Bay of Plenty Water Done Well

Investigating the viability of a Bay of Plenty Water CCO

24 January 2025

This draft document has been prepared to provide information to Kawerau District Council, Opotiki District Council, Rotorua Lakes District Council, Tauranga City Council, Western Bay of Plenty District Council, and Whakatane District Council on the financial viability of a Bay of Plenty Water CCO.

The Department of Internal Affairs has relied on information provided by councils in the development of the analysis and guidance included in this report, including publicly available information from long-term plans and other council accountability documents.

This guidance is not legal advice; and is intended to support council decision-making requirements under Local Water Done Well.

Te Kāwanatanga o Aotearoa
New Zealand Government

Te Tari Taiwhenua
Internal Affairs

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

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

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

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

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

Executive Summary – lower charges, financial sustainability and regulation

Lower charges to consumers achieved by a Bay of Plenty Water CCO

A Bay of Plenty Water CCO could deliver water services at lower cost to consumers than can be achieved by individual council delivery. By FY33/34 this could result in 16% lower charges than individual council water services delivery. The savings shown below solely relate to financing efficiencies of a regional Water CCO. Further savings could be achieved through operational and capital efficiencies over time. By FY33/34 the average consumer would save $665 + GST per year from the establishment of a regional water CCO, from financing efficiency alone.

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

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

A Bay of Plenty Water CCO can meet LGFA lending covenants

A Bay of Plenty Water CCO can meet expected borrowing covenants as signalled by LGFA, and access debt financing on improved terms against status quo council borrowing arrangements. This enables increased debt financing, free from council borrowing constraints, leading to lower charges to consumers.

A Bay of Plenty Water CCO would be financially sustainable and would be required to comply with water quality and economic regulation

A Bay of Plenty Water CCO has an easier pathway to financially sustainable water services provision than individual council delivery, evidenced through requiring lower revenues and charges to consumers for the same levels of operating and capital expenditure. A Bay of Plenty Water CCO could also borrow longer, carry higher debt balances, and better align financing of long-lived assets with the assets' lifespans, ensuring intergenerational equity.

Economic regulation, in particular, will contribute to operational and capital efficiencies over time. Establishing a professional Water CCO ensures that councils as shareholders can utilise the regulatory regime to their benefit, in driving the performance expectations of the Water CCO.

Executive Summary – refinancing water debts improves council balance sheets

A Bay of Plenty Water CCO enables the refinancing of water services borrowings off council balance sheets

LGFA has committed to lend to water CCOs and treat their debt as separate to owning councils' debt, where there is a guarantee or uncalled capital from owning councils in place, and adherence to prudent credit criteria. This means that LGFA would exclude a water CCO's water services debts from owning council's borrowing covenants (e.g., in debt to revenue calculations).

Because water services are higher leveraged than other council business, establishing a Water CCO and excluding water services revenues and debts from LGFA's consideration of owning councils would create significant new borrowing headroom for each Bay of Plenty council.

This results from the refinancing of water services borrowings off council balance sheets, providing a material improvement in the financial sustainability and resilience of councils. New borrowing capacity could allow general rates to be reduced, using this new borrowing capacity to fund future non-water infrastructure investment that would otherwise be rates funded.

Reduction in council borrowings from establishing a Water CCO

A Bay of Plenty Water CCO could borrow direct from LGFA (secured against water services revenues) and provide cash to owning councils, enabling the pay down of existing council debt relating to water services. By FY33/34, council borrowings would be $2.185 billion lower than under status quo in-house delivery arrangements (based on council LTPs).

New borrowing headroom for owning councils

Due to current council debt levels, and large projected investment requirements for water services infrastructure, Bay of Plenty councils' water services are significantly higher leveraged than other council activities.

LGFA's separate treatment of water services debts (if a Water CCO is established) means that the $2.185 billion reduction in council debt equates to $797 million of new borrowing capacity for Bay of Plenty councils by FY33/34 (but with a peak new capacity of $980 million).

This new borrowing capacity is lower than the value of water services debts, due to water services operating revenues no longer forming part of LGFA's assessment of council covenants.

Reduction in council debt from establishing Bay of Plenty Water CCO ($m)	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33	33/34
Tauranga City Council	$604	$661	$764	$850	$953	$1,005	$1,065	$1,133	$1,327	$1,528
Rotorua District Council	$206	$229	$253	$267	$279	$282	$280	$275	$273	$271
Western Bay of Plenty District Council	$115	$163	$201	$218	$225	$226	$207	$196	$174	$161
Whakatane District Council	$87	$106	$125	$141	$146	$144	$144	$153	$153	$156
Opotiki District Council	$21	$24	$28	$31	$34	$37	$40	$44	$46	$47
Kawerau District Council	$6	$10	$11	$15	$18	$21	$24	$24	$23	$22
Total reduction in council debt from establishing Bay of Plenty Water CCO	$1,039	$1,193	$1,382	$1,522	$1,655	$1,715	$1,759	$1,825	$1,995	$2,185

Debt headroom created for councils from establishing Bay of Plenty Water CCO ($m)	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33	33/34
Tauranga City Council	$293	$366	$416	$450	$434	$386	$399	$440	$498	$568
Rotorua District Council	$65	$74	$86	$97	$96	$95	$93	$89	$86	$83
Western Bay of Plenty District Council	$96	$121	$147	$168	$181	$177	$143	$111	$68	$16
Whakatane District Council	$47	$51	$62	$70	$69	$62	$64	$72	$72	$75
Opotiki District Council	$20	$21	$23	$26	$29	$32	$34	$38	$39	$41
Kawerau District Council	$6	$7	$9	$11	$14	$16	$18	$18	$17	$15
Total council debt headroom created from establishing Bay of Plenty Water CCO	$526	$640	$742	$822	$823	$767	$750	$767	$779	$797
Total peak council debt headroom created from establishing BOP Water CCO	$980									

Comparing Bay of Plenty councils' status quo water services delivery arrangements to a Bay of Plenty Water CCO

Comparison of scenarios for Tauranga City Council

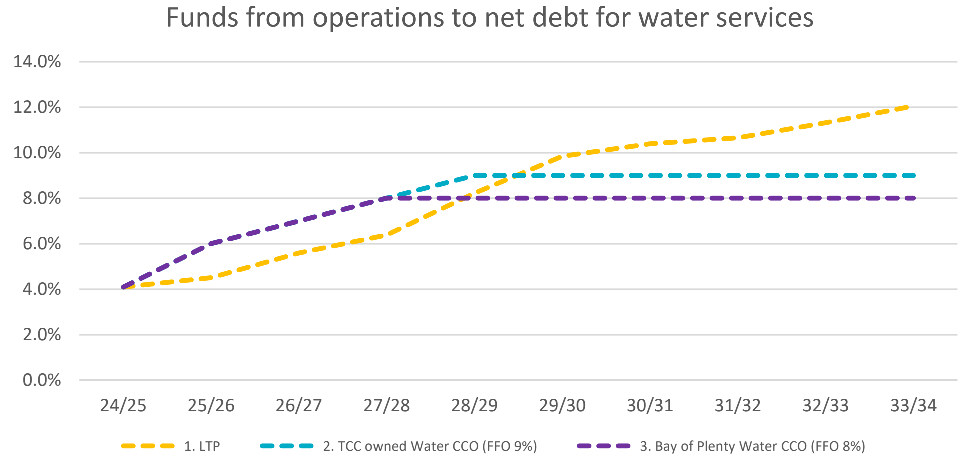
Assuming the LTP level of capital investment as constant ($2.05 billion over ten years) we compare three scenarios:

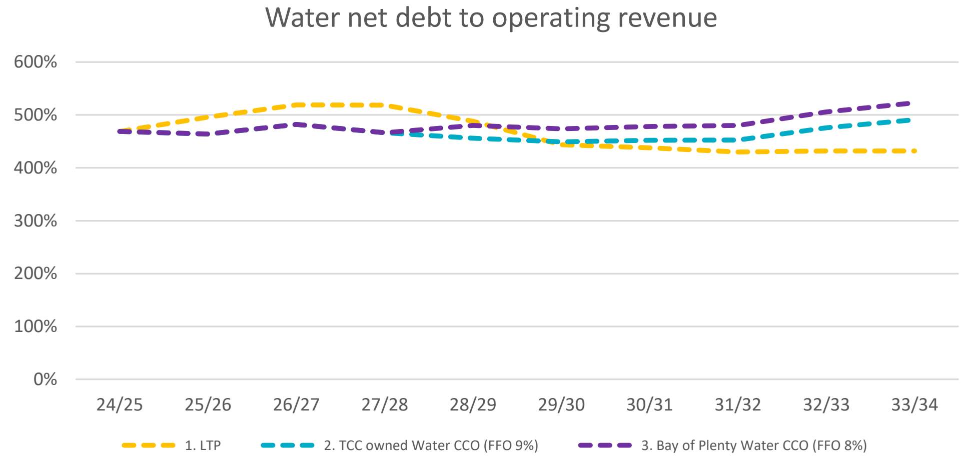
Scenario **1. LTP**: 2024-34 LTP projections;

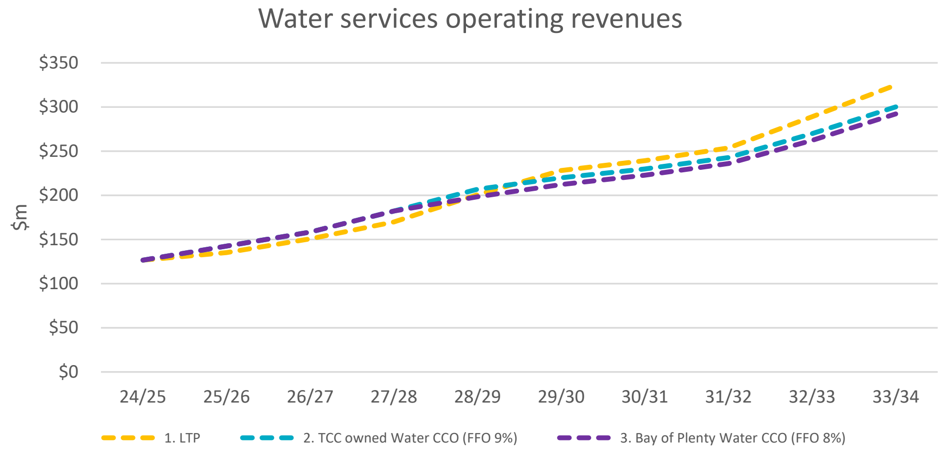
Scenario **2. TCC owned Water CCO (FFO 9%)**: 2024-34 LTP projections, modified so that a target FFO to debt ratio of 9% is met from 1 July 2028 onwards; and

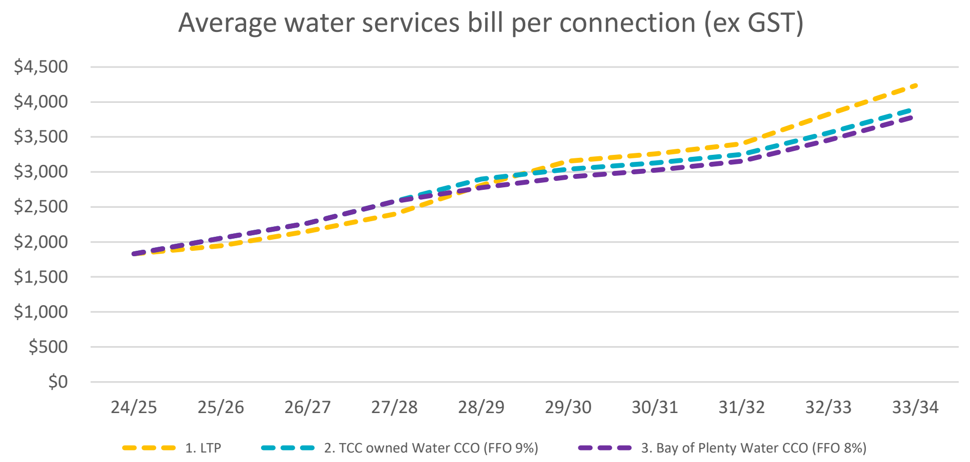
Scenario **3. Bay of Plenty Water CCO (FFO 8%):** 2024-34 LTP projections, modified so that a target FFO to debt ratio of 8% is met from 1 July 2028 onwards.

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









Explanation:

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

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

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

This, however, needs to balanced against affordability considerations.

Recommended scenarios:

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

Scenario 2. TCC owned Water CCO (FFO 9%)

A TCC owned CCO with a minimum FFO to net debt ratio of 9% by 1 July 2028; and

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

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

Comparison of scenarios for Rotorua Lakes District Council

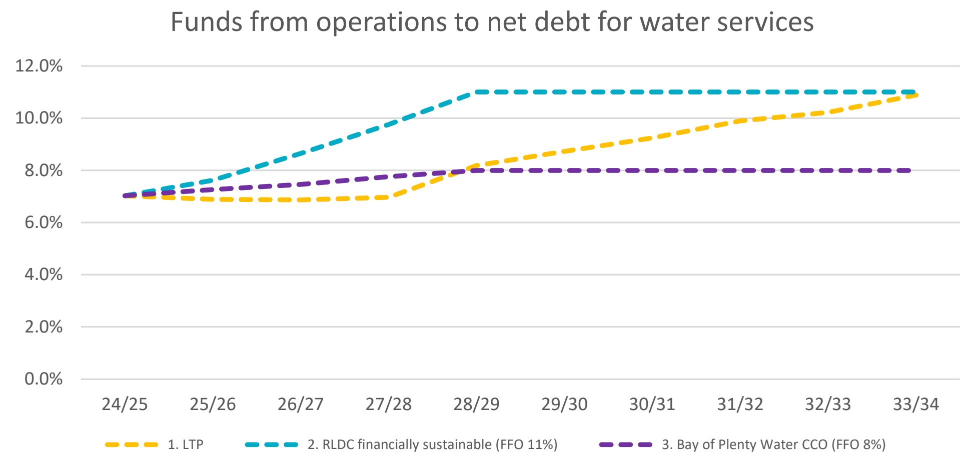
Assuming the LTP level of capital investment as constant ($482 million over ten years) we compare three scenarios:

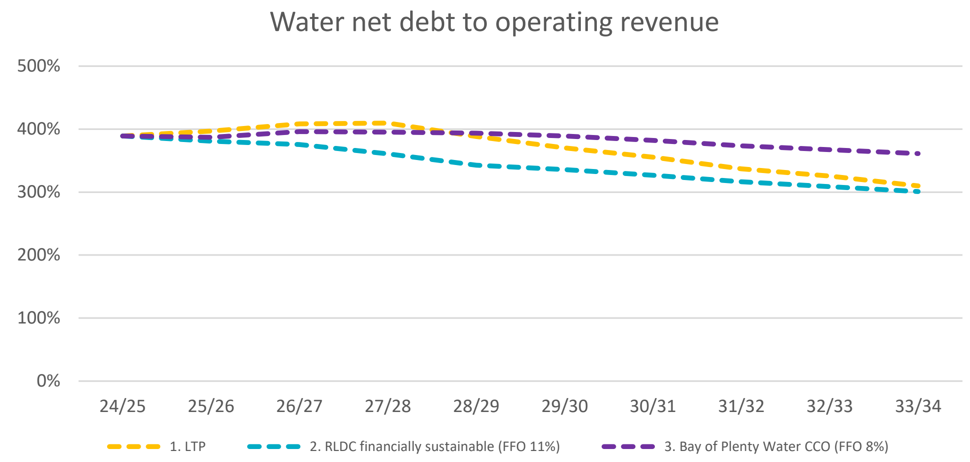
Scenario **<u>1. LTP</u>**: 2024-34 LTP projections;

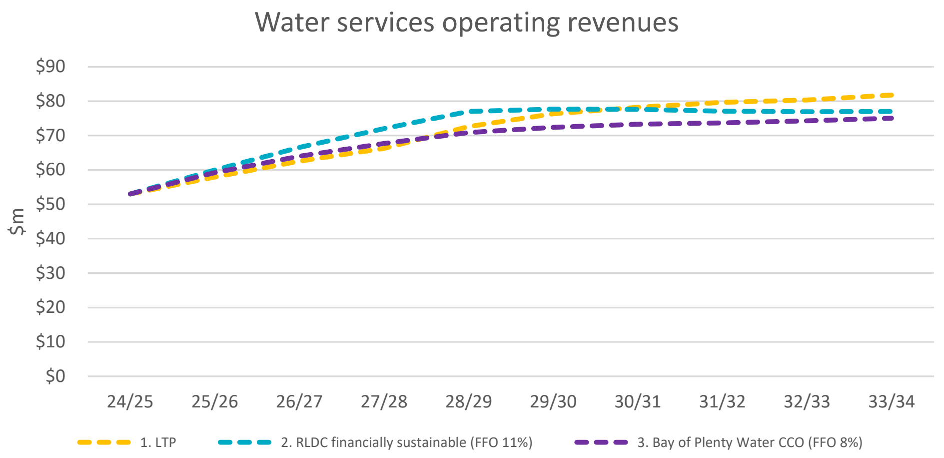
Scenario **<u>2. RLDC financially sustainable (FFO 11%)</u>**: 2024-34 LTP projections, modified so that a target FFO to debt ratio of 11% is met from 1 July 2028 onwards; and

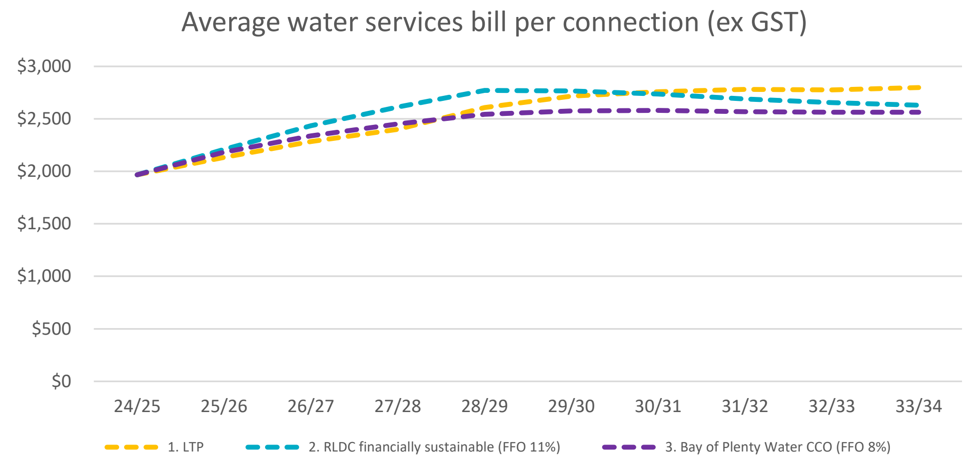
Scenario **<u>3. Bay of Plenty Water CCO (FFO 8%):</u>** 2024-34 LTP projections, modified so that a target FFO to debt ratio of 8% is met from 1 July 2028 onwards.

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









<u>Explanation:</u>
FFO to net debt is the metric for determining financial sustainability, and it drives revenues, charges and borrowing requirements for water services.

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

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

This, however, needs to balanced against affordability considerations.

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

Scenario 2. RLDC financially sustainable (FFO 11%)
RLDC in-house or new RLDC owned CCO with a minimum FFO to net debt ratio of 11% by 1 July 2028; and
Scenario 3. Bay of Plenty Water CCO (FFO 8%)
A regional CCO owned by Bay of Plenty councils, with a minimum FFO to net debt ratio of 8% by 1 July 2028.

Comparison of scenarios for Western Bay of Plenty District Council

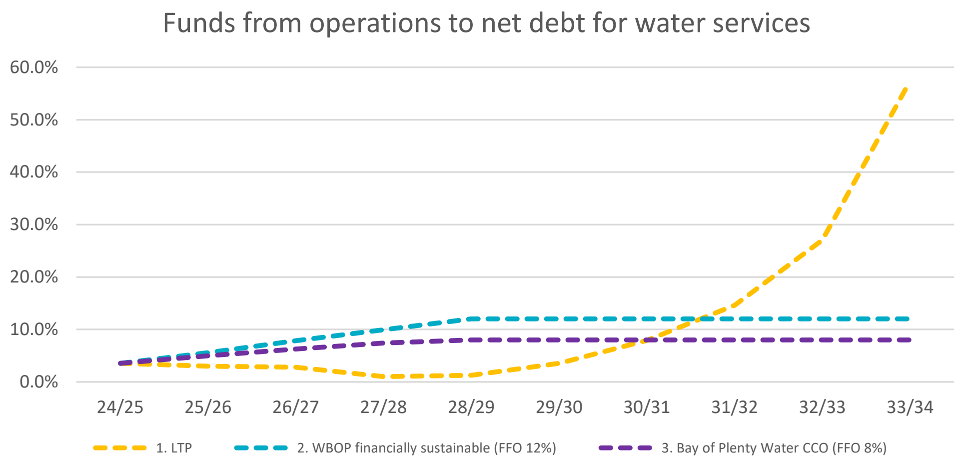
Assuming the LTP level of capital investment as constant ($362 million over ten years) we compare three scenarios:

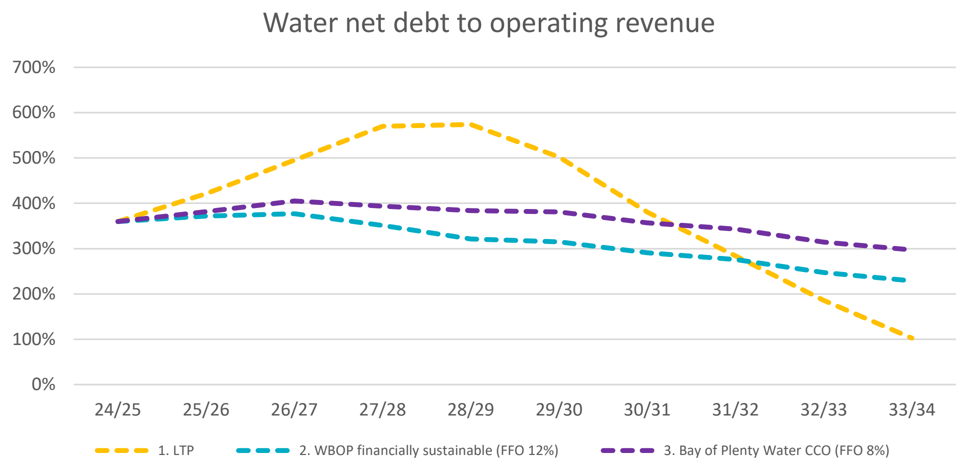
Scenario **1. LTP**: 2024-34 LTP projections;

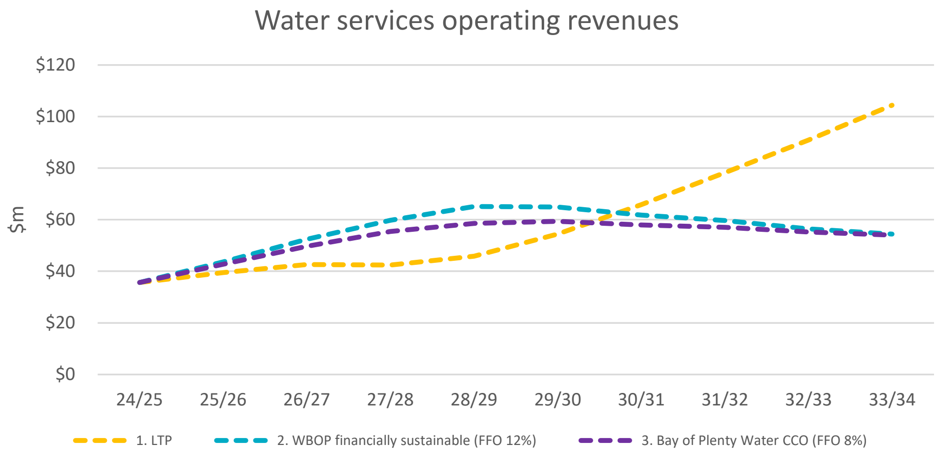
Scenario **2. WBOP financially sustainable (FFO 12%)**: 2024-34 LTP projections, modified so that a target FFO to debt ratio of 12% is met from 1 July 2028 onwards; and

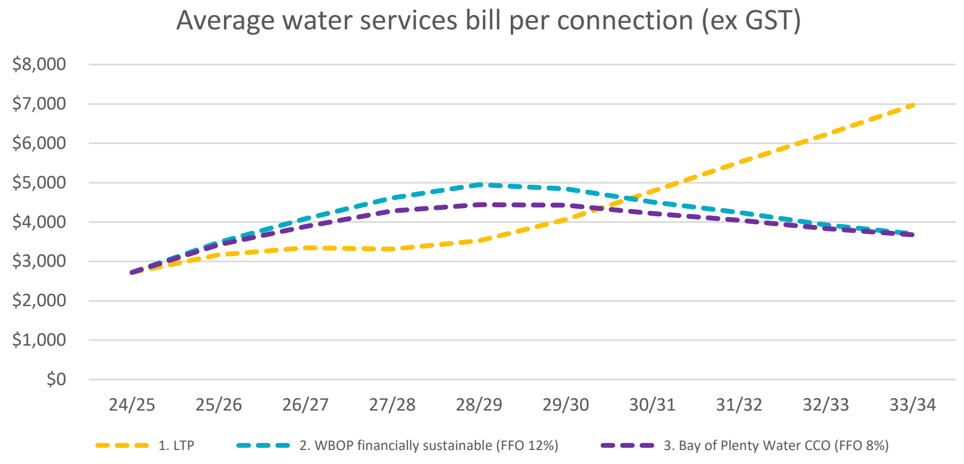
Scenario **3. Bay of Plenty Water CCO (FFO 8%):** 2024-34 LTP projections, modified so that a target FFO to debt ratio of 8% is met from 1 July 2028 onwards.

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









Explanation:

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

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

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

This, however, needs to balanced against affordability considerations.

Recommended scenarios:

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

Scenario 2. WBOP financially sustainable (FFO 12%)

WBOP in-house or new WBOP owned CCO with a minimum FFO to net debt ratio of 12% by 1 July 2028; and

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

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

Comparison of scenarios for Whakatane District Council

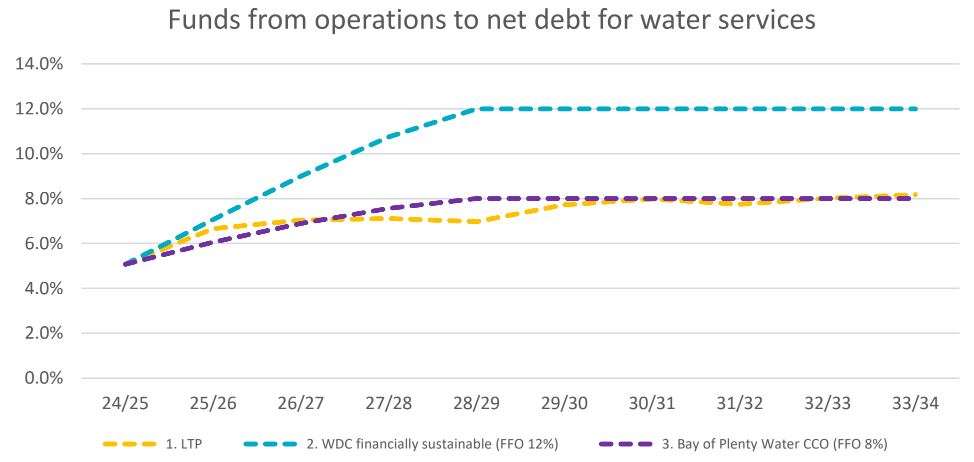
Assuming the LTP level of capital investment as constant ($213 million over ten years) we compare three scenarios:

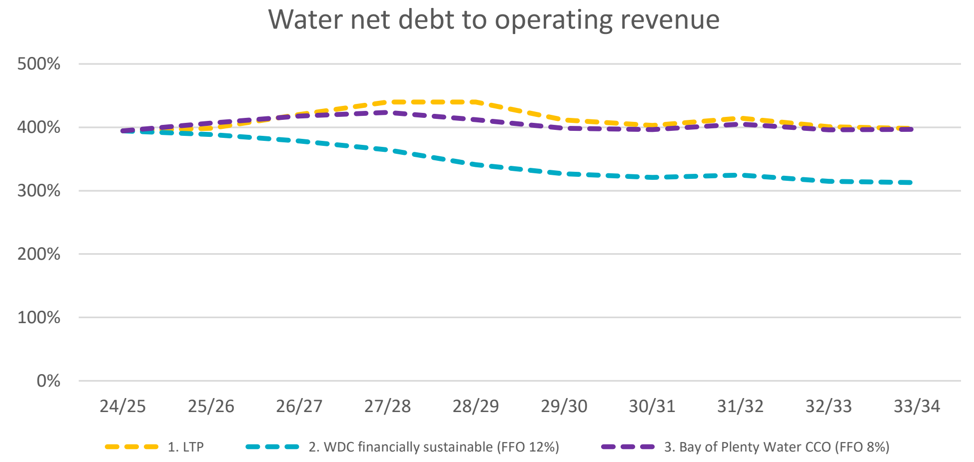
Scenario **<u>1. LTP</u>**: 2024-34 LTP projections;

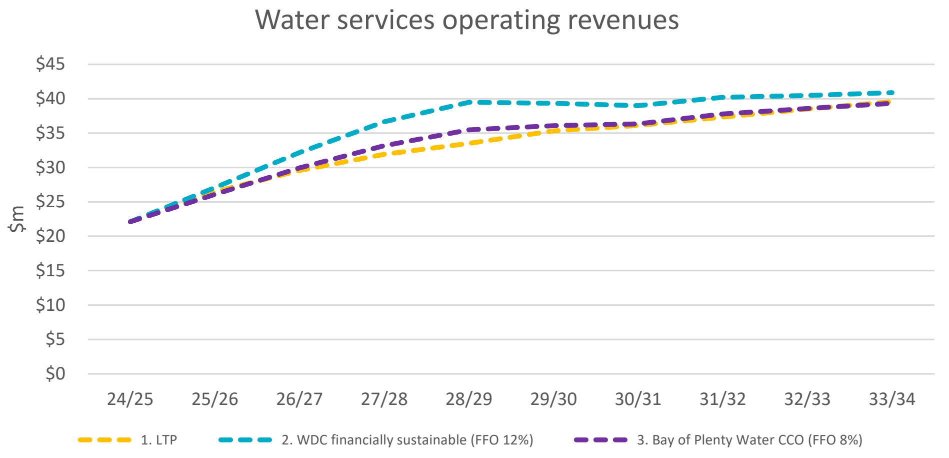
Scenario **<u>2. WDC financially sustainable (FFO 12%)</u>**: 2024-34 LTP projections, modified so that a target FFO to debt ratio of 12% is met from 1 July 2028 onwards; and

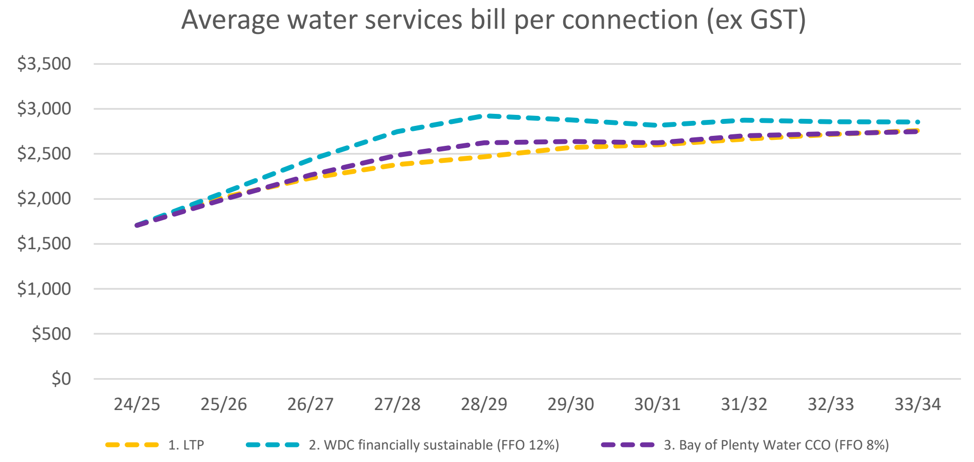
Scenario **<u>3. Bay of Plenty Water CCO (FFO 8%):</u>** 2024-34 LTP projections, modified so that a target FFO to debt ratio of 8% is met from 1 July 2028 onwards.

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









<u>Explanation:</u>
FFO to net debt is the metric for determining financial sustainability, and it drives revenues, charges and borrowing requirements for water services.

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

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

This, however, needs to balanced against affordability considerations.

<u>Recommended scenarios:</u>
DIA recommends the key scenarios to form the baseline for WDC analysis, deciding on preferred delivery model, and completing a Water Services Delivery Plan are:

Scenario 2. WDC financially sustainable (FFO 12%)
WDC in-house or new WDC owned CCO with a minimum FFO to net debt ratio of 12% by 1 July 2028; and
Scenario 3. Bay of Plenty Water CCO (FFO 8%)
A regional CCO owned by Bay of Plenty councils, with a minimum FFO to net debt ratio of 8% by 1 July 2028.

Comparison of scenarios for Opotiki District Council

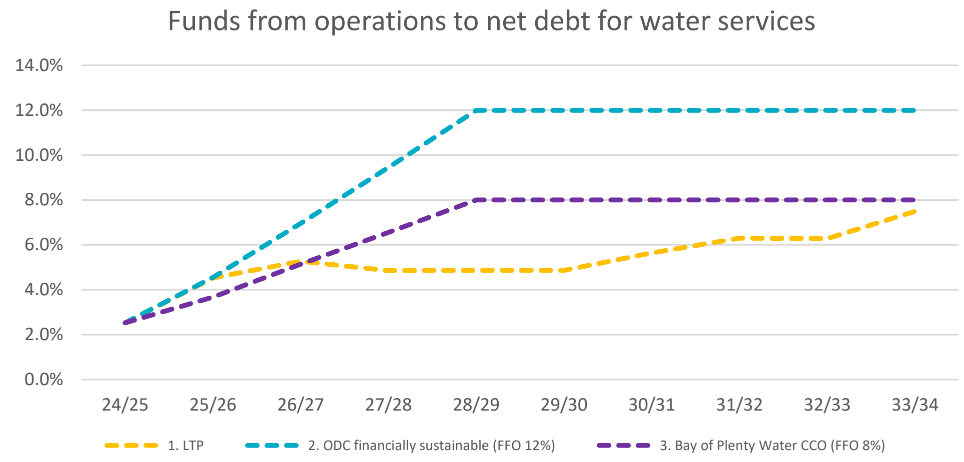
Assuming the LTP level of capital investment as constant ($64 million over ten years) we compare three scenarios:

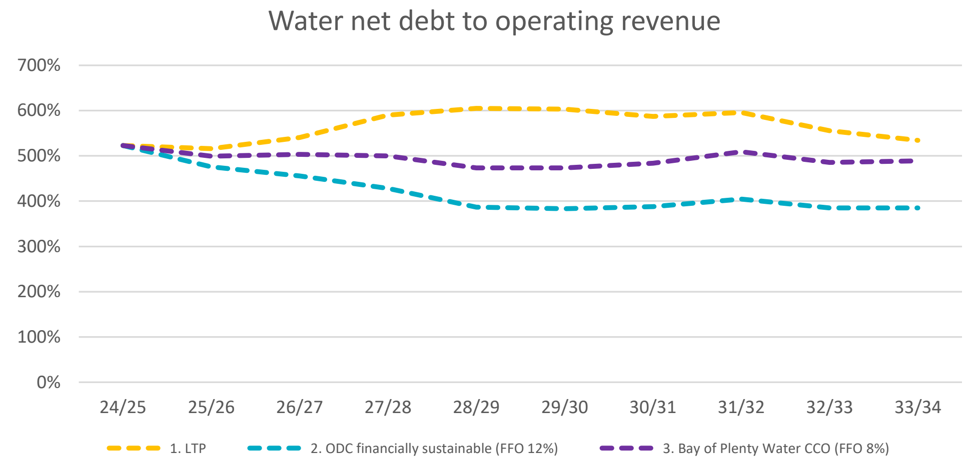
Scenario **1. LTP**: 2024-34 LTP projections;

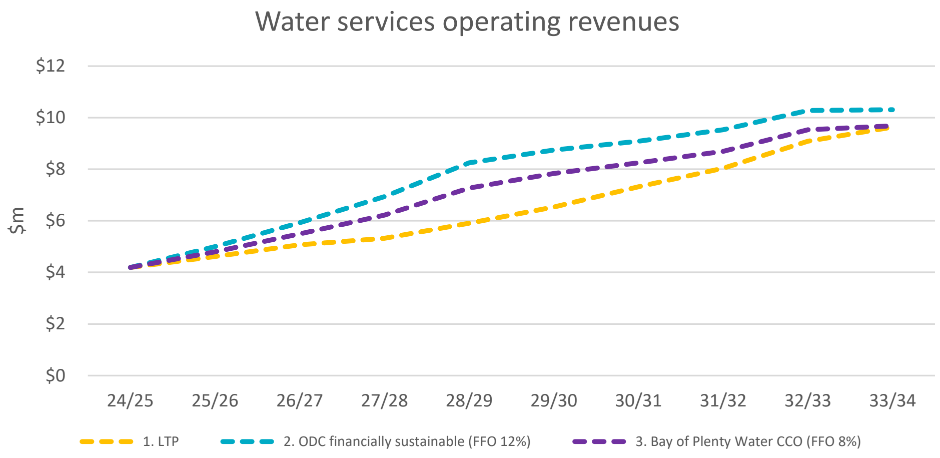
Scenario **2. ODC financially sustainable (FFO 12%)**: 2024-34 LTP projections, modified so that a target FFO to debt ratio of 12% is met from 1 July 2028 onwards; and

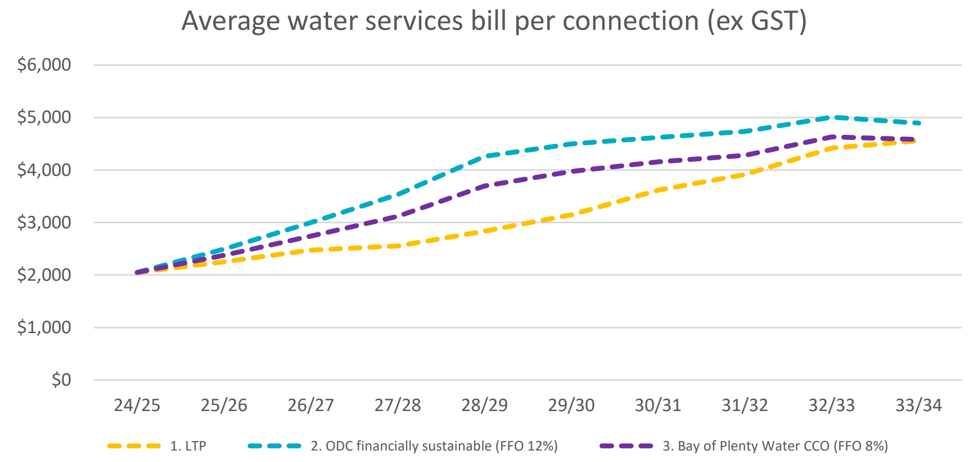
Scenario **3. Bay of Plenty Water CCO (FFO 8%):** 2024-34 LTP projections, modified so that a target FFO to debt ratio of 8% is met from 1 July 2028 onwards.

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









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

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

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

This, however, needs to balanced against affordability considerations.

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

Scenario 2. ODC financially sustainable (FFO 12%)
ODC in-house or new ODC owned CCO with a minimum FFO to net debt ratio of 12% by 1 July 2028; and
Scenario 3. Bay of Plenty Water CCO (FFO 8%)
A regional CCO owned by Bay of Plenty councils, with a minimum FFO to net debt ratio of 8% by 1 July 2028.

Comparison of scenarios for Kawerau District Council

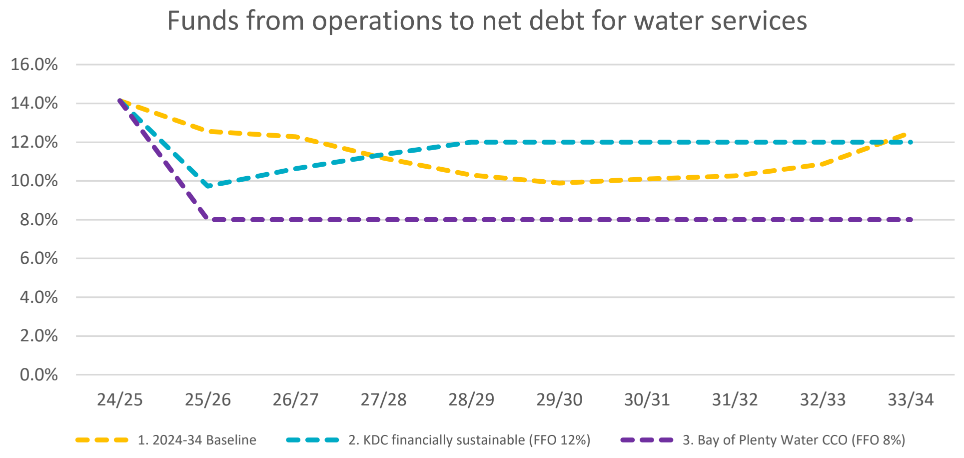
Assuming the LTP level of capital investment as constant ($32 million over ten years) we compare three scenarios:

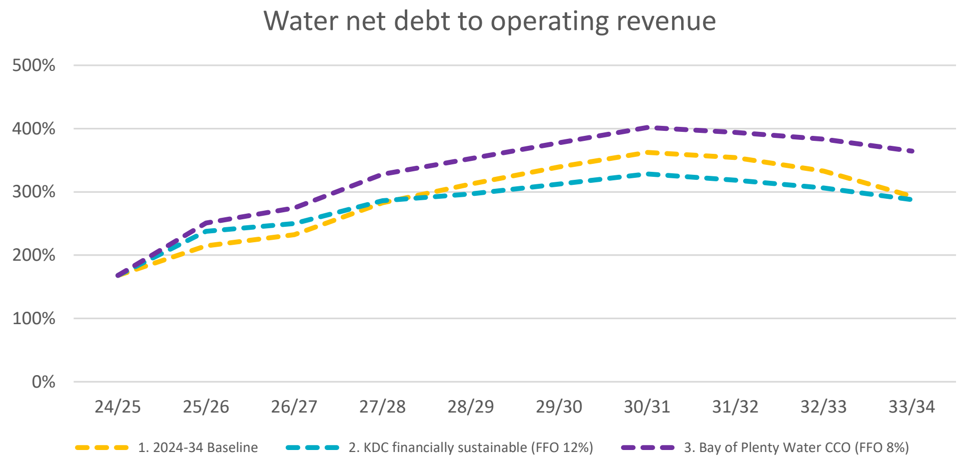
Scenario **1. 2024-34 Baseline**: baseline 2024-34 projections provided by KDC officers;

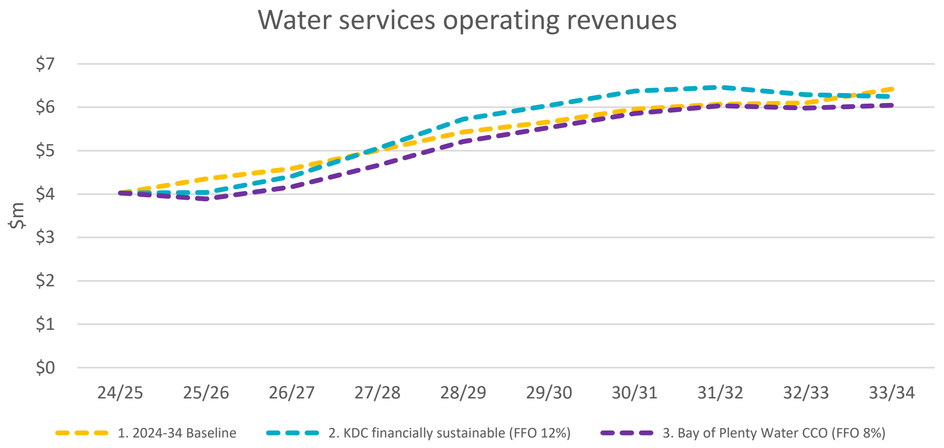
Scenario **2. KDC financially sustainable (FFO 12%)**: baseline projections, modified so that a target FFO to debt ratio of 12% is met from 1 July 2028 onwards; and

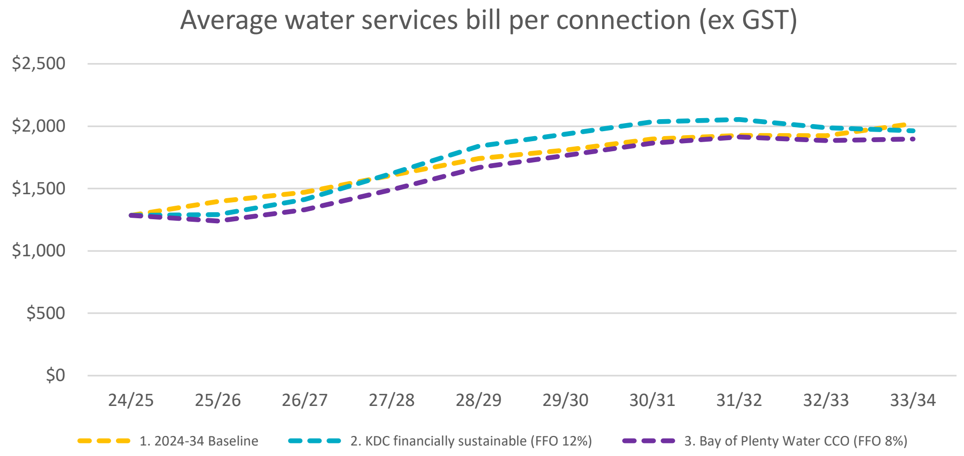
Scenario **3. Bay of Plenty Water CCO (FFO 8%):** baseline projections, modified so that a target FFO to debt ratio of 8% is met from 1 July 2028 onwards.

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









Explanation:

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

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

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

This, however, needs to balanced against affordability considerations.

Recommended scenarios:

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

Scenario 2. KDC financially sustainable (FFO 12%)

KDC in-house or new KDC owned CCO with a minimum FFO to net debt ratio of 12% by 1 July 2028; and

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

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

Analysis and insights

Overview of approach

- Chief Executives from Bay of Plenty councils have sought support from the Department of Internal Affairs ('the Department') to assess the viability of a regional delivery model for water services within the Bay of Plenty.
- We understand that Bay of Plenty councils are actively assessing delivery model options under Local Water Done Well, including:
  - Establishing a regional, multi-council owned Water CCO;
  - Establishing single-council owned Water CCOs; and
  - Continuance of in-house delivery of water services, but ensuring compliance with the financial sustainability requirements of Local Water Done Well.
- Each Bay of Plenty council would benefit from the establishment of a regional Water CCO against other delivery model options. Local Water Done Well provides a significant opportunity to improve the financial sustainability of water services delivery and councils' balance sheets. The New Zealand Local Government Funding Agency's (LGFA) commitment to lend to Water CCOs, and treat their debts as separate to owning councils' borrowings, is key to this.
- LGFA will apply a 'funds from operations' ('FFO') to debt covenant for lending to any Water CCO[1]. LGFA also expect any high-growth council seeking additional borrowing capacity to either establish a Water CCO or ensure that its water services demonstrate the same financial sustainability characteristics as a separate Water CCO.
- The Department has assumed a minimum FFO to debt ratio of 8% for a regional Bay of Plenty Water CCO, for modelling purposes [2]. We expect that a regional Bay of Plenty Water CCO would be able to access more favourable lending terms than single-council owned Water CCOs.
- A Bay of Plenty Water CCO would be financially viable at LTP projected levels of revenue, debt and investment. There is no requirement for price harmonisation or cross-subsidisation between regions to make a Bay of Plenty model work. Under a Bay of Plenty Water CCO participating councils would not have to rely on utilising borrowing capacity from other councils' water services in order to deliver their capital investment programmes.
- Establishing a Water CCO could create new balance sheet capacity of approximately $800 million across the Bay of Plenty councils over ten years. This is due to LGFA's separate treatment of Water CCO's debts from owning councils.
- New balance sheet capacity for Bay of Plenty councils would significantly improve the councils' financial positions. This could allow general rates to be reduced, using this new borrowing capacity to fund future non-water infrastructure investment that would otherwise be rates funded.

Footnotes:

1. FFO to net debt is the metric for determining financial sustainability, and it drives revenues, charges and borrowing requirements for water services. A higher FFO requirement means more revenues to support a given level of borrowings. The higher the FFO, the more financially sustainable the service. This, however, needs to balanced against affordability considerations.
2. Scenarios modelled, underlying assumptions, and considerations for seeking additional borrowing capacity for high growth councils should be tested with LGFA.

Analysis and scenarios

- We have modelled various scenarios to test the financial sustainability of Bay of Plenty councils' water services provision, using 2024-34 LTP information as the starting point (or other baseline financial information provided by councils where LTPs have been deferred for one year).
- We have assumed a **target minimum 'FFO to debt' ratio of 8%** for the purposes of modelling a Bay of Plenty Water CCO, following LGFA's guidance to the sector.
- Assuming the LTP level of capital investment as constant ($3.2 billion over ten years) we compare base scenarios for each council:
  - Scenario **1. LTP**: 2024-34 LTP projections (or other baseline financial projections provided by councils);
  - Scenario **2. Financially sustainable single-council water services delivery**: 2024-34 LTP projections, modified so that a target FFO to debt ratio for an individual council's water services delivery is met from 1 July 2028 onwards;
  - Scenario **3. Bay of Plenty Water CCO**: 2024-34 LTP projections, modified so that a target FFO to debt ratio of 8% is met for each councils' financial projections from 1 July 2028 onwards, as part of a regional Water CCO that can access more favourable lending terms from LGFA.
- This analysis is set out:
  - In Annex 3 - A comparison of Bay of Plenty councils' water services – using baseline / LTP financial projections;
  - In Annex 4 - A comparison of Bay of Plenty councils' water services – updating financial projections for a Bay of Plenty Water CCO (8% FFO); and
  - In Annex 6 - Scenarios for each Bay of Plenty councils' water services provision.
- Commentary on the financial viability of a Bay of Plenty Water CCO is set out in Annex 5.

Key insights on water services and options for Bay of Plenty councils

- **Each Bay of Plenty council would benefit from the establishment of a regional Water CCO** against other delivery model options.
- A **Bay of Plenty Water CCO would be financially viable** at LTP projected levels of revenue, debt and investment. There is **no requirement for price harmonisation or cross-subsidisation** between regions to make a Bay of Plenty model work.
- Under a Bay of Plenty Water CCO participating **councils would not have to rely on utilising borrowing capacity from other councils' water services** in order to deliver their capital investment programmes.
- A **regional Bay of Plenty Water CCO would likely access more favourable lending terms** from LGFA than single-council owned Water CCOs.
- For the given level of investment, the operating revenue requirements and price path are a function of the FFO to debt ratio pathway. The higher the FFO, the more financially sustainable the service. This, however, needs to balanced against affordability considerations.
- Every council in the country has different investment requirements and costs of service. Councils are facing **trade-off decisions between levels of water services revenues, investment and debt financing** to ensure that water services are financially sustainable, while remaining affordable for communities.
- Our analysis for a Bay of Plenty Water CCO retains regional differences to ensure that financial sustainability issues are addressed, and that effective trade-off decisions are made by each council between levels of revenue, debt financing and investment.
- Establishing **a regional Bay of Plenty Water CCO will deliver significant financial benefits to owning councils**, through the establishment of new borrowing headroom, due to water services being higher leveraged than other council activities. If a Water CCO is established, then water services revenues could support water services investment and borrowing requirements directly, without requiring other council revenues for this support.
- This would **create approximately $800 million in new borrowing capacity across the Bay of Plenty councils by FY33/34**. New borrowing headroom created for councils would significantly improve each council's financial position. This could allow general rates to be reduced, using this new borrowing capacity to fund future non-water infrastructure investment that would otherwise be rates funded.
- Due to the financial benefits accruing to owning councils from establishing a Bay of Plenty Water CCO, on an aggregated basis, a Water CCO could enable a lower rates bill to consumers than could be achievable if water services were continued to be run in-house on a financially sustainable basis.
- With the right approach to transition and implementation, establishing a Water CCO could be done in a way that minimises additional costs to consumers.

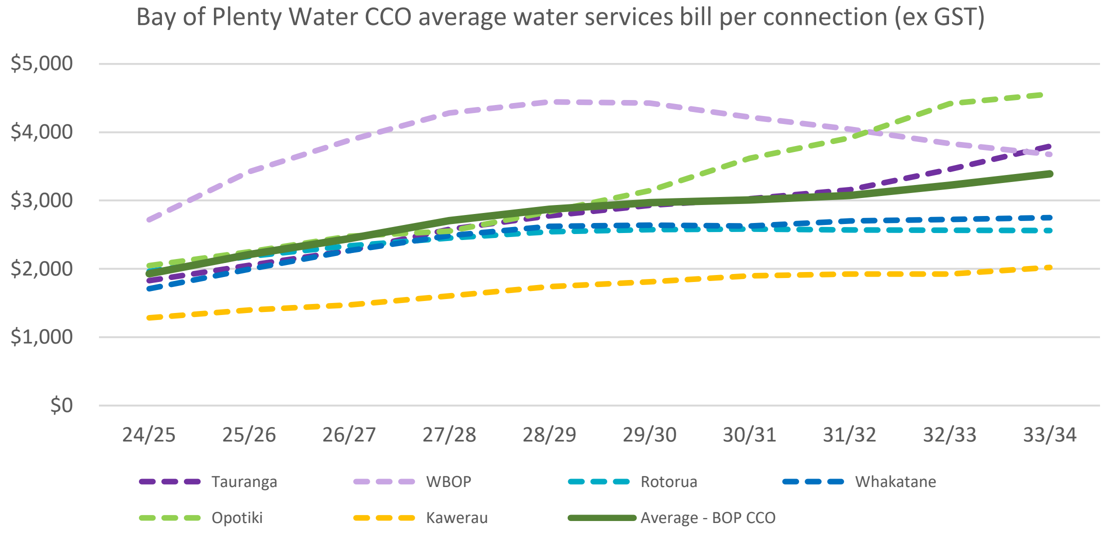
Prices, operating costs and investment for a Bay of Plenty Water CCO

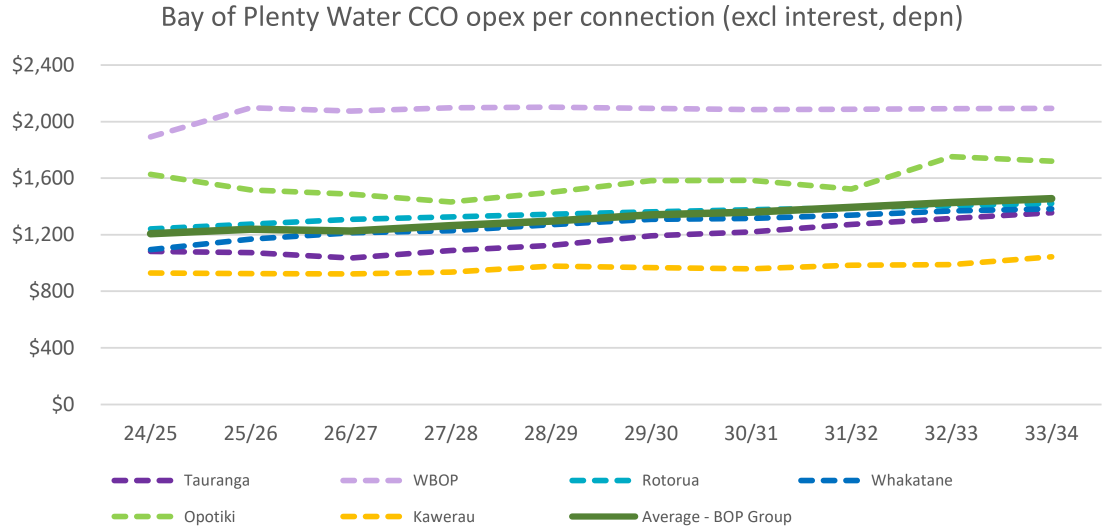
Household water charges are directly determined by proposed levels of investment, operating expenses and the utilisation of debt versus revenue funding of investment. Each council is facing trade-off decisions on these factors.

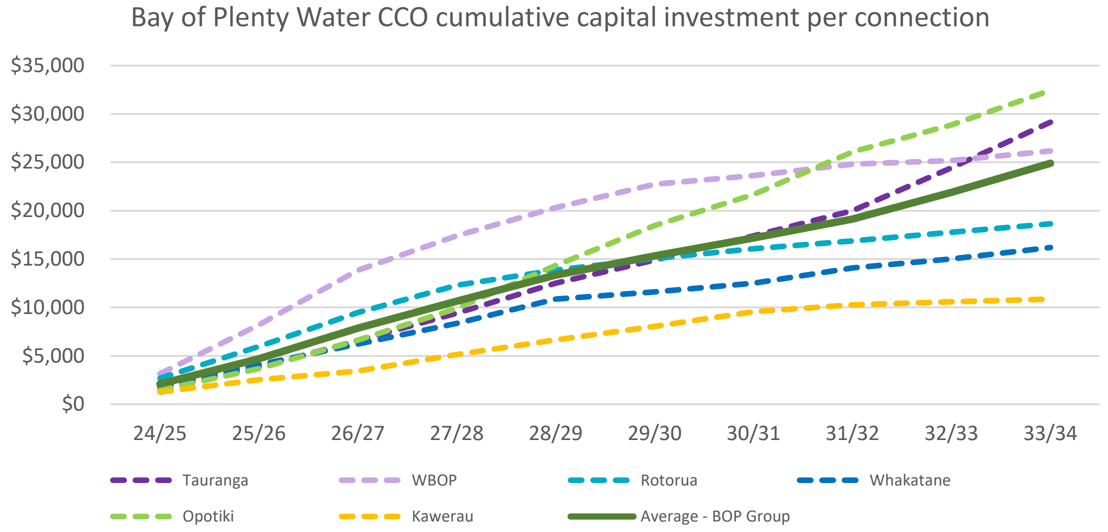
The charts on this slide show projected water services bills, operating costs and investment per connection, for councils under a Bay of Plenty Water CCO. Revenues and debt financing have been **set to maintain a minimum 8% FFO to debt ratio**, and the full investment programmes have been included.

Higher water bills are due to higher operating costs and/or higher borrowings per connection driven by investment (and vice versa for lower water bills).

Further comparative detail for Bay of Plenty councils is set out in annexes 3 and 4. Details on the impact on each council's revenues and debt financing from establishing a Bay of Plenty Water CCO are set out in Annex 6.





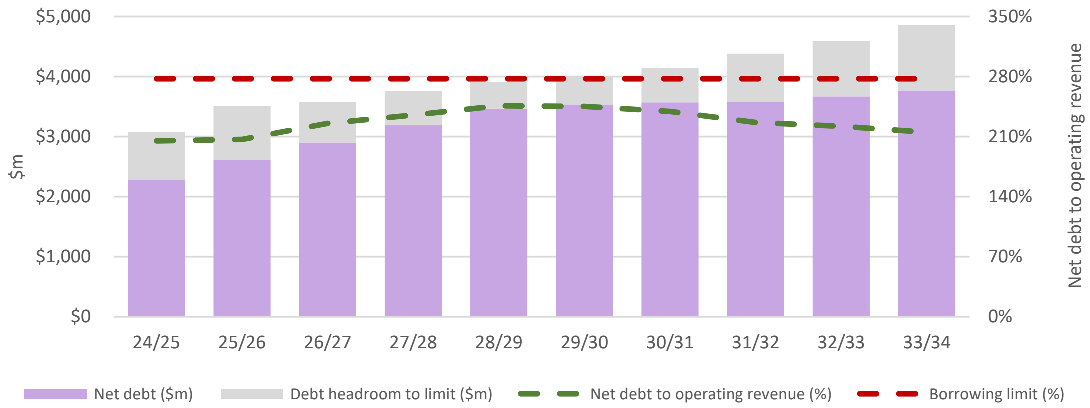


Establishing a Water CCO will allow water revenues to directly support all water services borrowing requirements and create new borrowing headroom for owning councils

LGFA has committed to lend to water CCOs and treat their debt as separate to owning councils' debt, where there is a guarantee or uncalled capital from owning councils in place, and adherence to prudent credit criteria. This means that LGFA would exclude a water CCO's water services debts from owning council's borrowing covenants (e.g., in debt to revenue calculations). This creates new borrowing headroom for owning councils, as water services are higher leveraged than other council business. This slide shows notional headroom created if water is treated separately.

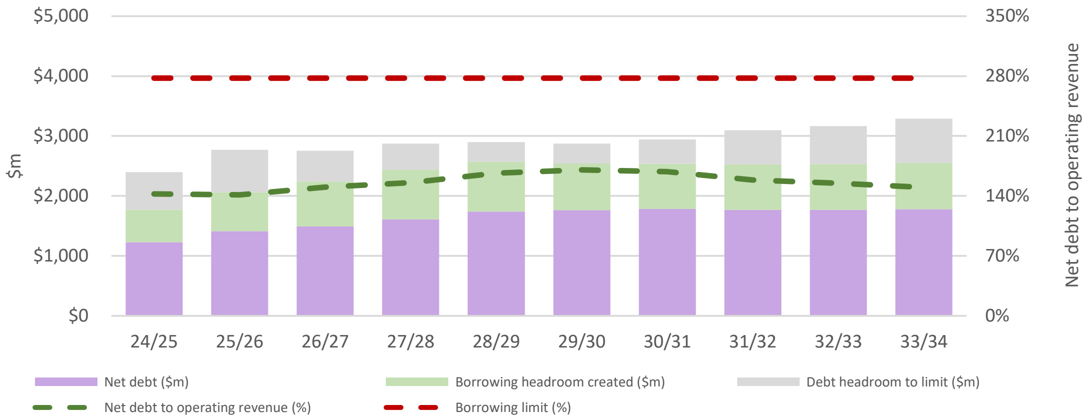
The potential impact on each Bay of Plenty councils' balance sheet from establishing a Water CCO is set out in further detail in Annex 6.

Projected council net debt to operating revenue (including water services)



Note: debt limit is set at approximately 278% which is the weighted average of the councils' credit limits (a mix of 175% and 280%)

Projected council net debt to operating revenue (excluding water services)



Note: debt limit is set at approximately 278% which is the weighted average of the councils' credit limits (a mix of 175% and 280%)

New debt headroom for owning councils ($000)	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Tauranga City Council	293,435	366,056	416,161	449,590	434,136	385,843	399,349	440,115	497,908	568,344
Western Bay of Plenty District Council	95,928	121,489	146,607	167,755	181,172	177,279	142,881	110,924	67,739	16,002
Rotorua District Council	64,682	73,756	85,726	96,870	96,398	95,396	92,822	88,625	85,708	82,511
Whakatane District Council	46,791	50,685	61,779	69,826	68,943	61,621	63,552	71,643	71,556	74,688
Opotiki District Council	19,802	20,657	23,220	26,158	29,199	31,714	34,011	37,708	39,460	40,792
Kawerau District Council	5,602	7,496	8,550	11,431	13,585	15,561	17,838	17,782	16,592	14,991
Total - Bay of Plenty councils	526,241	640,138	742,042	821,630	823,434	767,414	750,453	766,796	778,962	797,328

Next steps

- This guidance is intended to provide analytical support to Bay of Plenty council decision makers on the parameters required for the successful establishment of a regional Water CCO.
- As a next step, each Bay of Plenty council could:
  - Consider and agree key terms and minimum requirements for a regional Water CCO.
  - Consider and confirm levels of water services revenues, operating expenditure, investment and debt financing for a regional Bay of Plenty model, implementation planning and Water Services Delivery Plans.
  - Review and confirm the ringfenced water services balance sheets.
  - Determine whether their councils' financial projections result in charges that are fair and affordable to communities, and any changes that may be needed to better balance affordability and financial sustainability.
- The Department is available to support Bay of Plenty councils, both individually and collectively, to better understand this analysis and support any next steps on a regional model.