short-list of options was identified through the workshop process with HCC and WDC staff and reviewing other relevant documents provided by each Council.

Broadly, three options were identified and explored further. Under each of these options, ownership of stormwater assets was retained by the respective Council due to factors outlined earlier. In addition, funding for stormwater is complex, as it is based on property value and the need for protection rather than usage, making it unsuitable for a CCO model that relies on usage-based charges.

The three options analysed in further detail as part of this business case are:

Option A – Enhanced Status Quo

Under this option, WDC will continue its contract with Watercare, however, this contract is set to end on June 30, 2028, at which stage it would retender for a replacement contractor (**Option A1**).

For HCC, this option represents the creation of a compliant and financially sustainable business unit within HCC, with ring-fenced financials (Option A2). This option represents the minimum response to "Local Water Done Well."

The HCC business unit focused on managing all water-related services.

Key Characteristics:

- Council owns all assets relating to water, wastewater, and stormwater.
- Council delivers all waters services.
- Council funds all expenditure relating to all waters services using separate targeted rates and waters specific charges and development contributions.
- Council debt will be limited to a debt to revenue ratio of 350% (up from the current 280% threshold).
- Council is subject to the full impact of economic regulation.
- As a result of economic regulation, the Council could be required to charge more (or less) for waters services to meet requirements.
- The business unit is not a separate legal entity, but part of Council as a separate business unit. For WDC, this involves ring-fencing, cost-centre management, and reporting to ensure compliance with legislation.
- Operates as a full “profit” centre with all waters revenues, expenses, assets, and liabilities attributed to the business unit.
- There will not be any obligation to service out of district Fast Track areas and growth. It means that if fast track areas cross jurisdictions, one council is not obligated to the other council to provide services. The cost, risk and access to water will fall to the relevant jurisdictional authority to address via their water services delivery plan.

Financial outputs:

The aggregate sum of the nine-year financial projections (from 2025-26 to 2033-34) are summarised in the following tables:

WDC Status Quo (Option A1): Headline financials (2025-26 to 2033-34)

NZ$m	Business Unit	RoC (Pre-LTP)	Total
Rates	743	1,319	2,061
Development Contributions	54	56	109
Total Revenue	1,189	1,948	3,137
Operating Costs	585	1,209	1,794
Depreciation	264	375	639
Interest	131	130	261
Cumulative surplus / (deficit)	209	233	443
Capital Expenditure	963	720	1,684
Closing Debt	488	423	910
Peak Debt	488	423	910

Source: WDC financial model

HCC Business Unit (Option A2): Headline financials (2025-26 to 2033-34)

NZ$m	Business Unit	RoC	Total
Rates	2,072	3,126	5,198
Development Contributions	714	142	857
Total Revenue	3,186	4,541	7,727
Operating Costs	963	2,545	3,508
Depreciation	616	888	1,503
Interest	440	509	949
Cumulative surplus / (deficit)	1,168	607	1,775
Capital Expenditure	2,766	1,667	4,432
Closing Debt	1,481	1,240	2,720
Peak Debt	1,481	1,240	2,720

Source: HCC financial model

Option B - HCC Waters CCO

Under this option, HCC would be the sole owner of a CCO created to own water and wastewater assets and to provide stormwater services to HCC.

Key Characteristics:

- The CCO owns all assets relating to water and wastewater. Stormwater assets are not transferred to the CCO and instead remain under Council ownership.
- The CCO delivers all waters services (including stormwater services).
- The CCO funds all expenditure relating to all water and wastewater.
- The CCO will (in time) be able to borrow up to a debt to revenue ratio of 500% - provided the Council underwrites that debt.
- The CCO is subject to the full impact of economic regulation for water and wastewater.
- As a result of economic regulation, the CCO could be required to charge more (or less) for waters services to meet requirements.
- The CCO will take the form of a shareholder-owned, limited liability company.
- The CCO will earn sufficient revenue and generate sufficient operating surpluses to maintain and develop the waters network.
- The CCO will be overseen by an independent, professional board of directors who are appointed by shareholders through the Shareholders' Forum.
- Operational decisions about water services will be the responsibility of the Board of the CCO, based on a Statement of Expectations and on any decision, thresholds defined in the constitution on a 'no surprises' basis.
- The CCO will be 'customer-facing'. That is, it will be expected that any service requests or customer complaints will be managed by the CCO.
- Strategic planning, particularly for growth, will remain the exclusive prerogative of HCC, and the CCO will be expected to support the implementation of those plans and strategies.
- The CCO will provide technical input to the development of growth strategies, the Future Proof Future Development Strategy, and regulatory planning instruments (district and city plans and plan change processes) with the primary purpose of ensuring that these growth plans meet environmental standards, give effect to Te Ture Whaimana, and are financially viable for water, wastewater, and stormwater servicing.
- The CCO will also provide input to regulatory planning and development processes (including resource consents and private plan changes) as they relate to water, wastewater and stormwater.
- The CCO will work to find solutions for servicing consented developments that are financially viable for both the developer and the CCO.
- It will be possible for other councils to join the CCO on a fair and equitable basis, and/or for the CCO to deliver water services to other councils.
- the following responsibilities will remain with HCC:
    - HCC is responsible for delivering stormwater services but purchases these services from the CCO.
    - HCC funds all expenditure relating to stormwater services from separate targeted rates and stormwater specific charges and development contributions.
    - Transferring vested assets to the CCO insofar as they relate to water or wastewater, and the vesting occurs after the CCO is established. This assumes that Bill 3 does not provide a mechanism which would allow vested assets to be transferred directly to the CCO.
    - There will not be any obligation to service out of district growth and Fast Track areas. The cost, risk and access to water will fall to the relevant jurisdictional authority to address via their water services delivery plan.

Financial outputs:

The aggregate sum of the nine-year financial projection (from 2025-26 to 2033-34) is illustrated below:

HCC Waters CCO (Option B): Headline financials (2025-26 to 2033-34)

NZ$m	CCO	RoC	Total
Rates	1,711	3,487	5,198
Development Contributions	672	185	857
Total Revenue	2,836	5,004	7,839
Operating Costs	1,027	2,658	3,684
Depreciation	478	1,026	1,503
Interest	347	595	942
Cumulative surplus / (deficit)	984	733	1,717
Capital Expenditure	2,410	2,022	4,432
Closing Debt	1,362	1,416	2,778
Peak Debt	1,362	1,416	2,778

Source: HCC financial model

Option C - Joint CCO

It is a compliant, financially sustainable water and wastewater asset-owning entity that provides drinking water and treats and disposes of wastewater (water services) across Hamilton City and Waikato District. The CCO will also provide stormwater services under contract to both HCC and WDC.

Key Characteristics:

Under this option the balance of responsibilities between HCC and the CCO is the same as Option B, with the exceptions being:

- The establishment shareholders of the CCO would be HCC and WDC, with their shareholding determined by reference to the net assets they each contribute to the CCO upon its establishment.
- The CCO will own assets and be responsible for water and wastewater across the jurisdiction of each share-holding Council.
- HCC will only be responsible for stormwater within Hamilton city; and WDC only be responsible for stormwater within Waikato district.
- Each Council will contract the CCO to provide stormwater services including strategy, planning, consenting, project design, delivery, maintenance, engineering, and related services.
- The shareholding councils will provide an underwrite of the CCO's debt in favour of the Local Government Funding Agency (LGFA). Such underwrite will be in proportion to their shareholding in the CCO.
- It will be possible for other councils to join the CCO on a fair and equitable basis, and/or for the CCO to deliver water services to other councils.

The response to servicing out of district growth and Fast Track areas will be more strategic, integrated, and sustainable.

Financial outputs:

The following table illustrates the aggregate sum of the nine-year financial projection (from 2025-26 to 2033-34).

Joint CCO (Option C): Headline financials (2025-26 to 2033-34)

NZ$m	Joint CCO	RoC (WDC)	RoC (HCC)	Total
Rates	2,371	1,388	3,487	7,246
Development Contributions	608	59	185	851
Total Revenue	3,865	2,025	5,004	10,893
Operating Costs	1,552	1,266	2,658	5,475
Depreciation	726	390	1,026	2,142
Interest	472	145	595	1,212
Cumulative surplus / (deficit)	1,115	223	733	2,071
Capital Expenditure	3,253	802	2,022	6,077
Closing Debt	1,828	503	1,416	3,747
Peak Debt	1,828	503	1,416	3,747

Source: Joint CCO financial model

2.4 Options Assessment

This section provides a detailed evaluation of the options and a recommendation regarding the preferred option.

2.5 Evaluation Criteria

Evaluation criteria were developed in close collaboration with both HCC and WDC and were used to compare the options against each other. They include both financial and non-financial criteria. The financial impacts associated with each item have been quantified as best as possible, and all non-financial criteria have taken qualitative considerations into account. Each criterion was weighted by HCC and WDC based on its level of importance to that Council. These weightings were then applied in the assessment of each option.

The evaluation criteria were reviewed and agreed at the workshops conducted on 31 October 2024, and are summarised in the table below:

#	Criterion	Description	WDC Weight	HCC Weight
1	**Te Ture Whaimana**	How well the option: • Gives effect to Te Ture Whaimana • Supports the health of the awa (which includes the health of the people)	12.5%	12.5%
2	**Supports coordinated and boundaryless planning and investment**	How well the option: • Responds to growth, and community needs • Supports Housing & Development including the ability to respond to Fast Track consents • Is capable of providing water services for multiple areas • Allows for coordinated investment planning across boundaries • Aligns water investment decisions to where they are needed to drive economic growth in the region.	12.5%	12.5%
3	**Customer experience**	How well the option: • Provides for coordinated customer planning • Creates an even playing field for customers • Allows for price harmonisation • Delivers consistent levels of service • Puts the customer at the centre	12.5%	12.5%

#	Criterion	Description	WDC Weight	HCC Weight
4	**Financial efficiency**	How well the option: • Improves financial efficiency of delivery of water services through: ✓ Ensuring investment planning aligns with growth and affordability ✓ Creating sufficient funding to meet investment required (Debt headroom) ✓ Generating long term/sustainable savings ✓ Maximising economies of scale • Improves affordability for the ratepayers • Reduces cost (relative to the status quo) option over the long term • Optimises value for money and minimises associated risk • Provides the ability to smooth capital investment over the long term and manage costs to ratepayers	12.5%	12.5%
5	**People and Capability**	How well the option: • Attracts and grows a highly skilled workforce	12.5%	12.5%
6	**Operational effectiveness**	How well the option • Creates a stable and secure operating environment (supports long-term decision-making, is resilient against fluctuations in political cycles, withstands changes in the ability or willingness of partner councils to collaborate, and responds to emergency situations)	12.5%	12.5%
7	**Opportunities of scale**	How well the option: • Matches the ability of potential service providers to deliver • Appeals to service providers • Enables engagement in a coordinated way with third parties • Enables the use and funding of an asset management system	12.5%	12.5%
8	**Regional contribution**	How well the option: • Ensures regionalisation of skills and capability • Enables other local authorities to join and expand the benefits	12.5%	12.5%

2.6 Evaluation Approach

Following a joint scoring workshop with HCC and WDC held on 14 November 2024, each option was assessed and scored against the evaluation criteria. Although the financial projections under each option consider an initial time horizon of 9 years, the non-financial options were scored with a thirty-year time horizon in mind to consider the potential longer-term impacts.

Each option was scored using a scale of 1 to 5. The following definitions were applied to each score:

- **Strongly Enables Criteria + Benefits (Score 5):** The option fully aligns to all aspects of the evaluation criteria and provides additional benefits.
- **Strongly Meets Criteria (Score 4):** The option strongly aligns to the evaluation criteria, with no additional benefits.
- **Moderately Meets Criteria (Score 3):** The option moderately aligns to the evaluation criteria but has some deficiencies.
- **Meets Criteria (Score 2):** The option only somewhat aligns to the evaluation criteria and has substantial limitations.
- **Fails to Meet Criteria (Score 1):** The option fails to align to the evaluation criteria.

2.7 Options Analysis

The scoring results are summarised in the table below. Supporting commentary for the rationale behind the score allocated to each option is provided immediately after.

Evaluation Criteria	Weight	WDC Status Quo	HCC Business Unit	HCC only CCO	Joint CCO
Te Ture Whaimana	12.50%	3	3	3	5
Supports coordinated and boundaryless planning and investment	12.50%	2	2	2	4
Customer experience	12.50%	3	3	4	5
Financial efficiency	12.50%	2	3	4	4
People and Capability	12.50%	3	3	4	4
Operational effectiveness	12.50%	2	2	3	5
Opportunities of scale	12.50%	2	3	3	5
Regional contribution	12.50%	1	1	3	5
Overall Weighted Score	**100%**	**2.3**	**2.5**	**3.3**	**4.6**

The below table captures the rationale and key considerations which influenced the score allocated to each option.

Evaluation Criteria	WDC Status Quo (Option A1)	HCC Business unit (Option A2)	HCC Waters CCO (Option B)	Joint CCO (Option C)
Te Ture Whaimana	**3** • While all options are obligated to uphold Te Ture Whaimana, this option offers comparatively less support than the joint CCO model.	**3** • While all options are obligated to uphold Te Ture Whaimana, this option offers comparatively less support than the joint CCO model.	**3** • While all options are obligated to uphold Te Ture Whaimana, this option offers comparatively less support than the joint CCO model.	**5** • This option not only aligns to Te Ture Whaimana, but also provides some additional benefit. • The broader scope allows for more comprehensive management and coordination across the sub-region, enhancing the ability to give effect to Te Ture Whaimana. • Provides the ability to manage water takes and discharges over a longer stretch of the Waikato River, leading to more effective control and mitigation of environmental impacts.

Evaluation Criteria	WDC Status Quo (Option A1)	HCC Business unit (Option A2)	HCC Waters CCO (Option B)	Joint CCO (Option C)
Supports coordinated and boundaryless planning and investment	**2** • Managing growth is complex and risky, assuming developers must fund headworks across boundaries. This is problematic with multiple developers in fast-track [4] areas and relies on complex funding and delivery agreements with HCC, Auckland, and/or boundary changes. • The investment cycles of neighbouring councils are not synchronised with those of WDC. This misalignment creates challenges in planning and executing joint infrastructure projects, leading to inefficiencies, potential delays, and potentially stranded infrastructure investments.	**2** • There is considerable risk for HCC in responding to growth outside its boundary, which relies on investment within the HCC area. This includes risks associated with securing consents to take additional water and to discharge larger volumes of treated wastewater, the overall level of revenue that may come from growth related charges outside of Hamilton, as well as from the mismatch in timing between the initial capital expenditure and the receipt of growth-related funding.	**2** • An HCC CCO would face the same risks in responding to growth outside of the city as option A2. • An HCC CCO is unlikely to be incentivised to reach agreements that support growth outside its designated area.	**4** • This option aligns better with futureproof settlement pattern. The better the match between the entity's footprint and the growth pattern, the more effective the settlement. • Boundaryless Investment, allowing for greater coordination and integration of resources. • Facilitates expedited growth around the city, including a better ability to respond to demand that will come from Fast Track consents. • Challenges remain at the southern boundary; inclusion of Waipā would strengthen this approach. • Enhances the ability to manage resource allocation across a wider region. • Better aligns waters investment decisions with the scale that is needed to drive economic growth.

[4] The Fast-track approvals bill proposes to establish a permanent fast-track approvals regime for projects of national and regional significance. As released on 6 October 2024, 149 projects are chosen by cabinet to be listed in bill, 6 are either in Hamilton or immediately on its boarder. Fast tracked projects could start much quicker and put greater burden on councils before money can be recouped.

Evaluation Criteria	WDC Status Quo (Option A1)	HCC Business unit (Option A2)	HCC Waters CCO (Option B)	Joint CCO (Option C)
Customer experience	**3** • This option moderately aligns with the evaluation criteria but has some shortcomings, as it risks other considerations being at the centre rather than prioritizing customers.	**3** • This option moderately aligns with the evaluation criteria but has some shortcomings, as it risks other considerations being at the centre rather than prioritizing customers.	**4** • A CCO with a narrower focus than Council will be able to be more focused on its customers and their experience than Councils with a far broader mandate and responsibilities. This option places a greater focus on customers compared to Option A2 but offers less consistent levels of service than a joint-CCO.	**5** • A CCO with a narrower focus than Council will be able to be more focused on its customers and their experience than Councils with a far broader mandate and responsibilities. • This option not only fully aligns with the evaluation criteria but also offers additional benefits by ensuring consistent levels of service across neighbouring councils.
Financial efficiency	**2** • This option has substantial limitations compared to joint CCO option. It is not as effective at improving affordability as the joint CCO option; it provides less debt headroom; and it has higher operating cost.	**3** • This option has lower debt headroom compare with HCC Waters CCO and Joint CCO. • This option would likely require trade-offs between necessary capital investments or greater increases in revenue.	**4** • This option provides higher debt head room compared with the HCC Business Unit to smooth costs over time, but less debt headroom compared to the Joint CCO. • Since it provides higher debt headroom, it aligns better with the asset's lifespan, ensuring that financing is structured appropriately over time.	**4** • This option strongly aligns with this evaluation criteria however does not provide additional benefits. • This option provides the highest debt headroom compared with other options. As a result, this increased capacity allows for greater financial flexibility, enabling more effective smoothing of costs over time and a stronger ability to respond to unforeseen financial challenges or changing circumstances. • It optimises managing and allocating capital expenditure to align with changing demands driven by population growth, economic development, or other growth factors.

Evaluation Criteria	WDC Status Quo (Option A1)	HCC Business unit (Option A2)	HCC Waters CCO (Option B)	Joint CCO (Option C)
People and Capability	**3** • This option moderately aligns with the evaluation criteria but has some shortcomings. • There is a risk of instability as key personnel may move between suppliers, affecting continuity and expertise. • After the end of the Watercare arrangement, this option will face competition with HCC Business Unit (BU) or HCC CCO and others for local resources, potentially leading to resource shortages and inefficiencies.	**3** • This option moderately aligns with the evaluation criteria but has some shortcomings. • It is less attractive compared to CCO options primarily because of its smaller operational scale, which limits opportunities for staff upskilling and development. • This option will compete with WDC and others for similar resources, creating potential challenges in securing the necessary expertise and infrastructure.	**4** • This option offers a more compelling opportunity for potential Chief Executives compared to the Enhanced Status Quo option, as it comes with more responsibilities, broader oversight, and the chance to lead significant advancements in water service delivery with more autonomy, making the position more attractive to high-skill candidates. • A waters focused Board allows for more streamlined decision-making processes and a greater focus on achieving strategic goals without the hindrance of political agendas. • Although this option presents many advantages, it will still face competition for similar resources with WDC and others.	**4** • This option is more appealing as it offers some greater opportunities for training and upskilling employees. • The increased size of the entity allows for better resource allocation and operational efficiencies. • With a larger framework, there is a greater ability to share expertise and employ specialists across the region. This ensures that high-quality knowledge and skills are accessible where they are most needed. • This structure provides some more opportunities for employee mobility, allowing for career growth and flexibility across different roles and locations. • This option eliminates the competition between HCC and Waikato for personnel but there will continue to be competition from others. A larger CCO would be required to fully realise the potential benefits relating to people and capability.

Evaluation Criteria	WDC Status Quo (Option A1)	HCC Business unit (Option A2)	HCC Waters CCO (Option B)	Joint CCO (Option C)
Operational effectiveness	**2** • This option offers benefits of access to Watercare resources until 2028. Operational effectiveness will then depend on the ability of the Council to enter into a suitable, affordable and sustainable contract to replace Watercare. This brings risks. • This option offers no increase in resilience or in the ability to respond to emergencies. • This option provides contract-based alignment between waters and other Council activity – but this will be more complex than the status quo because of the new separation requirements and economic regulation and risks associated with replacing Watercare.	**2** • This option offers internal alignment between waters and other Council activity – but this will be more complex than the status quo because of the new separation requirements and economic regulation. • This option offers no increase in resilience or in the ability to respond to emergencies.	**3** • An HCC-only CCO has limited concern for political issues compared to Option A2, although a single shareholder will have greater influence over direction . • Conversely, it can be somewhat challenging to replace board members. While this provides a level of protection against frequent changes in leadership, ensuring continuity and stability in the organisation's strategic direction it can also mean that significant issues or underperformance might not be addressed swiftly. • This option offers no increase in resilience or in the ability to respond to emergencies.	**5** • This Option provides some additional benefits. • Due to its increased scale, it offers greater operational resilience and greater flexibility in responding to emergencies. By pooling resources and expertise, and standardising operating systems and protocols the joint entity will be able to operate more effectively and react more swiftly and effectively to crises. • It operates with a degree of separation from the political dynamics of individual councils. This insulation helps the organisation maintain stability and focus on its mandate, even when there are political changes. • Conversely, it can be somewhat challenging to replace board members. While this provides a level of protection against frequent changes in leadership, ensuring continuity and stability in the organisation's strategic direction it can also mean that significant issues or underperformance might not be addressed swiftly.

Opportunities of scale	**2** • The option will benefit from the existing partnership with Watercare until 2028, leveraging their expertise, resources, and established systems to enhance water service delivery. However, after this period, the organisation may struggle to maintain its competitive edge.	**3** • While HCC is the largest local authority in the Waikato this option offers no change to the scale of the operation.	**3** • This option offers no change to the scale of the HCC waters operation.	**5** • By facilitating enhanced project bundling, this option creates greater opportunities to group multiple projects into larger, cohesive programs. This approach enables better planning, optimised resource allocation, and a more strategic approach to procurement. • The Joint CCO leverages greater purchasing power, enabling potential cost efficiencies. This purchasing strength allows the entity to negotiate better contracts, secure favourable pricing, and access discounts that individual councils may not achieve independently. • The ability to identify synergies in network infrastructure enables the Joint CCO to combine resources and optimise service delivery. By integrating infrastructure planning, the entity can realize cost savings and improve operational efficiencies. • This option improves responses to non-customer third parties, regulatory authorities, and suppliers by aligning with regional economic objectives. • Coordinated engagement with third parties, including developers, becomes more efficient under a Joint CCO. This centralised coordination ensures that developments are well-integrated with water infrastructure plans and reduces duplication of efforts. • Efficiencies in asset management systems are achieved by consolidating operations under this option. A Joint CCO can implement advanced, standardized systems that enhance the efficiency and performance of infrastructure assets.

Evaluation Criteria	WDC Status Quo (Option A1)	HCC Business unit (Option A2)	HCC Waters CCO (Option B)	Joint CCO (Option C)
				• Managing resource consents is streamlined through centralisation, enabling the Joint CCO to consolidate expertise, coordinate applications, and ensure compliance with regulatory requirements. This minimizes delays and fosters consistent decision-making across the region
Regional contribution	**1** • Other local authorities are unable to join an existing Business Unit (BU) to expand benefits, although some shared services arrangements could be developed.	**1** • Other local authorities are unable to join an existing Business Unit (BU) to expand benefits, although some shared services arrangements could be developed.	**3** • While other parties can join an HCC CCO, over time the organisation may become increasingly focused on its existing commitments, making it more challenging for new members to integrate.	**5** • The model allows for other CCOs to join, facilitating the development of a joint-CCO. This approach promotes greater collaboration among multiple parties and helps resolve challenges more effectively.

2.8 Preferred Option

Following robust discussion and consideration of the evaluation criteria, option C (Joint CCO) has been assessed as the highest scoring option with a weighted score of 4.6. This indicates that that the Joint CCO not only meets all the evaluation criteria but also offers additional benefits in some areas. As such it is the preferred option of both councils.

Some of the key benefits identified during the evaluation process include:

- Strengthens the ability to give effect to Te Ture Whaimana by improving sub-regional coordination and enhancing the management of water takes and discharges along the Waikato River.
- Aligns better with futureproof settlement pattern; Allows greater coordination and integration of resources through boundaryless investment, facilitates expedited growth around the city; and improves resource allocation.
- Prioritise customer experience more effectively than each council.
- In the long term, this option improves affordability for ratepayers. It offers the highest debt headroom, providing greater financial flexibility to smooth costs over time and respond to unexpected challenges. It also optimises capital expenditure to meet the growing demands of population and economic development.
- Enhances training and upskilling opportunities, improves resource allocation and operational efficiency, enables expertise sharing and specialist employment across the region, supports employee mobility and career growth, and reduces competition between HCC and Waikato for personnel.
- Enhances operational resilience, emergency response flexibility, and effectiveness through resource pooling and standardized protocols. In addition, operating independently of council politics ensures stability and focus on its mandate.
- Enables strategic planning, optimised resource allocation, cost efficiencies, streamlined procurement, and integrated infrastructure planning by enhancing project bundling.
- Identifies synergies, reduces duplication, and improves operational and asset management systems.
- Improves responses to non-customer third parties, regulatory authorities, and suppliers by aligning with regional economic objectives.
- Promotes greater collaboration among multiple parties and helps resolve challenges more effectively.

4 Financial Analysis

3 Financial Analysis

3.1 Introduction

The purpose of this section is to compare the range of financial benefits, the level, nature, and timing of costs involved under each of the options considered, and to assess the impact on the respective council's financial statements.

3.2 Overview

Both HCC and WDC operate a waters business which essentially comprises delivery of water, wastewater, and stormwater services. By their nature, each of these three components are supported by a large capital asset base including water reservoirs, water pipes and water treatment plants. These typically have long lives which can extend beyond 100 years. Given the size of these assets, careful planning and timing of major capital expenditure can have a significant influence on the effective operations of these types of businesses.

3.3 Methodology

Financial analysis has been undertaken for each of the options, namely:

HCC:

- Standalone Waters Business Unit (corresponding to "Option A2" described earlier)
- HCC owned CCO (being a Standalone Business Unit from 1 July 2025, and transitioning to the CCO from 1 July 2026) (corresponding to "Option B" described earlier)

WDC:

- Standalone Waters Business Unit (Status Quo) (corresponding to "Option A1")

WDC and HCC:

CCO that is jointly owned by HCC and WDC (corresponding to "Option C" described earlier). The Joint CCO will only be operational from 1 July 2026. Up to that point, each Council would be operating its waters business independently of each other, via any of the earlier listed options.

The Financial analysis compares headline figures and other key metrics across the above options. Financial forecasts for the Business Unit options were developed for the water activities for each of the councils using the current draft LTP amendment budget numbers (HCC), and draft LTP numbers (WDC) for the remaining nine years of the 2024-34 LTP period. It is worth noting that both sets of these numbers are subject to public consultation processes to be undertaken by both Councils.

These forecasts were combined in a financial model developed by the HCC finance team.

Where logical to do so, assumptions have been aligned between the two Councils, particularly with respect to growth, inflation, and revaluation cycles.

Unless otherwise stated, all figures are shown on a nominal basis (i.e., include inflation).

Note: The analysis uses the term 'rates' to describe the charges that the CCO would levy to its customers. While technically these charges would not be rates, it was necessary to adopt this term for ease of comparison with any options that involved councils themselves continuing to operate their waters businesses and earn rates revenues in return.

3.4 Limitations

There are a number of limitations to note in relation to the forecasts themselves and the methodology applied.

- **Forecast Financials:** As WDC elected to develop an enhanced 2024/25 Annual Plan as opposed to a full 10-year LTP, the base numbers that have been used in the financial modelling for this business case represent initial draft estimates by WDC staff and have not been refined and tested through Council or public consultation processes, nor have they been subject to Audit. The implication is that the forecasts should be treated as directional only. HCC's forecasts, however, are based on the adopted 2024-34 LTP and overlaid with a number of specific adjustments (discussed subsequently). While these proposed changes have not been subjected to Council processes, public consultation, or audit, the base financials represent a relatively more robust starting point than the WDC forecasts.
- **Forecast length:** Only nine years of projected financial information (through to 2033-34) have been included in the forecasts and subject to analysis in the business case. Given the long lifespan of infrastructure assets (often 20 to 50+ years), nine years is not adequate to capture the economic lifecycle of these assets. Factors such as maintenance costs, capital expenditure lifecycles, and economic uncertainties extend well beyond the nine-year forecast period. For a comprehensive analysis, extending projections to at least 30 years would be required. This should include detailed capital expenditure plans, lifecycle costing, and scenario analysis to better align with the asset lifespans and capture potential risks and sustainability over the long term. There are also potential risks such as debt headroom or affordability issues arising in years 10-30 that would not be considered.

- **Price Path / Revenue Analysis** – Detailed customer price path or harmonisation analysis has not been undertaken. The implication of this is that the financial analysis is presented at a high level only, and as such, any results should be treated as directional only and not representative of how individual customers may or may not be affected. In the case of the Joint CCO option, WDC and HCC have agreed that price harmonisation will not be undertaken between WDC and HCC customers until at least five years of operating under the LWDW framework.
- **No Detailed Model Testing** – Other than high level analytical review and several question and answer sessions with the WDC and HCC finance teams, no detailed testing of the underlying financial model to review mechanical accuracy and logic has been performed. That said, the purpose of the financial model and financial analysis is to compare the options against each other in order to inform each Council's decision on the preferred option. It is envisaged that more detailed modelling will be required to optimise the preferred option once it is decided upon, and as part of this next phase, model testing will be undertaken. As such there may also be minor discrepancies in the figures, including for example, differences due to rounding.
- **Limited granularity** – The financial models have been developed at an aggregate level and do not have the granularity to distinguish between different types of ratepayers. For example, it is not possible to view the total rates revenue by residential, commercial, etc.
- **No scenario analysis** – Aside from modelling the base case for each option, further scenario modelling within each of those options was not completed. The models in their current form are not dynamic enough to accommodate scenario modelling. The models were however considered sufficient for the purpose of this business case, insofar as they enable a comparison of the base cases of each option against each other. Additional work will need to be done to optimise the assumptions related to the preferred option, once a decision is made in this regard.

3.5 Financial Analysis of Option A2: HCC Business Unit

In arriving at the LTP amendment budget numbers (which inform the HCC BU option), HCC has taken the adopted 2024-34 LTP budget and reflected the inclusion of estimated water regulation costs and additional waters capital expenditure that was not funded in the adopted LTP. Staff have quantified this as an additional $328 million (around 16.3 percent) of capital expenditure, plus consequential operating expenditure.

Three big projects make up 50 percent of this investment:

- Universal water meters (to enable Hamilton to move to volumetric charging);
- Stage 1 of the Southern Wastewater Treatment Plan; and
- Watermain upsizing.

In addition to the above capital expenditure, the forecasts also include the additional investment required to progress the servicing of urban development within the Fast Track Consent areas within Hamilton City and adjacent to Hamilton but within Waikato District. This additional investment advances the construction of the Southern Wastewater Treatment Plant and the diversion of wastewater from Ngaaruawaahia to Pukete. This is a critical change to the LTP.

The level of development contributions or revenue from connection fees that would be required to be charged in Waikato District in order to fund the growth-related components of the Southern Wastewater treatment plant and other infrastructure that would otherwise not be required by Hamilton are also included, resulting in no incremental net cost for HCC.

Rates modelling for 2025/26 is based on current LTP year 2 budgets including the proposed 15.5% rates increase.

In separating Three Waters from the Rest of Council, a number of assumptions have been made, including:

- **Rates:** As HCC currently collects a single General Rate that covers all council activities, a process has been undertaken by HCC staff to allocate the General Rate to individual activities. The allocation has been assessed on percentage of net surplus (or deficit) for each activity excluding Development Contributions, Capital Revenue, and Vested Assets. Any remaining surpluses or deficits of rates were allocated based on percentage of Net Debt for each activity. The General Rate allocated to Waters from 2025/26 onwards forms the basis of Targeted Water Rates.
- **Overheads:** Overheads in the LTP were allocated based on the percentage of total expenditure across the Council's cost centres. For the purpose of the financial analysis however, and to ensure that HCC charges the Business Unit appropriately, the basis for allocation of costs was refined, by looking at actual costs and cost drivers to create a more precise way of charging.
- **Debt:** Allocation has been made based on debt allocations for the LTP (informed by historical analysis) with updated opening balances. Cash, financial assets, and derivatives have been allocated using the same allocation basis as debt.
- **Working Capital:** Total balances (including debtors, creditors, and employee entitlements have been allocated between Waters and the Rest of Council based on historical analysis of the make-up of actual year end balances over the past 5 financial years. We note that these profiles have also been applied to forecasted financials, with no modelling of different collection profiles of water charges.

HCC Business Unit (Option A2): Headline financials (2025-26 to 2033-34)

NZ$m	Business Unit	RoC	Total
Rates	2,072	3,126	5,198
Development Contributions	714	142	857
Total Revenue	3,186	4,541	7,727
Operating Costs	963	2,545	3,508
Depreciation	616	888	1,503
Interest	440	509	949
Cumulative surplus / (deficit)	1,168	607	1,775
Capital Expenditure	2,766	1,667	4,432
Closing Debt	1,481	1,240	2,720
Peak Debt	1,481	1,240	2,720

Source: HCC financial model

HCC Business Unit (Option A2): Headline financials (Mix analysis) (2025-26 to 2033-34)

Mix (%)	Business Unit	RoC	Total
Rates	40%	60%	100%
Development Contributions	83%	17%	100%
Total Revenue	41%	59%	100%
Operating Costs	27%	73%	100%
Depreciation	41%	59%	100%
Interest	46%	54%	100%
Cumulative surplus / (deficit)	66%	34%	100%
Capital Expenditure	62%	38%	100%
Closing Debt	54%	46%	100%
Peak Debt	54%	46%	100%

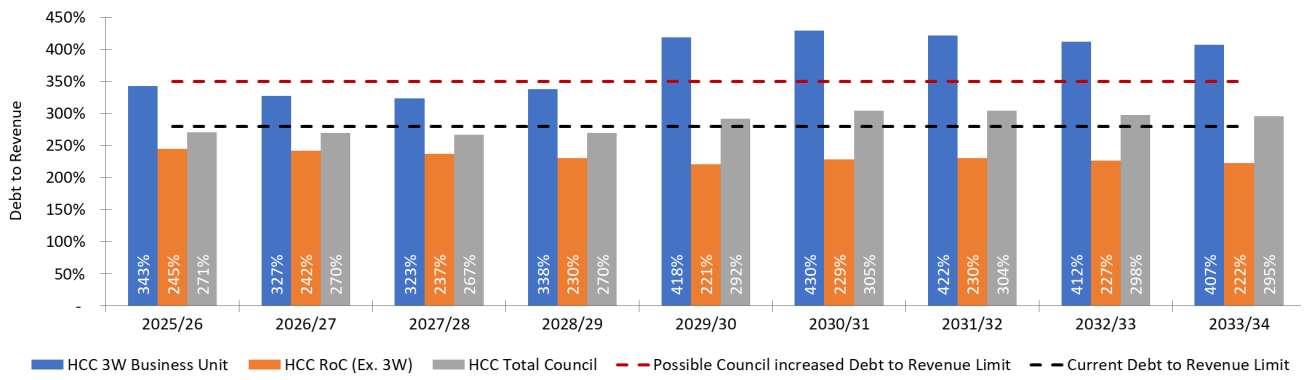
Source: HCC financial model

Commentary

The table to the left presents a summary of the aggregate sum of the nine-year financial projections of the 3W Business Unit alongside the Rest of Council (i.e., Council excluding 3W). Key observations are as follows:

- The 3W Business Unit (BU) requires significantly more capex than the activities undertaken by the Rest of Council (RoC). Total capex for the 3W business Unit makes up 62% of Total capex over the period. This indicates that the majority of required investment over the next nine years is waters related.
- Despite the relatively higher capex spend in the 3W Business Unit, depreciation in the BU makes up a much lower (41%) proportion of total Council depreciation. This reflects HCC's planned investment being focused on growth (i.e., over and above routine replacement of existing assets), as well as the expected higher costs of meeting regulatory compliance.

HCC Business Unit (Option A2): Debt to Revenue

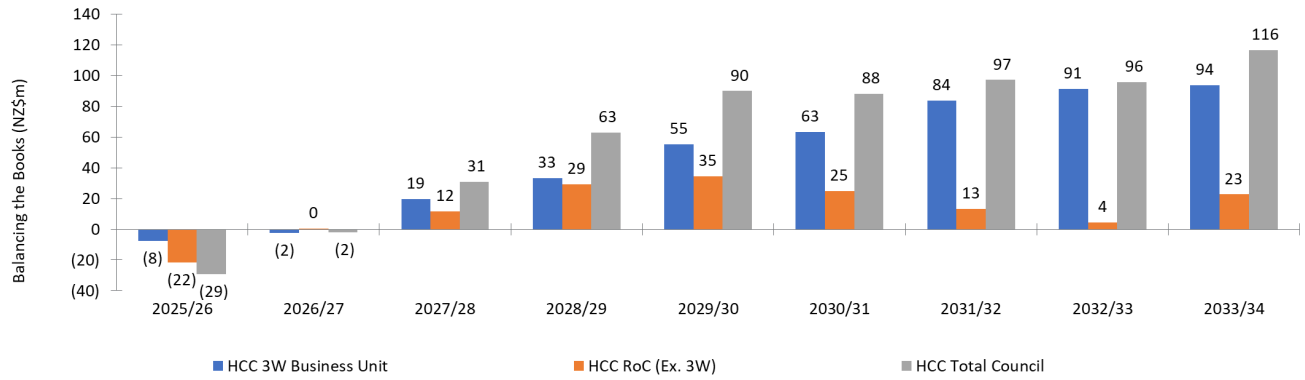


Source: HCC financial model

Debt to Revenue

- HCC's current financial strategy sets a Debt to Revenue (DTR) limit of 280%, enduring for the duration of the current LTP. The LGFA will allow an increase in DTR for high growth councils (like HCC) to 350%.
- The chart shows the implied DTR of HCC under a 3W Business Unit scenario, separated into the 3W Business Unit, RoC, and Council as a whole (i.e. including the BU).
- Council as a whole would not be able to operate within the current 280% debt cap beyond 2028-29. It will however be able to operate within an increased 350% debt cap for all years (although this would require a change in the current adopted financial strategy).
- 3W is the primary driver of increasing the DTR of Council as a whole. The 3W Business Unit would breach the 280% limit every year, and also the 350% limit beyond 2028-29, while RoC, would not breach the 280% limit in any of the years covered by the projections. This shows that under the 3W Business Unit option, Waters is the main beneficiary of the debt available to Council, since without Waters, RoC is expected to comfortably operate within the current 280% debt cap.

HCC Business Unit (Option A2): Balancing the Books

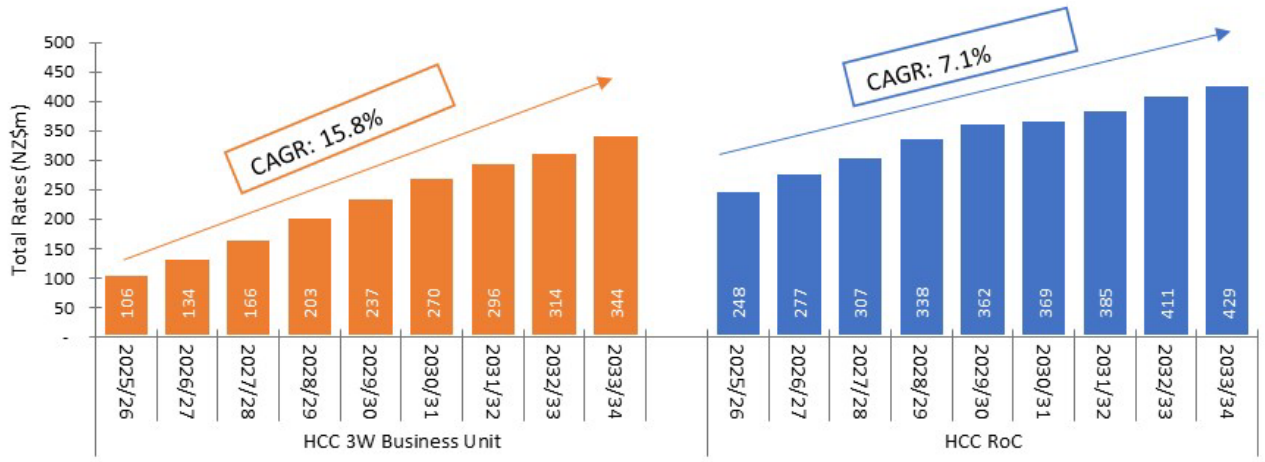


Source: HCC financial model

Balancing the Books

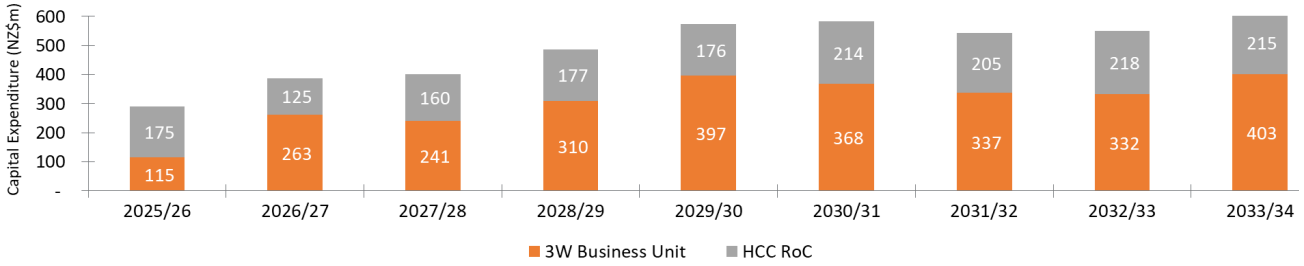
- HCC uses the Balancing the Books measure to determine whether everyday costs are being paid from everyday revenues. This measure differs from and is more conservative than the Balanced Budget Benchmark (defined by the Local Government Financial Reporting and Prudence Regulations). HCC excludes items like: Capital revenue (except for NZTA renewals subsidy); Gains/Losses on Plant, Property and Equipment; and Gains/Losses on Investment Property. HCC chooses to exclude these items as they are not considered everyday revenues or costs.
- Operating surpluses are important as it indicates that the BU is able to operate in a financially sustainable way. These surpluses create more resilience from a financial point of view and also allows principal debt to be repaid.
- As shown in the chart, other than deficits in the 2025-26 and 2026-27 years, the 3W Business Unit enables a balanced or surplus budget from 2027-28 onwards. HCC RoC shows a neutral Balancing the Books position in 2026-27, and is positive thereafter.

HCC Business Unit (Option A2): Rates profile



Source: HCC financial model and Deloitte analysis

HCC Business Unit (Option A2): Capital expenditure



Source: HCC financial model

Rates Profile

- From 2025-26, HCC will collect targeted rates for Wastewater, Water Supply, and Stormwater. The top chart separates the aggregation of these three new targeted rates and compares them to the RoC's rates. The 'Total Rates' figure includes large water consumers who are metered.
- Under the forecasting assumptions, Three Waters targeted rates make up 30% of total rates collected in 2025-26. By 2033-34, this increases to 45%.
- This increase represents a compound annual growth rate (CAGR) of 15.8 compared to 7.1% for RoC, and is reflective of the proportionately higher funding requirement for Waters infrastructure over the period.

Capital Expenditure

- RoC capital expenditure is forecast to be broadly consistent over the forecast period (between $125m $218m annually, averaging $185m). Waters, in contrast, makes up a larger proportion of projected total capital expenditure (59% of total Council), and is overall more 'lumpy' in nature, ranging between $115m and $403m in 2033-34 (averaging $307m).
- Notable items driving the relatively higher capital spend between 2028-29 and 2030-31 are:
  - Timing of works on the Eastern and Western Interceptors from 2026-27 to 2031-32 ($97m uninflated);
  - Ruakura Water Supply 21ML Reservoir from 2027-28 to 2030-31 ($88m uninflated);
  - Watermain upsizing from 2028-29 onwards ($60m uninflated); and
  - Roll out of Universal Water Meters from 2025-26 through to 2031-32 ($55m uninflated) .
  - Southern Wastewater Treatment Plant and the wastewater diversion to Pukete are modelled to occur in the end years of the modelled capital programme, contributing to the spike in 2033-34.

3.6 Financial Analysis of Option B: HCC owned CCO

The HCC CCO option utilises the same base inputs as the HCC Business Unit, overlaid with the following additional adjustments and assumptions:

- **Transfer to CCO:** Water and Wastewater net assets are transferred to the CCO on 1 July 2026 along with all associated revenues and operating costs. Stormwater assets, stormwater rate collection, related interest, and related depreciation will remain with HCC, with the CCO providing stormwater services (all operations, maintenance, planning and delivery) to Council at cost, i.e., the payments for Stormwater Services to the CCO will match the CCO's costs of delivering these services, and on the basis that no risk is transferred from the HCC to the CCO. For the purpose of modelling, any staff transferred to the CCO are assumed to be transferred on their existing employment terms..
- **Shared Services:** Council will provide shared services in order to support the CCO's operations on an ongoing basis. Shared services will be provided under a contract for service, and will include support in relation to a number of support functions, including finance, billing, HR, and IT. Services will be provided at cost to the CCO but with no transfer of risk to the Council. The cost of these shared services are assumed to be equal to the overhead costs included in the overhead allocations included within the base numbers.
- **Establishment costs:** Establishment costs are based on a minimum viable product principle. One-off establishment costs which are specific to the CCO (i.e., costs in addition to shared services and systems noted elsewhere), are assumed to total $3.8m, and comprise various items like Board and CEO recruitment costs, changemanagement costs, communications and engagement charges, legal fees and due diligence costs. A contingency amounting to 50% of the estimated establishment costs has also been included.
- **Ongoing Extra Operating Costs:** A new asset owning waters CCO would require its own Audit, CEO, and governance structures including a Board of Professional Directors. Additionally, extra cost has been allowed for increased CCO communications, an identity campaign, and increased iwi engagement.
- **Systems:** Primarily additional expenditure required to set up (one-off) and operate (ongoing) separate IT environments within HCC's systems.
- **Interest:** It is expected that the CCO will have a credit rating one notch lower than HCC. As such, interest costs in the CCO have been modelled at an interest rate 5 basis points higher than HCC to reflect the increased risk premium. It is also assumed that HCC's interest rate swap arrangements will be novated to the CCO (in proportion to debt) on the same terms as currently available to HCC.
- **Capital Programme:** Assumptions related to capital expenditure are the same as those applied to the HCC BU option.

HCC Owned CCO (Option B): Headline financials (2025-26 to 2033-34)

NZ$m	CCO	RoC	Total
Rates	1,711	3,487	5,198
Development Contributions	672	185	857
Total Revenue	2,836	5,004	7,839
Operating Costs	1,027	2,658	3,684
Depreciation	478	1,026	1,503
Interest	347	595	942
Cumulative surplus / (deficit)	984	733	1,717
Capital Expenditure	2,410	2,022	4,432
Closing Debt	1,362	1,416	2,778
Peak Debt	1,362	1,416	2,778

Source: HCC financial model

HCC Owned CCO (Option B): Headline financials (Mix analysis) (2025-26 to 2033-34)

Mix (%)	CCO	RoC	Total
Rates	32.9%	67.1%	100%
Development Contributions	78.4%	21.6%	100%
Total Revenue	36.2%	63.8%	100%
Operating Costs	27.9%	72.1%	100%
Depreciation	31.8%	68.2%	100%
Interest	36.8%	63.2%	100%
Cumulative surplus / (deficit)	57.3%	42.7%	100%
Capital Expenditure	54.4%	45.6%	100%
Closing Debt	49.0%	51.0%	100%
Peak Debt	49.0%	51.0%	100%

Source: HCC financial model

Commentary

The table to the left presents a summary of the aggregate sum of the financial projections of the 2W CCO option, alongside RoC, based on the previously discussed allocation. To allow a consistent comparison between all options, the CCO column is comprised of one year (2025/26) of a 3W BU followed by 8 years of HCC 2W CCO.

- Total rates revenue of the 2W CCO amounts to $1.7b.
- Operating costs are just over $1.0b, with the cumulative surplus reaching just under $1.0b.
- Even with Stormwater excluded from the CCO (and included in RoC), Capex is still greater than RoC, highlighting the demand for infrastructure investment in water and wastewater.

HCC Business unit (Option A2) vs. HCC Owned CCO (Option B): Headline financials (2025-26 to 2033-34)

NZ$m	Total HCC + BU	Total HCC + CCO	Variance
Rates	5,198	5,198	-
Development Contributions	857	857	-
Total Revenue	7,727	7,839	113
Operating Costs	3,508	3,684	177
Depreciation	1,503	1,503	-
Interest	949	942	(6)
Cumulative surplus / (deficit)	1,775	1,717	(58)
Capital Expenditure	4,432	4,432	-
Closing Debt	2,720	2,778	58
Peak Debt	2,720	2,778	58

Source: Deloitte analysis

HCC Business unit (Option A2) vs. HCC Owned CCO (Option B): Additional CCO operating cost (2025-26 to 2033-34)

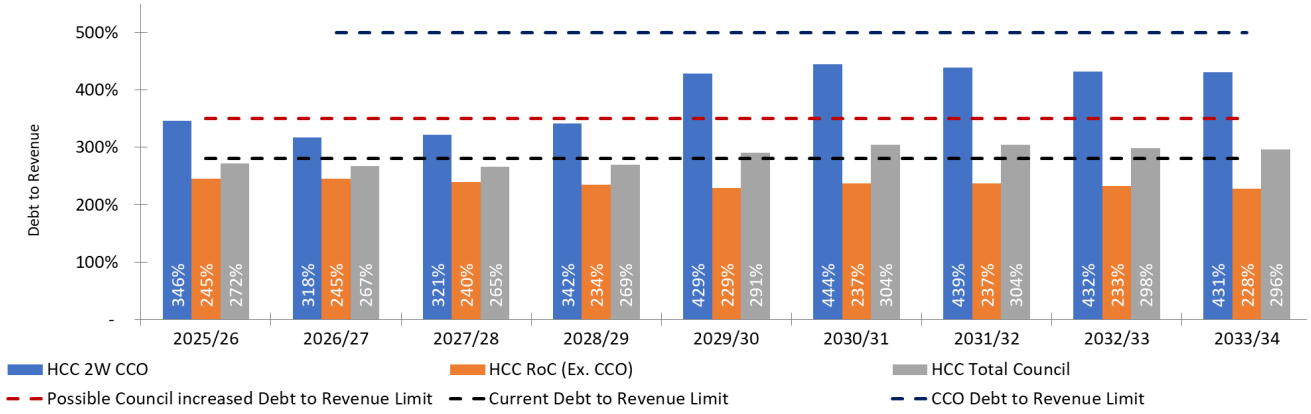
	Total
Variance	177
Less Stormwater On Charge	(113)
Variance After Elimination	64
Made up of:	
Establishment Costs	4
Ongoing Costs	
Audit	3
Board Costs	16
Systems	41
Total Ongoing Costs	60
Total Additional Costs	64

Source: Deloitte analysis

Comparison of HCC Owned CCO against HCC BU

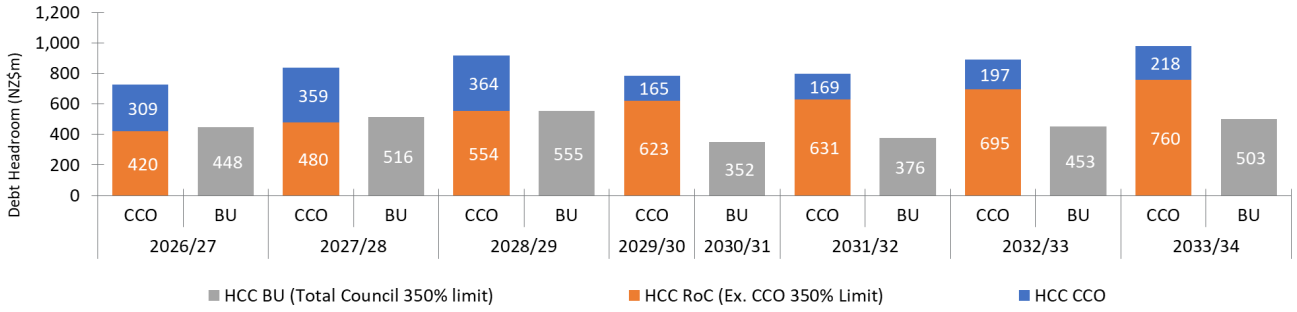
- The table on the left compares the HCC BU option against the HCC CCO option. To compare the options on a like-for-like basis, it was necessary to roll up the headline figures to create an 'all of Council' view.
- For the HCC BU option, the figures for the BU were added to the RoC. Likewise for the HCC CCO option, the CCO figures were added to the RoC. The respective totals were then compared to each other.
- As both options utilise the same base revenue and capital expenditure assumptions, the key financial differences between the two options are limited to:
  - Additional Revenue of $113m in the CCO scenario, representing the revenue earned by the CCO from 2026-27 onwards, for delivering Stormwater services under contract to HCC. This revenue is matched by the same amount of costs within the Operating Costs line.
  - The balance of the difference in Operating Costs in the CCO is attributable to one-off establishment costs as well as the ongoing extra operating costs mentioned earlier. These are essentially the costs required to operate the CCO on a standalone basis, and include audit, board costs, and systems. The breakdown of these costs is shown in the bottom table.
  - Additional debt accruing from the additional expenditure described above.

HCC Owned CCO (Option B): Debt to revenue



Source: HCC financial model

HCC Owned CCO (Option B): Debt headroom



Source: HCC financial model

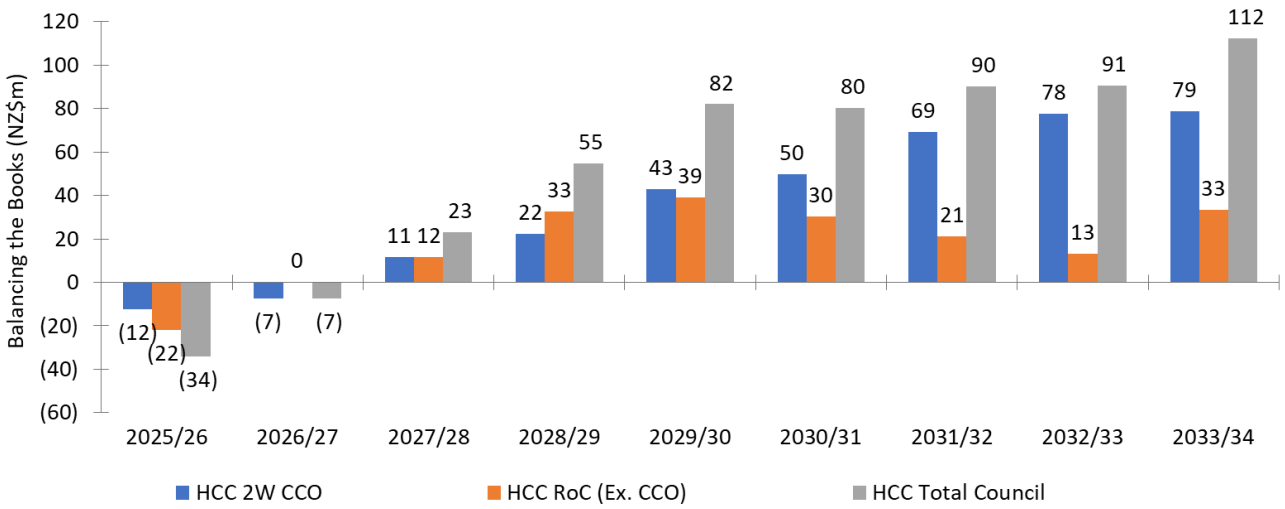
Debt to Revenue

- LWDW legislation allows for a Water CCO to access additional borrowing capacity to fund required waters infrastructure, up to a limit of 500%. The top chart shows the implied DTR ratio of HCC under a 2W CCO scenario, separated into the 2W CCO, RoC (excluding 2W), and an aggregated 'total' Council view.
- Under this scenario, the CCO is able to operate within the proposed 500% debt for every year modelled. As RoC is relieved of the capital investment burden associated with 2W, it can also operate within its current 280% debt cap in each year without requiring the utilisation of the higher 350% debt cap that would be available.
- In calculating DTR for the CCO, operating revenues include the revenue which the CCO will receive from HCC to deliver its Stormwater activities on their behalf (on a cost recovery basis). Should the counting of this revenue not be permitted by LGFA in assessing DTR, the effect would be that the CCO DTR would peak at 472% in 2030-31 compared to the current peak of 444% in the same year. The CCO would still operate under the 500% cap in each year, but the headroom would be significantly less. As such, the assumption that the SW service revenue received by the CCO would be factored into the DTR debt cap is a key assumption that will need to be tested and clarified with the LGFA.

Debt headroom

- Assuming Council moves to a 350% debt cap under the BU scenario and the CCO scenario utilises both the 350% limit for residual council and 500% limit for the Waters CCO., the chart to the bottom left of this page illustrates that under the CCO scenario, the collective debt headroom available to Council, on an aggregated basis when considered together with the CCO, is $978m in 2033-34. This is significantly more than the $503m of headroom forecast under the BU option.

HCC Owned CCO (Option B): Balancing the books

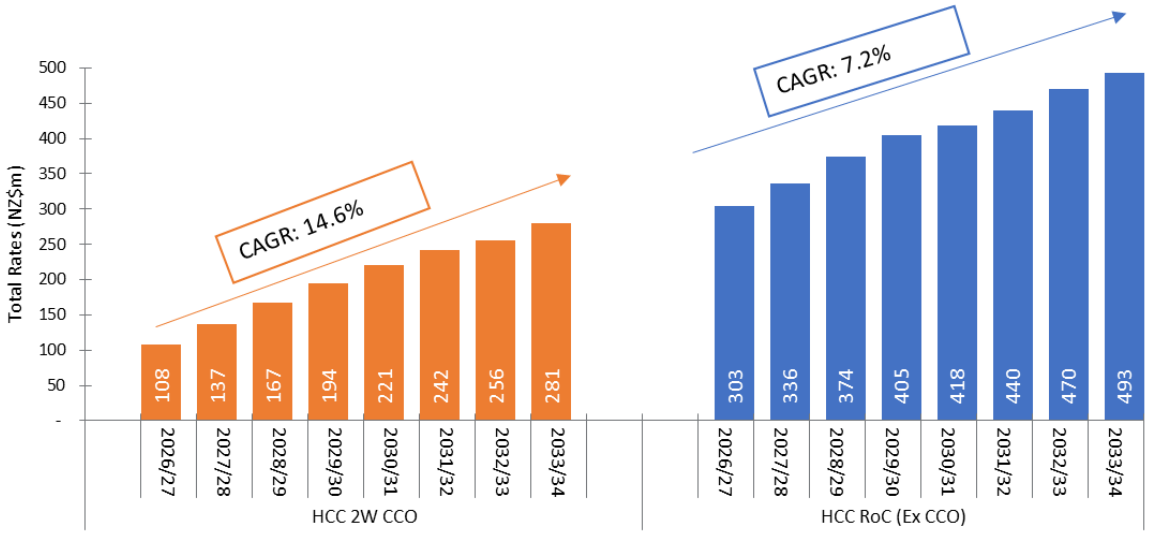


Source: HCC financial model

Balancing the Books

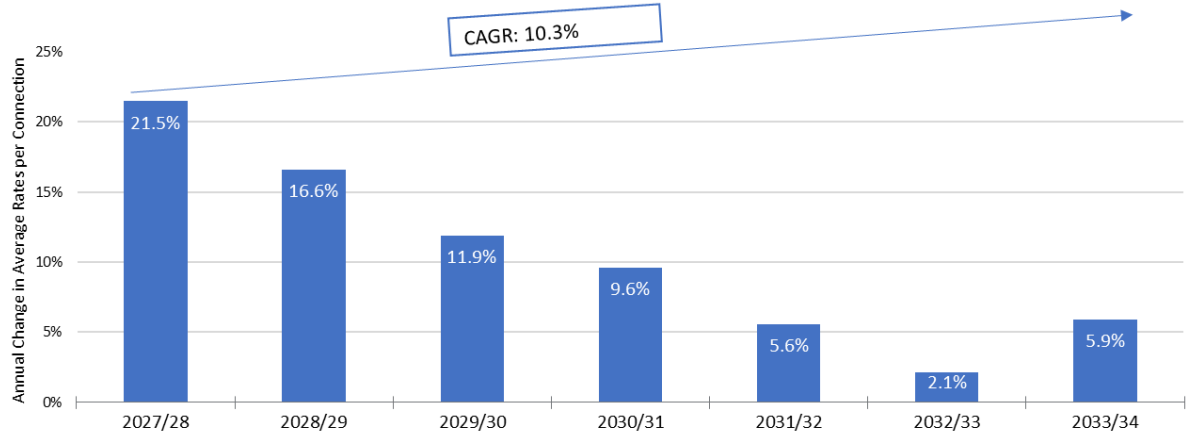
- Applying the same HCC balancing the books metric to the CCO as HCC currently utilises, other than deficits in the 2025-26 and 2026-27 years, the CCO enables a balanced or surplus budget from 2027-28 onwards for both the CCO, and Council as a whole, meeting the HCC revenue sufficiency target.

HCC Owned CCO (Option B): Rates profile



Source: HCC financial model and Deloitte analysis

HCC Owned CCO (Option B): Annual change in average rates per connection



Source: HCC financial model

Rates Profile

- Under the HCC CCO scenario, from 2026-27 onwards, the CCO will be responsible for collecting water supply and wastewater related revenues from customers (for non-metered customers initially on a capital value basis, and eventually transitioning to volumetric charges). The top chart compares the projected rates profile of the CCO as a standalone entity (2W), compared to RoC. Note this includes revenue from bulk users who are metered.

- Under the forecasting assumptions, rates collected by the CCO in its first year of operation (2026-27) make up 26% of total rates collected (by Council and the CCO). This increases to 69% by 2033-34 and implies a 14.6% CAGR; markedly higher than the RoC rates CAGR of 7.2%. The marginally higher growth rate of RoC rates in the CCO scenario (7.2%) compared to the BU scenario presented earlier (7.1%) reflects Stormwater targeted rates being collected by Council (as opposed to the CCO), under the HCC CCO option.

Annual Change in Average Rates per Connection

- Notwithstanding the limitation in regard to a lack of detailed price path modelling, the bottom chart provides a high-level indicative view of the annual change in rates revenue per connection, expressed as a percentage. For the purpose of this chart, inflation assumptions have been removed to present the annual percentage change in today's terms (i.e., real terms). The analysis informing the chart does not make any distinction between connections that may relate to high volume (i.e., industrial) water users. It is also worth noting that the number of connections is likely to change with the introduction of water meters. As such the analysis should be viewed as indicative only.

- That said, this analysis shows that (in real terms), the annual growth in rates on a per connection basis is expected to be more significant in the earlier years, before tapering off in the latter part of the forecast. The CAGR measured over the period amounts to 10.3%.

3.7 Financial Analysis of Option A1: WDC Status Quo

WDC is operating under an enhanced annual plan for 2024-25 and did not adopt a 2024-34 LTP. As a result, in arriving at the budget numbers (which inform the WDC Counterfactual, being "Option A1"), WDC staff have constructed forecasted financials through to 2033-34 using a number of overarching assumptions, including:

- WDC will continue to operate under the waters management contract it has with Watercare until June 2028, after which Council will need to have an alternative service provider in place. At the end of the Watercare contract, a number of costs (which are to be fully funded by rates) have been assumed in transitioning from Watercare to a new provider. These costs are incurred from 2027-28 onwards and total $13m over the remaining period; covering additional contractor margin ($8.7m), establishment costs ($2.0m), procurement costs ($0.3m), Information Management (IM) opex migration ($0.2m), software costs ($0.3m), and IM setup costs ($2.0m)).
- Developers would pay for growth works within the boundary area.
- The level of development contributions or revenue from connection fees that would be required to be charged in Waikato District in order to fund the growth-related components of the Southern Wastewater treatment plant and other infrastructure that would otherwise not be required by Hamilton, are included as a pass through from developers to HCC via WDC, with no impact on WDC's operating surplus/(deficit).

As WDC has been collecting targeted rates for Waters activities for an extended period of time, and are currently operating an outsourced model (via Watercare), less analysis and a relatively lower degree of subjectivity was required to identify, separate and quantify the Waters costs, revenues, assets, and debt from the rest of Council, as compared to HCC. That being said, the base numbers that have been used in the financial modelling for this business case represent initial draft estimates by WDC staff and have not been refined and tested through Council or public consultation processes, nor have they been subject to audit. The implication is that the forecasts are subject to change, but are expected to stay consistent directionally and from a materiality standpoint.

As noted earlier, WDC elected to develop an enhanced 2024-25 Annual Plan as opposed to a full 10-year LTP. As such, the base numbers that have been used in the financial modelling for this business case represent initial draft estimates by WDC staff and have not been refined and tested through Council or public consultation processes, nor have they been subject to Audit. The implication is that the forecasts should be treated as directional only. Moreover, the financial analysis undertaken by WDC Staff has focused on the water-related aspects, and therefore the RoC figures included under this option should be treated with appropriate discretion and may be subject to change.

WDC Status Quo (Option A1): Headline financials (2025-26 to 2033-34)

NZ$m	Business Unit	RoC (Pre-LTP)	Total
Rates	743	1,319	2,061
Development Contributions	54	56	109
Total Revenue	1,189	1,948	3,137
Operating Costs	585	1,209	1,794
Depreciation	264	375	639
Interest	131	130	261
Cumulative surplus / (deficit)	209	233	443
Capital Expenditure	963	720	1,684
Closing Debt	488	423	910
Peak Debt	488	423	910

Source: WDC financial model

WDC Status Quo (Option A1): Headline financials (Mix analysis) (2025-26 to 2033-34)

Mix (%)	Business Unit	RoC (Pre-LTP)	Total
Rates	36.0%	64.0%	100.0%
Development Contributions	49.1%	50.9%	100.0%
Total Revenue	37.9%	62.1%	100.0%
Operating Costs	32.6%	67.4%	100.0%
Depreciation	41.4%	58.6%	100.0%
Interest	50.1%	49.9%	100.0%
Cumulative surplus / (deficit)	47.3%	52.7%	100.0%
Capital Expenditure	57.2%	42.8%	100.0%
Closing Debt	53.6%	46.4%	100.0%
Peak Debt	53.6%	46.4%	100.0%

Source: WDC financial model

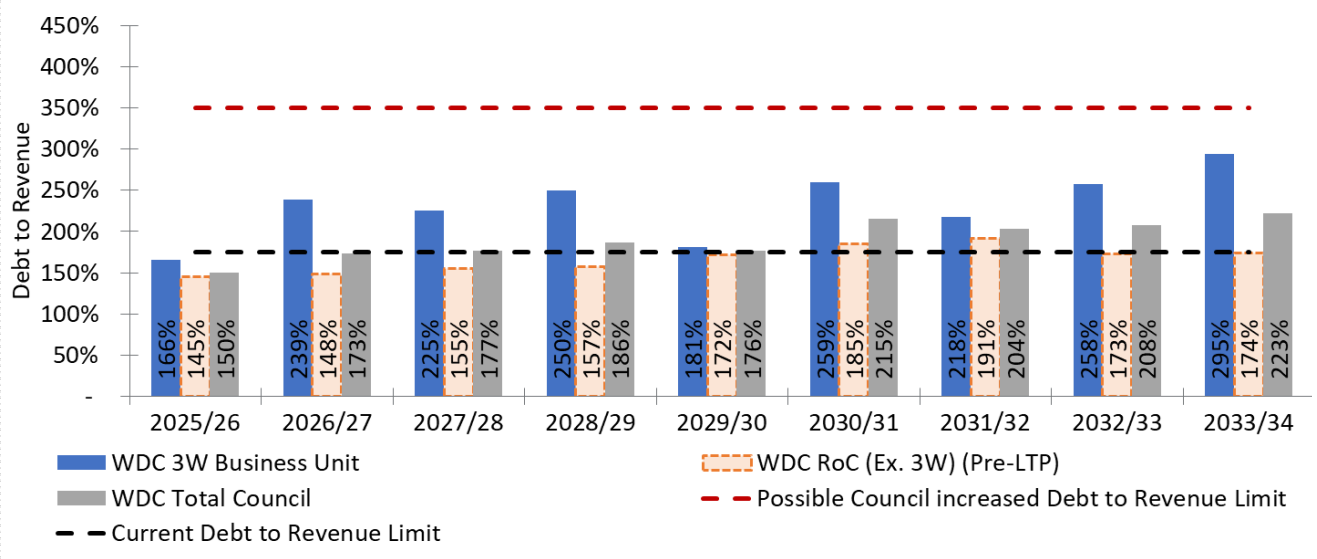
Commentary

The aggregate sum of the nine-year financial projections of the WDC 3W BU is shown in the table, alongside the Rest of Council (i.e., WDC excluding 3W). Key observations are as follows:

- Under this option, WDC's total rates collection for 3W amounts to $0.7b over the 9 years, which makes up 36% of total WDC rates over the same period.
- Waters-related debt is forecast to reach $488m by 2033-34, which also coincides with the peak debt, indicating a tail-ended demand on funding sources.
- In contrast with HCC, WDC's 3W BU requires a lower amount of capex (57% for WDC, versus 62% for HCC) when compared to activities undertaken by the RoC. This indicates investment over the next nine years is not as heavily weighted towards Waters as HCC, when viewed from a total Council perspective.

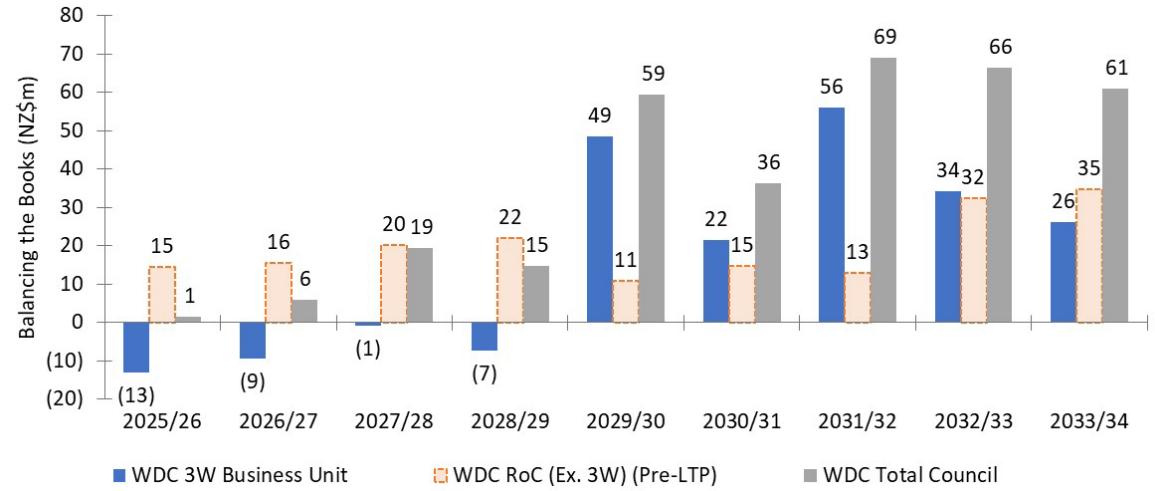
Despite the relatively more balanced capex spend in the BU, depreciation in the BU makes up a much lower (41%) proportion of total Council depreciation. This reflects WDC's planned investment being focused on growth (i.e. over and above routine replacement of existing assets), as well as the expected higher costs of meeting regulatory compliance.

WDC Status Quo (Option A1): Debt to revenue



Source: WDC financial model

WDC Status Quo (Option A1): Balancing the books



Source: WDC financial model

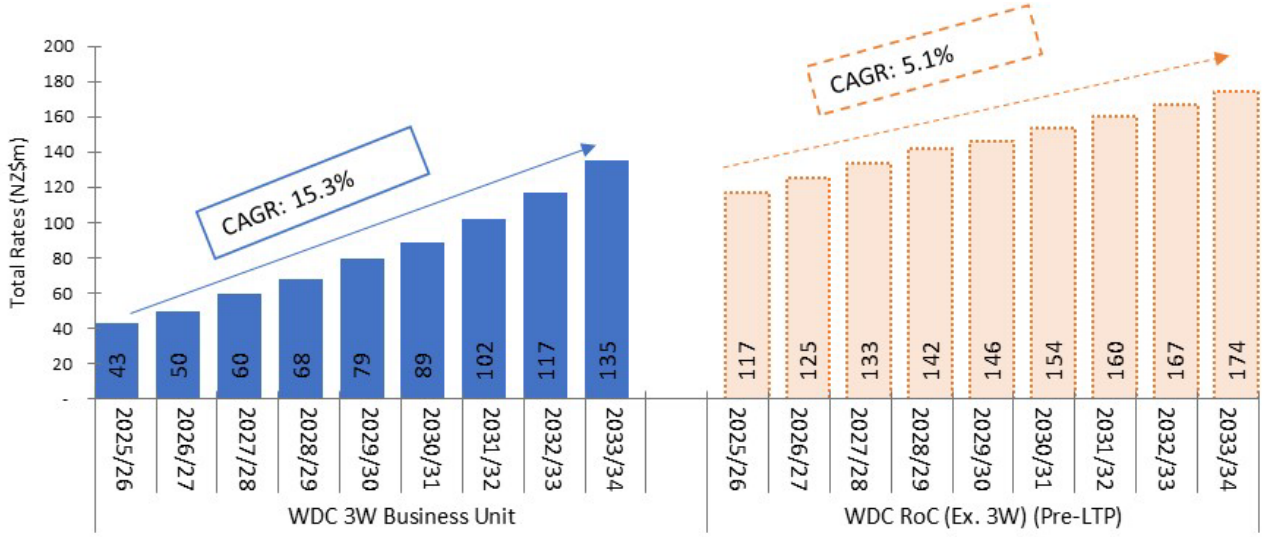
Debt to Revenue

- WDC's current financial strategy as adopted in the 2021-31 LTP sets DTR limit of 175%. The LGFA will allow an increase in DTR for high growth councils (like WDC) to 350%.
- The top chart shows the implied DTR of WDC under a 3W BU scenario, separated into the 3W BU, RoC, and Council as a whole (i.e. including the BU).
- Council as a whole would not be able to operate within the current 175% debt cap beyond 2026-27. It will however be able to operate within an increased 350% debt cap for all years (although this would require a change in the current adopted financial strategy).
- It is also evident that 3W is the primary driver of increasing the DTR of Council as a whole. The BU would breach the 175% limit in every year from 2026-27 onwards, while RoC would only breach the 175% limit from 2030-31 through to 2031-32. This shows that under the BU option, Waters is the main beneficiary of the debt available to Council.

Balancing the Books

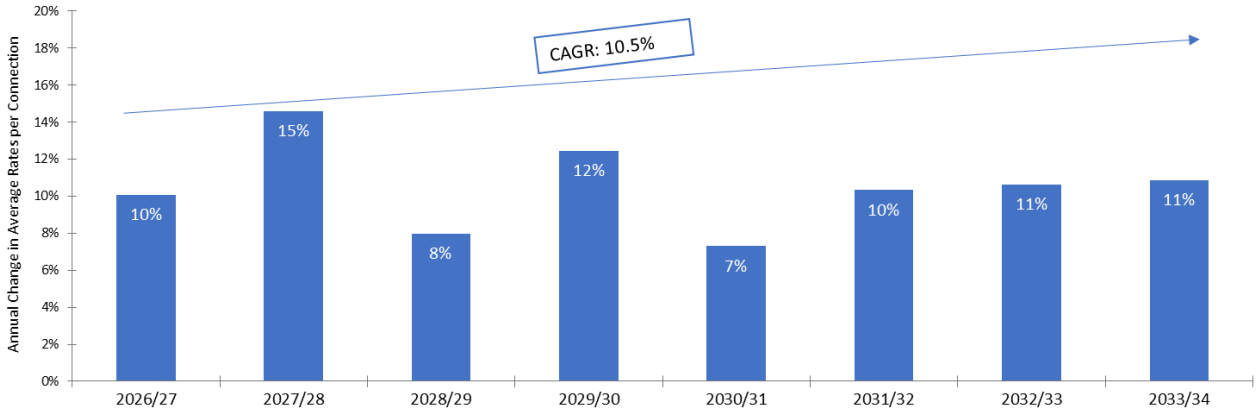
- WDC uses the Balanced Budget Benchmark (defined by the Local Government Financial Reporting and Prudence Regulations) to determine whether everyday costs are being paid from everyday revenues.
- As shown in bottom chart, Council as whole and Council excluding waters meets its revenue sufficiency target in each year. However, the 3W BU does not meet this threshold until 2029-30. This indicates that the WDC 3W BU option is at risk of not meeting the financial sustainability requirements by 2027-28.

WDC Status Quo (Option A1): Rates profile



Source: WDC financial model and Deloitte analysis

WDC Status Quo (Option A1): Annual change in average rates per connection



Source: WDC financial model

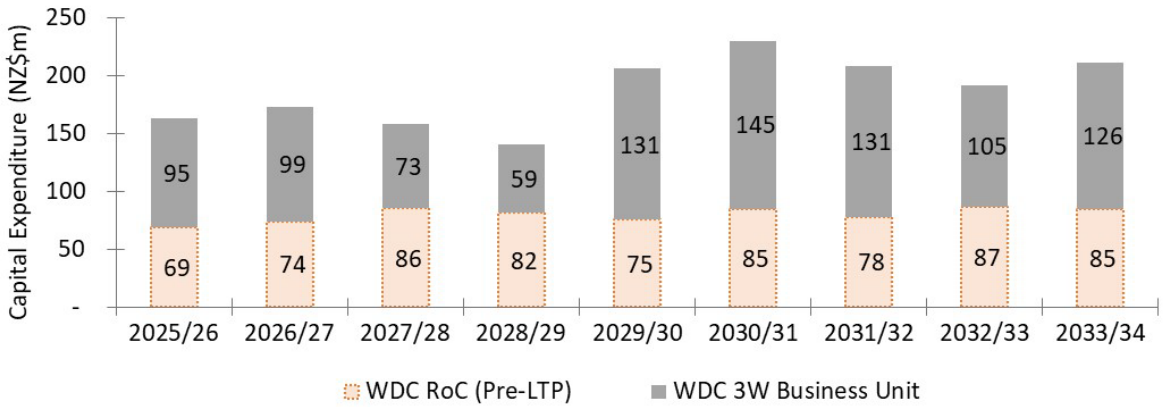
Rates Profile

- The top chart compares the projected rates profile of the WDC 3W BU as a standalone, compared to WDC RoC.
- Under the forecasting assumptions, 3W rates make up 27% of total rates collected by WDC in 2025-26. This proportion increases to 44% by 2033-34, and represents a 15.3% CAGR, compared to 5.1% for RoC. This in turn is reflective of the proportionately higher funding requirement for Waters infrastructure over the period.

Annual Change in Average Rates per Connection

- Noting the limitation in regards to a lack of detailed price path modelling, the bottom chart provides a high-level indicative view of the annual change in rates revenue per connection (for Water Supply and Waste Water only), expressed as a percentage. For the purpose of this chart, inflation assumptions have been removed to present the annual percentage change in today's terms (i.e., real terms).
- This analysis shows that (in real terms), the annual growth in rates on a per connection basis is expected to be in the range of 10-11%. Where higher growth rates were assumed (for e.g., 15% in 2027-28 and 12% in 2029-30), these are offset by lower growth rates the year after. The CAGR measured over the period amounts to 10.5%.

WDC Status Quo (Option A1): Capital expenditure



Source: WDC financial model

Capital Expenditure

- RoC capital expenditure is forecast to be broadly consistent over the forecast period (between $69m and $87m annually, averaging $80m). Waters, in contrast, is overall more 'lumpy' in nature, ranging between
$59m in 2028-29 and $145m in 2030-31.
- Notable items driving the relatively higher capital spend over 2025-26 and 2026-27, and from 2029-30 to 2030-31 are:
    - Ngaruawahia Wastewater Treatment Plant upgrades in 2025-26 ($25m in real terms)
    - Ngaruawahia Water Supply Treatment Plant upgrade over 2029-30and 2030-31 ($60m in real terms);
    - Huntly Wastewater Treatment Plant upgrades in 2026-27 ($14m) and over 2029-30 and 2030-31 ($73m in real terms);
    - Fast Track related to the North Western Boundary and Ruakura East projects from 2029-30 through to 2033-34 ($178m in real terms)

3.8 Financial Analysis of Option C: Joint CCO

The Joint CCO option utilises the same base inputs as the individual HCC and WDC Business Units, overlaid with the following additional adjustments and assumptions:

- **Transfer to CCO:** Water and Wastewater net assets are transferred to the Joint CCO on 1 July 2026, along with all associated revenues and operating costs. Stormwater assets, stormwater rate collection, related interest, and related depreciation will remain with HCC and WDC, with the Joint CCO providing stormwater services (all operations, maintenance, planning and delivery) to both Councils at cost, i.e. the payments for Stormwater Services to the Joint CCO will match the Joint CCO's costs of delivering these services and on the basis that no risk is transferred from the Councils to the CCO.

  For the purpose of modelling staff are assumed to be transferred to the Joint CCO on their existing employment terms.

  WDC Wastewater and Water costs which would have been covered under the Watercare contract, have been included in the Joint CCO but reduced by the operating cost margin Watercare earns under the existing arrangement.

- **Shared Services:** HCC will provide shared services in order to support the Joint CCO's operations, at least for an initial period of up to five years. The shared services will be provided under a contract for service, at cost to the CCO (but with no transfer of risk to the respective Councils). The cost of these shared services are assumed to be equal to the overhead costs included in the overhead allocations within the base numbers. There has been no allowance for efficiency gains or stranded overheads, with the exception of systems for which additional CCO specific costs have been included.

  Practically, over the 5 year period commencing from 1 July 2026, it is likely that the Joint CCO will progressively migrate from shared services to operate its own back-office and corporate support activities. The staged transition is aligned to the investment in business systems and functionality in the Joint CCO and is intended to provide time for both Councils to manage the risk of stranded overheads.

  WDC costs paid to Watercare include an overhead component to cover back office functions. On the assumption that overhead functions can be delivered within the shared services framework (delivered by HCC) and other Joint CCO operating costs (covered below) this margin has been removed in the Joint CCO (i.e. this is a cost saving in the Joint CCO).

- **Establishment costs:** Establishment costs are based on a minimum viable product principle and are assumed to be the same as those incurred under the HCC CCO option (Option B). These one-off establishment costs are in addition to the shared services costs and systems noted elsewhere comprise various items like Board and CEO recruitment costs, Project management costs, Communications and engagement charges, Legal fees and due diligence costs. A contingency amounting to 50% of the estimated establishment costs has also been included.

- **Ongoing Extra Operating Costs:** These are essentially incremental standalone costs which the Joint CCO would incur. The standalone costs assumed include audit, CEO, and governance structures including a Board of Professional Directors. Cost has also been allowed for increased communications, an identity campaign, and increased iwi engagement.

- **Systems:** Additional expenditure required to set up (one-off) and operate (ongoing) separate IT environments within current council systems.

- **Interest:** It is expected that the Joint CCO will have a credit rating one notch lower than HCC. As such, interest costs in the Joint CCO have been modelled at an interest rate 5 basis points higher than HCC to reflect the increased risk premium. The interest rate assumptions do not consider any potential upside which may be achieved from the greater scale and greater revenue base of the Joint CCO, from the perspective of potentially securing more favourable funding terms compared to the HCC CCO.

  It is also assumed that HCC's and WDC's interest rate swap arrangements will be novated to the Joint CCO (in proportion to debt) on the same terms as currently available to HCC and WDC.

- **Capital Programme:** Assumptions related to capital expenditure are the same as those applied to the HCC and WDC BU options, adjusted downwards for the margin Watercare would have otherwise charged on the WDC related capital expenditure. The capital expenditure margin is separate from the operating cost margin mentioned earlier.

Joint CCO (Option C): Headline financials (2025-26 to 2033-34)

NZ$m	Joint CCO	RoC (WDC)	RoC (HCC)	Total	Total WDC + BU	Total HCC + BU	Total	Variance
Rates	2,371	1,388	3,487	7,246	2,061	5,198	7,259	(13)
Development Contributions	608	59	185	851	109	857	966	(115)
Total Revenue	3,865	2,025	5,004	10,893	3,137	7,727	10,864	29
Operating Costs	1,552	1,266	2,658	5,475	1,794	3,508	5,302	173
Depreciation	726	390	1,026	2,142	639	1,503	2,142	-
Interest	472	145	595	1,212	261	949	1,210	2
Cumulative surplus / (deficit)	1,115	223	733	2,071	443	1,775	2,217	(146)
Capital Expenditure	3,253	802	2,022	6,077	1,684	4,432	6,116	(39)
Closing Debt	1,828	503	1,416	3,747	910	2,720	3,631	117
Peak Debt	1,828	503	1,416	3,747	910	2,720	3,631	117

Source: Deloitte analysis

Comparison of Joint CCO option to individual BU options

- In order to compare the Joint CCO option on a like-for-like basis, it was necessary to roll up the financials under the Joint CCO to arrive at an 'all-of-council' view for both Councils. This was calculated by adding the Joint CCO to the RoC for WDC and HCC, under the Joint CCO assumptions. The total was then compared against the sum of the full council figures for HCC and WDC, under their respective BU options. This comparison is shown in the top left table, with the variance highlighting the points of difference.
- The key financial differences between the two views are limited to:
    - Rates revenue under the Joint CCO view is $13m lower, reflecting the assumption that under the Joint CCO, WDC would no longer incur additional costs to transition away from Watercare to an alternative service provider, since the Joint CCO would become the new provider. In the WDC Counterfactual option, it is assumed that this $13m will be fully funded from rates.
    - Additional Revenue of $29m, which is made up of $157m, for delivering Stormwater services under contract to both Councils, offset by the $13m reduction to rates revenue (explained above), and $115m in lower DCs.
    - The reduced DC revenue is driven by an assumption that the Joint CCO will adopt HCC's approach of funding 70% of growth capital through DCs, as opposed to 100% assumed in WDC's counterfactual option. The Joint CCO would be free to adopt a different approach, but this assumption has been made for the purpose of the financial analysis.
    - The Operating Cost Variance of $173m is summarised in the table on the next page.

Additional Joint CCO Operating Costs (2025-26 to 2033-34)

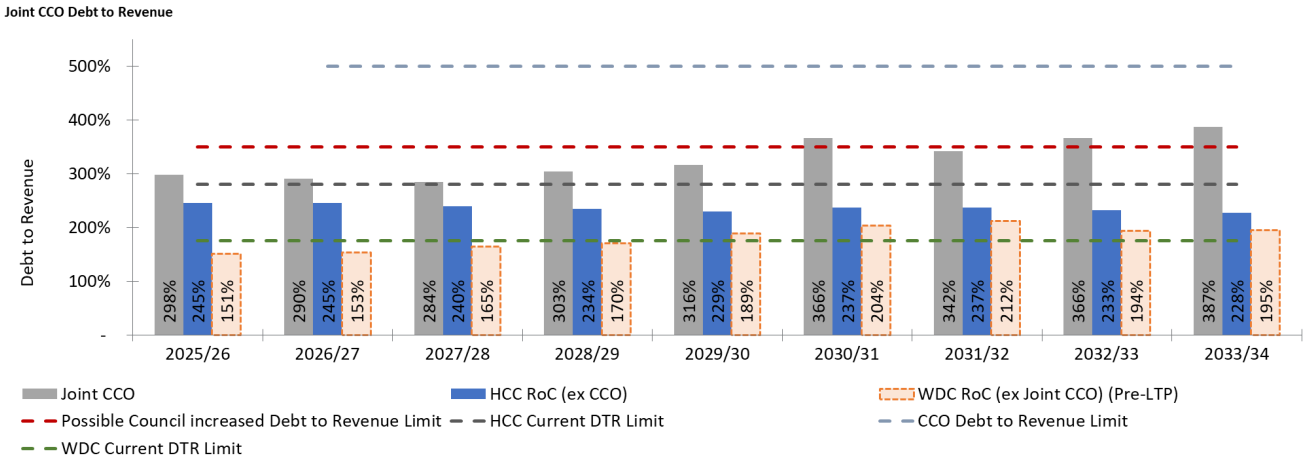
	Total
Variance	173
Less Stormwater On Charge	(157)
Variance After Elimination	16
Made up of:	
Establishment Costs	4
Ongoing Costs	
Audit	3
Board & CEO Costs	18
Systems	72
Total Ongoing Costs	93
Total Additional Costs	97
Offset By Savings	
Contract saving	81
Total Savings	81
Net Cost increase	16

Source: Deloitte analysis

The Operating Cost Variance of $173m is explained by:

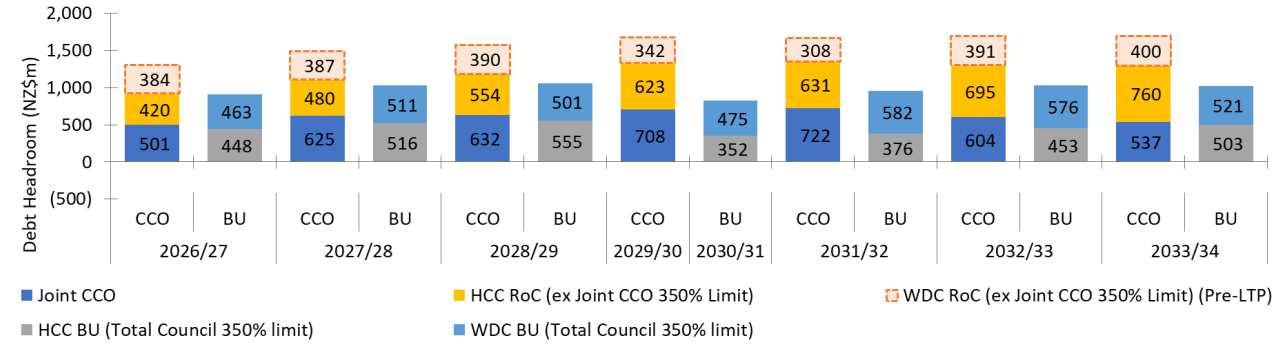
- The cost incurred by HCC and WDC RoC for Stormwater services they will receive from the Joint CCO ($157m, which is the corresponding leg of the $157m revenue change explained above);
- One-off establishment costs of $4m over the 2025-26 and 2026-27 periods, as well as incremental standalone operating costs mentioned earlier ($3m in audit costs, $18m in Board costs, and $72m in systems costs over the nine years);
- Offset by contract savings of $81m, being a combination of savings from delivering water services rather than outsourcing, and from WDC not having to transition to another external service provider post Watercare (this is the corresponding leg of the rates revenue reduction explained above).

Joint CCO (Option C): Debt to revenue



Source: WDC/HCC financial model

Joint CCO (Option C): Debt headroom joint CCO vs BU options



Source: WDC/HCC financial model

Debt to Revenue

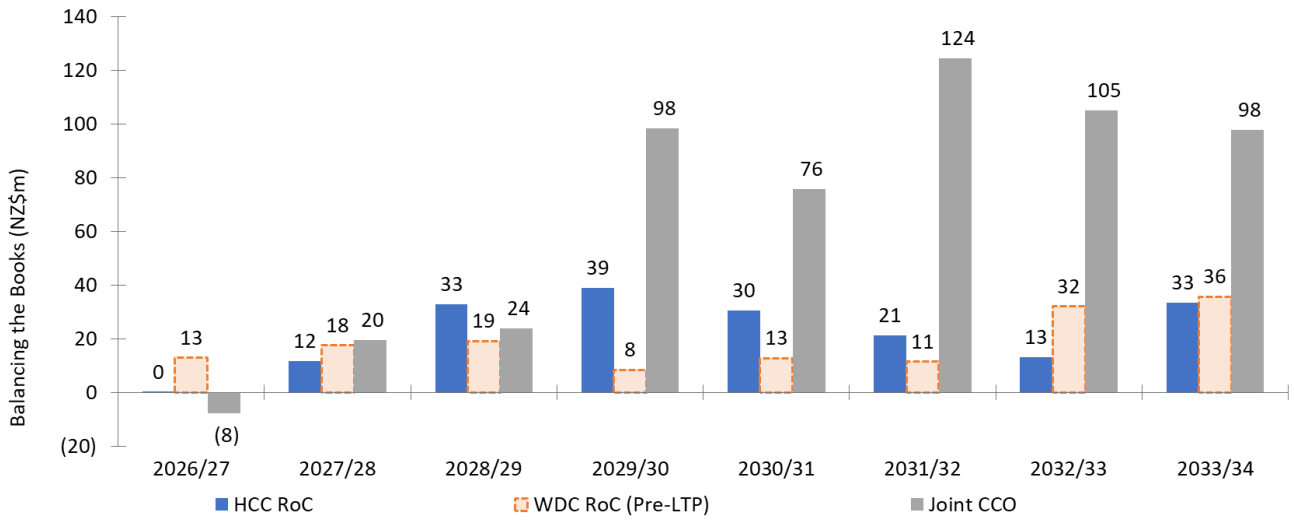
- Under this scenario, the Joint CCO is able to operate within the proposed 500% debt limit for every year modelled. As WDC and HCC RoC are relieved of the capital investment burden associated with 2W, both councils are able to comfortably operate under the available debt cap of 350% on the assumption both Councils are eligible for the 350% covenant debt limit. Recognising the 350% is a covenant limit rather than a policy limit, HCC would be able to operate under its existing 280% policy limit whereas WDC would need to increase its current 175% policy limit.
- In calculating DTR for the Joint CCO, operating revenues include the revenue which the Joint CCO will receive from HCC and WDC to deliver Stormwater activities on their behalf (on a cost recovery basis). Should the counting of this revenue not be permitted by LGFA in assessing DTR, the effect would be that the Joint CCO DTR would peak at 408% in 2033-34 compared to the current peak of 387% in the same year. The Joint CCO would still operate under the 500% cap in each year, but the headroom would be less. As such, the assumption that the stormwater service revenue received by the CCO is factored into the DTR calculation is a key assumption that will need to be tested and clarified with the LGFA.

Debt Headroom

- Assuming both Councils move to a 350% debt cap under the BU scenario and the CCO scenario utilises both the 350% limit for residual councils and 500% limit for the Waters CCO. The bottom left chart illustrates that under the Joint CCO scenario, the collective debt headroom available to both Councils, when considered on an aggregated basis including the Joint CCO, is $1.7b in 2033-34. This is made up of $537m in headroom available to the Joint CCO, and $760m and $400m available to each of HCC and WDC respectively, and is materially

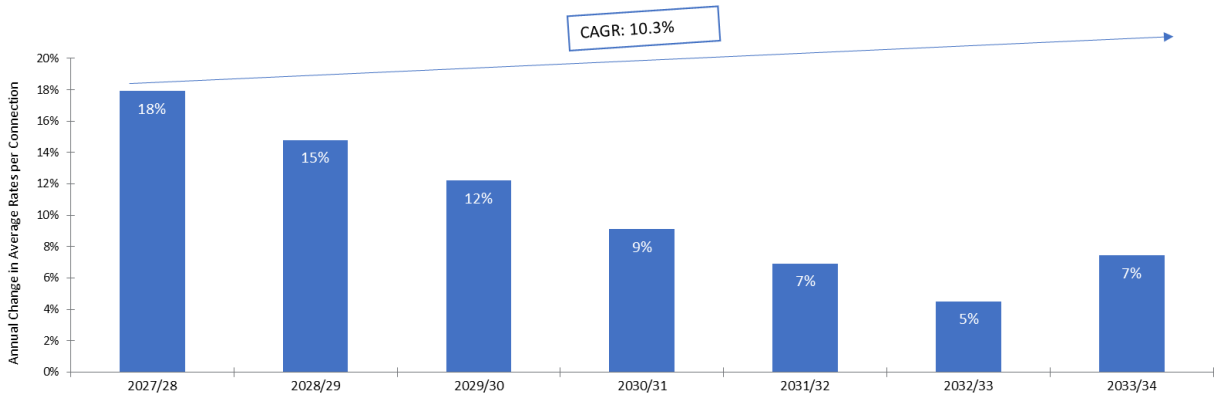
higher than the $1.0b forecast under the BU options.

Joint CCO (Option C): Balancing the Books



Source: WDC/HCC financial model

Joint CCO (Option C): Annual change in average rates per connection



Source: WDC/HCC financial model

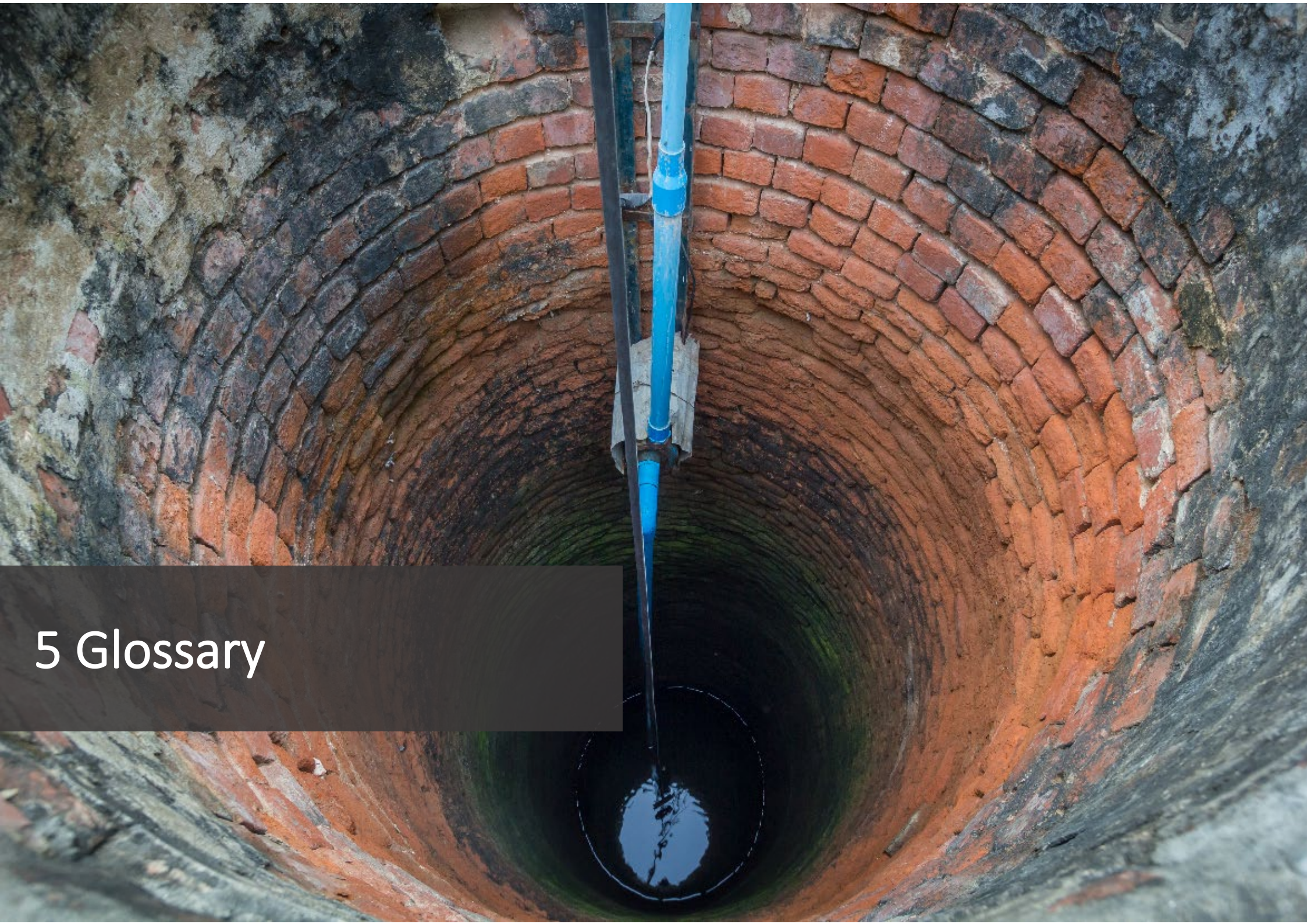
WDC/HCC financial model

Balancing the Books

- Applying the same HCC balancing the books metric to the Joint CCO as HCC currently utilises, other than a deficit in the first year of operation, the Joint CCO model enables a balanced or surplus budget from 2027-28 onwards for both the Joint CCO, and each respective RoC, meeting revenue sufficiency targets.

Annual Change in Average Rates per Connection

- Notwithstanding the limitation regarding a lack of detailed price path modelling, the chart to the left provides a high-level indicative view of the annual change in rates revenue per connection, expressed as a percentage. For the purpose of this chart, inflation assumptions have been removed to present the annual percentage change in today's terms (i.e., real terms).
- Noting that rating between HCC and WDC is not assumed to be harmonised until after 5 years of operations, this analysis shows that (in real terms), the annual growth in rates on a per connection basis is expected to be more significant in the earlier years, before tapering off in the latter part of the forecast. The CAGR measured over the period amounts to 10.3%.



5 Glossary

4 Glossary

2W	Water and wastewater
3W	Water, wastewater and stormwater
BBC	Better Business Case methodology developed by NZ Treasury National Infrastructure Unit (NIU).
Bill 3	The Local Government Water Services Bill - The third Local Water Done Well Bill to be introduced in December 2024 that will establish the enduring settings for the new water services system.
BU	Business Unit refers to the distinct department within each respective council, not being a separate legal entity, but having ring-fenced financials
CAGR	Compound Annual Growth Rate
Capex	Capital expenditure
CCO	Council Controlled Organisation. An entity in which one or more local authorities control 50% or more of the voting rights or has the right to appoint 50% (or more) of the organisation's directors
CSFs	Critical Success Factors, these are critical factors that are essential to the success of the change in water service delivery
Councils	This refers to Waikato District Council and Hamilton City Council
Debt headroom	It is the amount Council can borrow before reaching its debt limit, and taking into account existing debt obligations
DTR	Debt to Revenue ratio
EAG	Expert Advisory Group. The expert advisory group looked at the efficiency of local government infrastructure purchasing, provision and maintenance. It reported to the Minister of Local Government in March 2013
HCC	Hamilton City Council
LGFA	Local Government Funding Agency
LTP	Long-Term Plan. 10 year plans that councils are required to prepare and update every 3 years.

LWDW	Local Water Done Well
NIU	National Infrastructure Unit. A department within Treasury reporting to an independent National Infrastructure Board, which in turn reports to the Minister of Infrastructure.
Opex	Operational expenditure
Options	The three options which are the subject of this business case i.e. Enhanced Status Quo (comprising two sub-options), HCC Waters CCO, and Joint CCO.
PPE	Property, Plant and Equipment
RMA	The Resource Management Act 1991 (RMA) is the main piece of legislation setting out how we should manage our environment. It's based on the idea of the sustainable management of our resources, and it encourages people to consider the effects of current and future activities on the environment when making resource management decisions. The RMA requires councils to create plans that help them manage the environment by setting objectives, policies, and rules for activities that might affect the environment. (Source: Ministry of Primary Industries)
Rates	The term 'rates' has been used in analysis to describe the charges that the CCO would levy to its customers. In this context 'rates' includes revenue from meters. While technically these charges would not be rates, it was necessary to adopt this term for ease of comparison with any options that involved councils themselves continuing to operate their waters businesses, and earn rates revenues in return.
RoC	Rest of Council: residual net assets and operations of the respective councils after excluding 3W/2W (as the case may be)
SW	Stormwater
Te Ture Whaimana	Te Ture Whaimana is the primary direction setting document for the Waikato River and activities which affect it. It sits ahead of all other subordinate legislation or planning documents under the Resource Management Act (1991). Its foundation was set from the Waikato-Tainui Raupatu Claims (Waikato River) Settlement Act 2010, clause 19 the Vision & Strategy. (Source: Waikato River Authority)
Three waters	Water, wastewater, and stormwater.
UAGC	Uniform Annual General charge, it is a flat charge set by a local authority for a particular service or activity and everyone pays the same amount.
Vested Assets	Assets that are transferred to a public entity at nominal or zero cost. Typically, this might result from a situation where a developer has installed assets as part of developing a site and passes them to a public entity to manage, maintain, and deliver services through. (Source: Audit NZ)
WDC	Waikato District Council
WW	Wastewater