Bay of Plenty Water Done Well

Investigating the viability of a Bay of Plenty Water CCO

Supplementary Information

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

Navigating this supplementary information

Financing water services delivery through establishing new Council Controlled Water Organisations

ANNEX 1

Local Water Done Well: A new approach to water services delivery

- The Coalition Government believes **communities are best placed** to make decisions about the future of their water assets.
- Local Water Done Well places **obligations on local authorities** to demonstrate their service delivery arrangements are fit for purpose.
- This includes setting out how their **delivery models** will ensure high-quality, financially sustainable services in the long run. Delivery model options include the establishment of new single-council or multi-council controlled organisations, and consumer trusts.
- The Government expects councils will work together to address **financial sustainability and affordability challenges**.
- All councils are required to **develop Water Services Delivery Plans** which will outline how **water services will be delivered in a financially sustainable manner** by 30 June 2028.

Purpose of Water Services Delivery Plans

The Local Government (Water Services Preliminary Arrangements) Act 2024 sets out the content requirements, timeframe, and process for developing and accepting Plans.

Plans are intended to be a strategic decision-making tool for councils to consider current and future delivery of water services, and will:

- Set out how councils will deliver high-quality, financially sustainable water services in the long run; and
- Include information on councils' water services, how much they need to invest, and how they plan to finance and deliver it through their preferred water service delivery model.

Most information required for the Plans is expected to come from councils' existing documents, such as long-term plans, financial accounts and asset management plans.

- One-off, transitional documents
- Cover drinking water, wastewater and stormwater
- Information to support development of economic regulation
- Can be developed by individual or joint councils
- Streamlined approach to consultation
- 10-year timeframe; may cover up to 30 years, with detailed info on first three

Financial sustainability requirements for water services provision

- The Local Government (Water Services Preliminary Arrangements) Act 2024 defines 'financially sustainable', in relation to a council's delivery of water services, as:
  - The revenue applied to the council's delivery of those water services is sufficient to ensure the council's long-term investment in delivering water services; and
  - The council is financially able to meet all regulatory standards and requirements for the council's delivery of those water services.
- Each council is required to prepare a Water Services Delivery Plan that demonstrates financially sustainable water services provision.
- Under Local Water Done Well, there are minimum requirements that must be met by all water services providers, irrespective of the delivery model. These relate to financial sustainability, ringfencing, a new economic regulation regime, and new planning and accountability requirements, which require the corporatisation of water services and ensuring of appropriate revenues for water services at a minimum.
- To assist with an assessment of whether a council's water services delivery is financially sustainable, the Department has developed the Water Services Delivery Plan template which asks councils to provide information about three components:
  - Revenue sufficiency – is there sufficient revenue to cover the costs (including servicing debt) of water services delivery?
  - Investment sufficiency – is the projected level of investment sufficient to meet regulatory requirements and provide for growth?
  - Financing sufficiency – are funding and finance arrangements sufficient to meet investment requirements?

Council controlled organisations and consumer trusts are among the delivery models proposed under Local Water Done Well

The LGFA financing solution is currently available for these two delivery models, and is the focus of this guidance

Consumer trust models have different financing considerations and are not currently able to borrow from LGFA

1	Internal business unit or division	• Status quo for many councils • Minimum requirements for water service providers will apply • New financial sustainability, ringfencing rules, and economic regulation will apply
2	Single council-owned water organisation	• New company established, 100% owned by the council • Financial sustainability rules will apply, but retains a financial link to the council • Councils with existing water council-controlled organisations will be required to meet minimum requirements. • Can access LGFA financing up to the equivalent of 500% of operating revenues with the provision of parent support (through guarantee or uncalled capital)
3	Multi-council owned water organisation	• New company established with multi-council ownership • Appointment of a Board through shareholder council (or similar body) is advisable but not a statutory requirement • Can access LGFA financing up to the equivalent of 500% of operating revenues with the provision of parent support (through proportional guarantee or uncalled capital)
4	Mixed council/consumer trust owned	• Consumer trust established to part-own a water organisation • One or more councils own the remainder of the shares • Structure enables financially independent organisation to be established while retaining some council ownership
5	Consumer Trust owned	• Council transfers assets to consumer trust owned organisation • Consumers elect trustees to represent their interests in the organisation • Most financially independent delivery model

Accessing higher levels of borrowing from LGFA can improve the financial sustainability of water service delivery

LGFA have agreed in principle to lend up to an equivalent of 500% of operating revenues to council-controlled water organisations.

This creates additional debt borrowing capacity for both the water organisation and for owning councils.

There are significant benefits for councils that establish water CCOs to access the additional debt financing LGFA can provide. We encourage councils to consider what a water CCO could achieve for your council and communities.

Potential to reduce to cost to ratepayers	Utilising debt financing for capital investment reduces the requirement to generate operating revenues and surpluses to direct fund capital expenditure. This has the potential to reduce the cost to ratepayers.
Spreading the cost over time	Debt financing allows the CCO to spread the cost of large investments over years or decades. By using debt, the council ensures that the cost of the asset is shared across those who will benefit from it in the future.
Immediate access to funding	Debt provides immediate access to capital, enabling necessary investment to be funded and delivered, without having to wait years to accumulate sufficient rates revenue. For water infrastructure assets, enabling timely investment reduces the risk of further network degradation.
Maintaining service levels	Debt financing allows councils to avoid steep rate hikes, while still being able to fund important projects and maintain or improve service levels for the community.
Utilising rates for operating costs and debt servicing	By using debt to fund capital expenditure, critical services are not being compromised or traded off to fund large projects. Operating revenues can be set to an appropriate level to cover the operating cost of service (including servicing debt) and operating cash margins required to access debt financing.
Cash reserve and flexibility	Debt financing can allow the council to preserve financial reserves for emergencies or other priority areas.

Increased access to financing enables the adoption of a fit-for-purpose financing strategy for water services delivery

An efficient financing strategy for water services enabled by a water CCO that can borrow through LGFA

- **Operating revenues pay for operating costs plus provide minimum operating cash margins required to access debt financing.**
- **Capital investment requirements funded by capital sources - i.e., capital revenues (such as Development Contributions) and debt financing.**
- It is highly inefficient to fund capital investment for long-lived water services infrastructure through operating revenues.
- In LTPs, councils are proposing approximately $40 billion of capital investment for water services over ten years. Only $13.4 billion of this investment is proposed to be debt funded on a net basis over ten years (34% of the total); with operating revenues proposed to fund $20.7 billion worth of investment (53% of the total).
- Establishing a water CCO that can access additional debt financing from LGFA enables councils to increase the proportion of infrastructure investment that is debt financed, reducing the incidence of operating revenues paying for capital investment, leading to lower charges to consumers.

'Operating revenues pay for operating costs'

- Financial sustainability and ringfencing requirements mean that operating revenues should be set to a level that covers the operating cost (including servicing debt) of water services.
- Operating revenues should cover all cash operating expenses plus a minimum FFO requirement (indicatively equivalent to 8 – 10%+ of net debt each year, depending on credit profile).
- This ensures that sufficient operating cashflows are secured to support borrowing and investment requirements (including staying below borrowing limits).
- Setting operating revenues to levels higher than needed to cover cash operating costs and debt servicing/support requirements is inefficient when there is available debt capacity to fund investment requirements.
- Operating cashflows can be used to manage or repay existing debt, rather than fund new capital expenditure.

'Capital sources pay for capital investment'

- Capital expenditure should be funded from capital sources – i.e., capital revenues (such as Development Contributions) and debt financing.
- New debt drawdowns for capital investment reduces the cost burden on current ratepayers and consumers; and enables this cost to be spread over the useful life of the asset.
- Capital inflows (including new borrowings) and capital outflows (i.e., investment) should balance, once accounting for any free operating cash flow generated from revenues that is used to pay down existing debt.
- Utilising capital sources of funding for capital investment limits the operating revenues needed to what is required from a FFO to debt covenant requirement, and to prudently pay down existing debt over time.
- This approach could replace current council approaches to funding of depreciation to generate cash reserves to fund capital investment. Depreciation funding in effect pre-funds capital investment and results in a higher cost to consumers than using effective debt financing for investment.

Update on LGFA requirements and 'prudent credit criteria'

- On 20 December 2024, the New Zealand Local Government Funding Agency ('LGFA') updated councils on LGFA requirements for Water CCO lending.
- This update included further information on components for the 'prudent credit criteria' that LGFA proposes to have in place to enable water CCOs to borrow from LGFA.
- A critical component of the 'prudent credit criteria' is that a 'funds from operations' ('FFO') to debt covenant would be required, with an expected minimum 'FFO to debt' ratio of between 8% and 12%, depending on a credit risk assessment to be undertaken by LGFA.
- The Department views the FFO to debt measure as the most critical component of assessing the financial sustainability of water services provision, as it:
    - Provides a benchmark for ensuring that operating revenues are set to an appropriate level to cover the costs of service (i.e., to meet the 'revenue sufficiency test'); and
    - Provides a benchmark for ensuring that financing can be secured to deliver investment requirements, as it is a critical covenant for accessing LGFA financing for a stand-alone water services provider.
- Irrespective of a council's preferred delivery model, the Department's view on financial sustainability will be anchored around ensuring that water services financial projections include sufficient operating revenues to meet a minimum 'FFO to debt' ratio, based on our expectation of what LGFA's covenant requirement would be for direct financing a Water CCO consisting of that council's water services.

The ‘FFO to debt’ ratio is key to financial sustainability

What is the ‘FFO to debt’ ratio?

- The FFO to debt ratio is a leverage ratio that a credit rating agency, investor or lender can use to evaluate an organisation’s financial risk. The ratio compares the cash generated from an organisation’s operations to its total borrowings, and represents this as a percentage ratio.
- For example, for an organisation that has an FFO to debt ratio of 10%, this means that operating cash margins generated in one year are equal to 10% of the organisation’s borrowings. This also means that ten years of operations would be required to fully pay down existing borrowings (being the inverse of the ratio, 1 / 10%).

What are funds from operations?

- FFO can also be defined as ‘free operating cash flow’ and represents the amount of cash that is generated by operating revenues in any year, after cash operating costs have been paid.
- For Water Services Delivery Plans, the Department suggests that FFO is calculated as: *operating revenue minus operating expenses plus depreciation and other non-cash expenses, less interest revenue*. It is important to note that non-cash items such as depreciation are excluded, and that capital revenues such as development contributions are also excluded, from this calculation.

Why is FFO to debt a key financial sustainability measure?

- This measure provides a clear picture of an organisation’s ability to generate cash solely from its core operations, excluding financing and investing activities. FFO is considered a reliable indicator of a company's financial performance because it focuses on the cash flows directly related to the organisation’s primary business activities.
- FFO plays a significant role in evaluating an organisation’s creditworthiness, and for determining expected returns for lenders (where a more ‘risky’ lend commands higher premiums to compensate lenders for that risk).
- LGFA (and ultimately credit rating agencies) will assess a Water CCO’s FFO to form a view on its ability to generate sufficient cash flow to service its debt obligations.

Considering the 'FFO to debt' ratio under Local Water Done Well

How does the setting of minimum FFO to debt requirements impact revenue requirements and prices paid by consumers?

- The minimum FFO to debt ratio requirement directly determines the minimum amount of operating cash margins required to be generated, in order to comply with the covenant. In turn, this impacts the minimum operating revenue and maximum cash operating costs that are tolerable, as they determine the 'funds from operations'.
- A higher minimum FFO to debt ratio requirement (of, say, 12% at the upper limit of LGFA's reported band) would require higher operating revenues (and consumer charges) than a lower minimum FFO to debt ratio requirement (of, say, 8%) for any given level of operating expenses and borrowings.

What minimum FFO to debt ratio assumption should be used for assessing different delivery models?

- The Department has assumed minimum FFO to debt ratio requirements for this analysis, which councils can rely on for decisions on delivery models and for confirming the financial sustainability of water services delivery in Water Services Delivery Plans. Where a new Water CCO is established and seeks to borrow from LGFA, LGFA would determine in its discretion the minimum requirements.
- The Department's assumptions for minimum FFO requirements are set out in Annex 2, and represent an indicative assessment of the creditworthiness of various delivery model options.
- Factors that have been considered in determining these assumed minimum requirements are serviced population (as a measure of scale); geographical diversification of consumers and infrastructure assets; investment and borrowing requirements; and the ability to identify and deliver capital and operating efficiencies to manage costs and/or comply with direction from the Economic Regulator.

Assumptions and limitations of analysis

ANNEX 2

Key assumptions underpinning analysis

- The analysis included in this guidance is primarily based on financial information included in council's 2024-34 long-term plans, specifically the funding impact statements for the water services. The Department has sought further input assumptions from councils where this data is not readily available in LTPs (including opening asset, debt and cash balances).
- The analysis assumed that the level of proposed investment in each council's LTP is adequate to meet the 'investment sufficiency test' for Water Services Delivery Plans. The level of projected investment is kept constant across presented options.
- Operating costs (except for interest costs) are kept in line with LTP information under all scenarios. Similarly, capital revenues and non-rates sources of operating revenues are held constant against LTP.
- Minimum 'FFO to debt' ratio assumptions utilised for this analysis are as follows. The largest driver of determining assumed minimum requirements is serviced population, with a further discount applied for a regional Water CCO to reflect a larger geographical spread of consumers and infrastructure assets:
  - For a Bay of Plenty Water CCO comprising the water services of the Bay of Plenty councils – 8% (set to the lower end of LGFA's reported band);
  - For water services provision undertaken by Tauranga City Council – 9% (assumed 1% premium against the band minimum due to serviced population);
  - For water services provision undertaken by Rotorua Lakes District Council – 11% (assumed 1% discount against the band maximum due to serviced population);
  - For water services provision undertaken by Kawerau District Council, Opotiki District Council, Western Bay of Plenty District Council, and Whakatane District Council – 12% (set to the upper end of LGFA's reported band).
- Under each scenario run, we have calculated the revenue and borrowings required to deliver LTP proposed levels of investment, by determining the appropriate mix of revenues and debt financing needed for the 'FFO to debt' ratio to remain at the assumed minimum requirement above each year.
- For comparison purposes, FY2024/25 financials are not adjusted under scenarios. Financial projections from FY2025/26 are adjusted to demonstrate the different average charges required.

Limitations and exclusions of analysis

The analysis underpinning this guidance has been completed to demonstrate the revenue and financing sufficiency requirements, and differences in financing 'efficiency', under different delivery models. To enable direct comparison of the impact of financing efficiency and minimum revenue requirements for each council, we have excluded from this analysis:

- Any new establishment or operating costs under any delivery model;
- Any new costs relating to the requirement to comply with new requirements under Local Water Done Well, such as economic regulation and the new Planning & Accountability framework, which would apply under all delivery models.
- Any reduction in operating resources and costs that could be achieved under a consolidated regional Water CCO, where duplicated effort and resourcing could be identified.
- Any operating and capital efficiencies that could be generated from the establishment of new Water CCOs, and/or from compliance with future directives from the Economic Regulator.
- Any reduction to investment requirements that could be achieved due to announced future regulatory changes, including a single wastewater standard and National Engineering Design Standards.

The Department's view is that the above items are immaterial to an assessment of the relative financial sustainability and benefits of various delivery model options, but that they should form a critical part of implementation planning for a council's proposed delivery model.

Comparison of Bay of Plenty councils’ water services – using baseline / LTP financial projections

ANNEX 3

Per connection comparison of Bay of Plenty councils (over five years, LTP data)

A Bay of Plenty Water CCO could operate as an aggregation of the participating councils' individual water services requirements and maintain regional differences

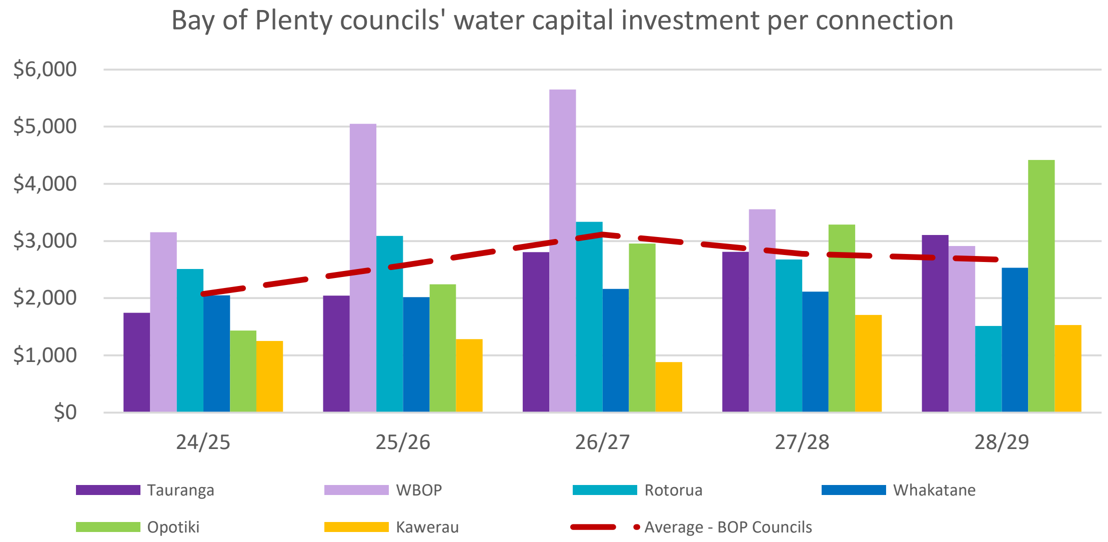
Under Local Water Done Well **there is no requirement to harmonise prices** across councils where a regional model is progressed.

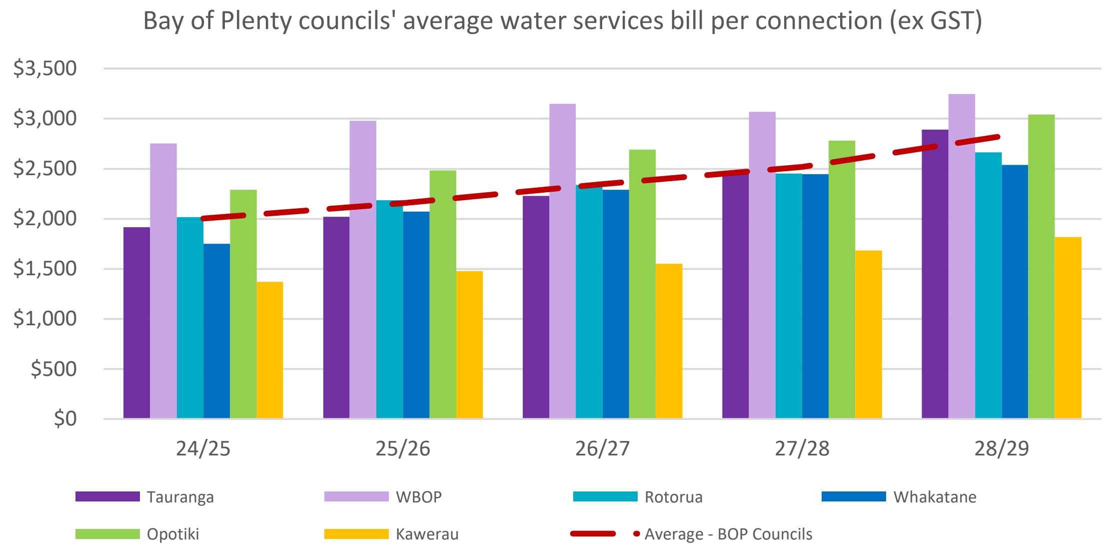
Each council's water services network, investment requirements and costs of service are unique and different to other Bay of Plenty councils.

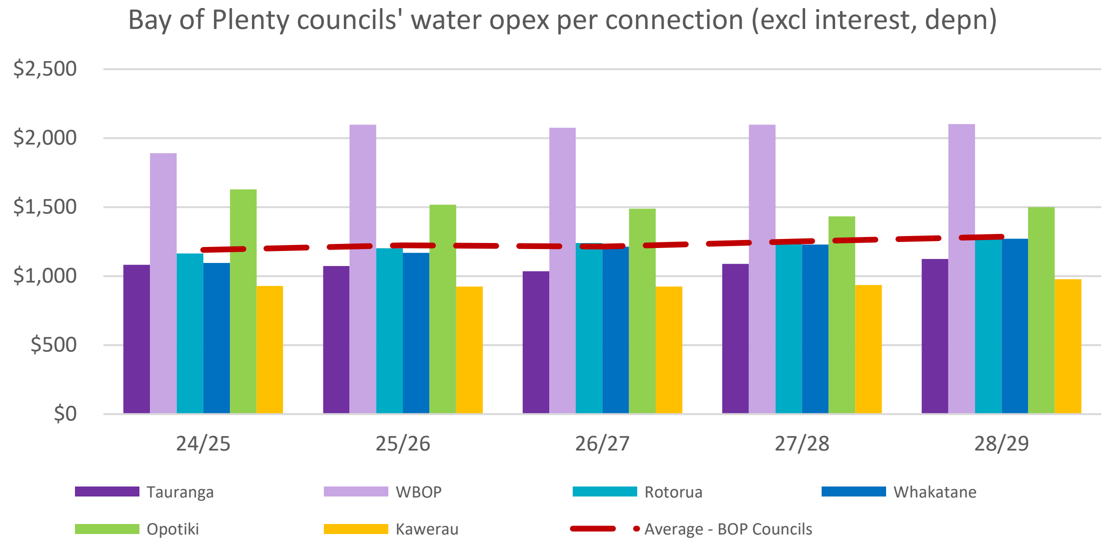
We recommend that Bay of Plenty councils look to initially **maintain regional pricing differences that reflect regional differences in the costs of service**.

Operating revenues, costs and investment as set out in baseline financial projections (primarily 2024-34 LTPs) are shown to enable comparison across the Bay of Plenty councils. A weighted average across Bay of Plenty councils is shown indicatively.

Each council has trade-off decisions to make between levels of revenue, investment and debt financing to strike an appropriate balance for consumers, as part of a Bay of Plenty Water CCO.





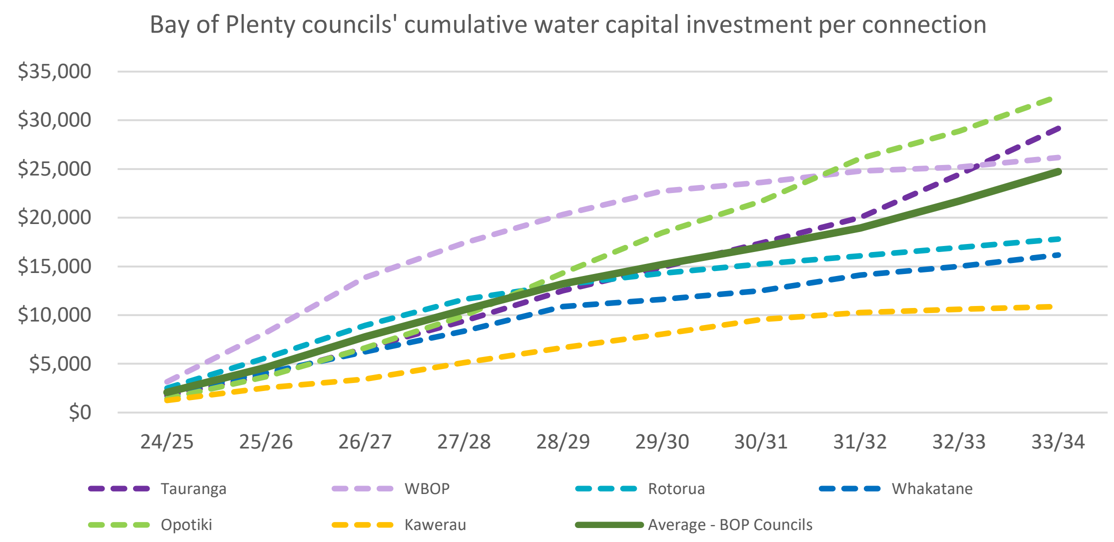


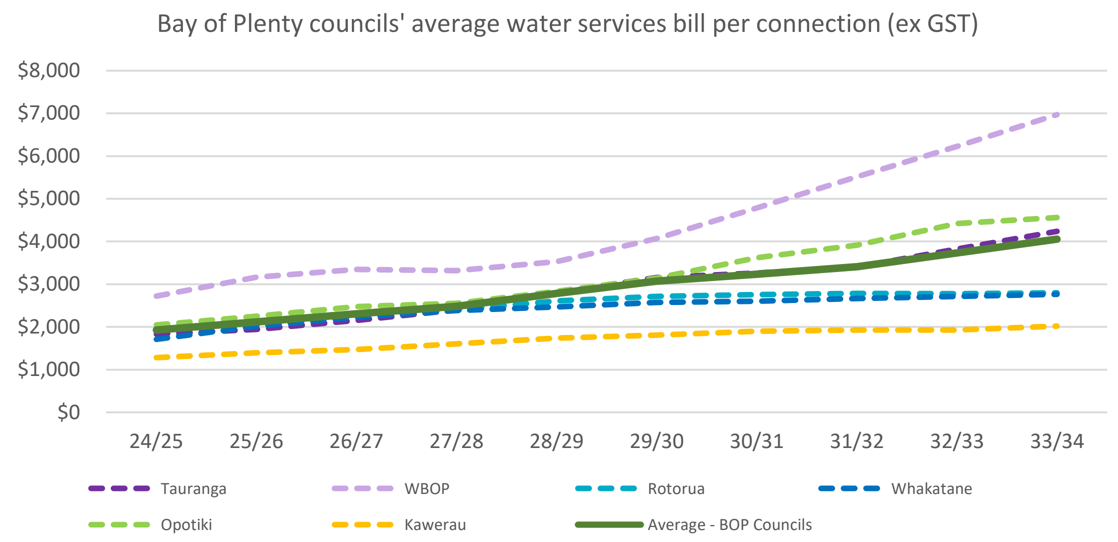
Further comparison of Bay of Plenty councils on a per connection basis (LTP data)

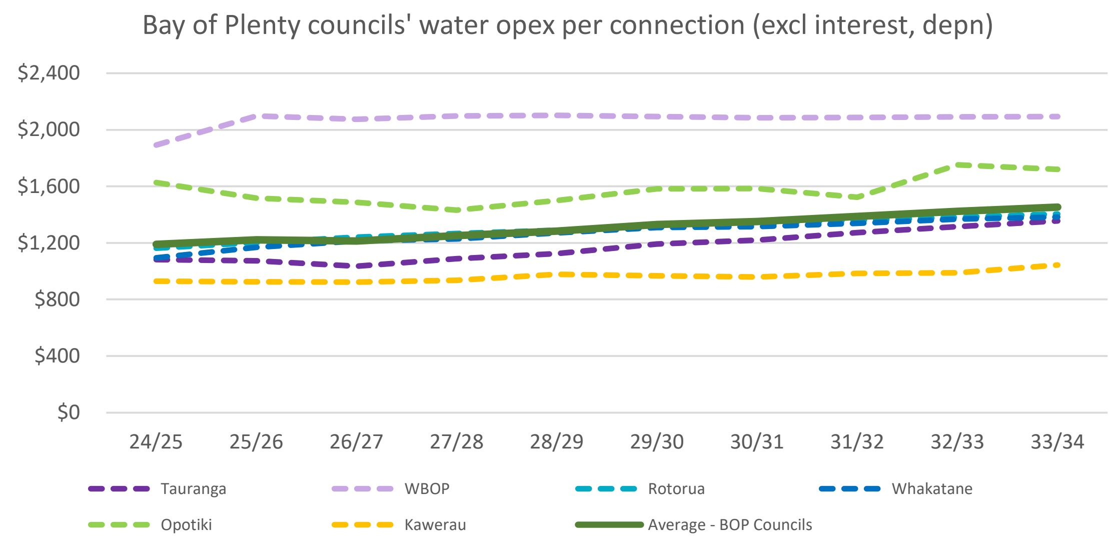
Household charges are a function of costs of service and levels of investment required

Average water charges are directly impacted by proposed levels of investment, operating expenses and the utilisation of debt financing versus revenue funding of investment. Each council is facing trade-off decisions on these factors to strike the right balance for their communities.

Each council should separately determine the financial projections that should be used under a Bay of Plenty Water CCO for subsequent analysis, implementation planning and for Water Services Delivery Plans (if a regional model is to be pursued).







Comparing water services financing across Bay of Plenty councils (LTP data)

A Bay of Plenty Water CCO could access sufficient debt financing from LGFA; however, there are regional differences across councils

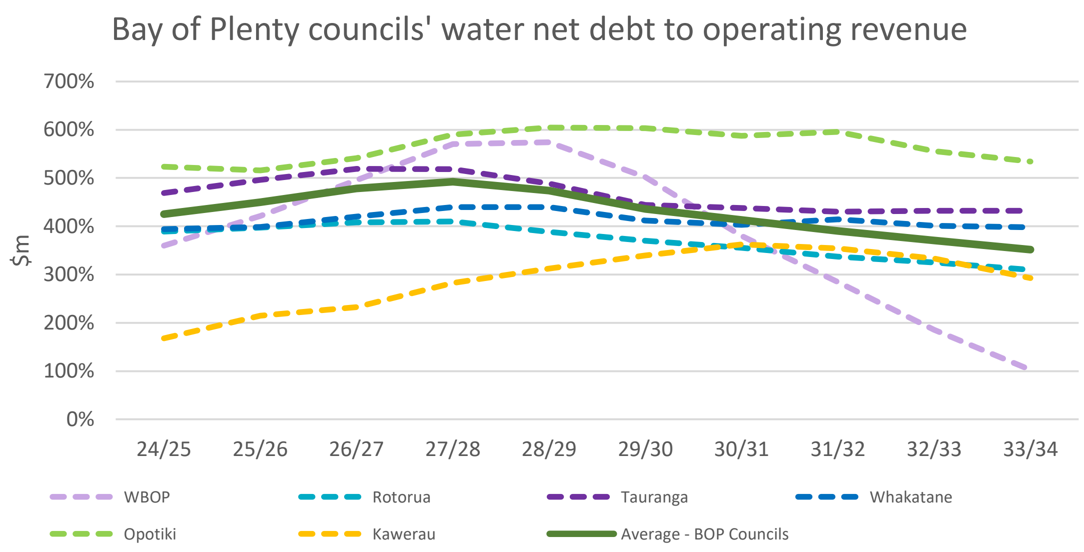
A consolidated Bay of Plenty Water CCO could access the necessary debt financing required to deliver the proposed levels of investment as set out in the financial projections included in this pack.

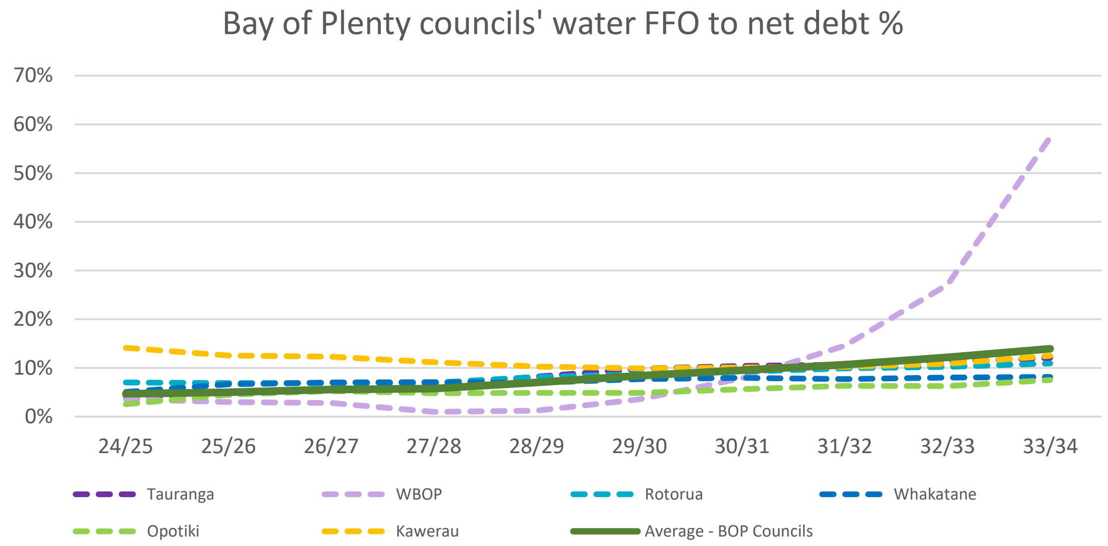
Bay of Plenty councils may wish to consider trade-offs between levels of revenue and investment, and of debt financing versus revenue funding of investment.

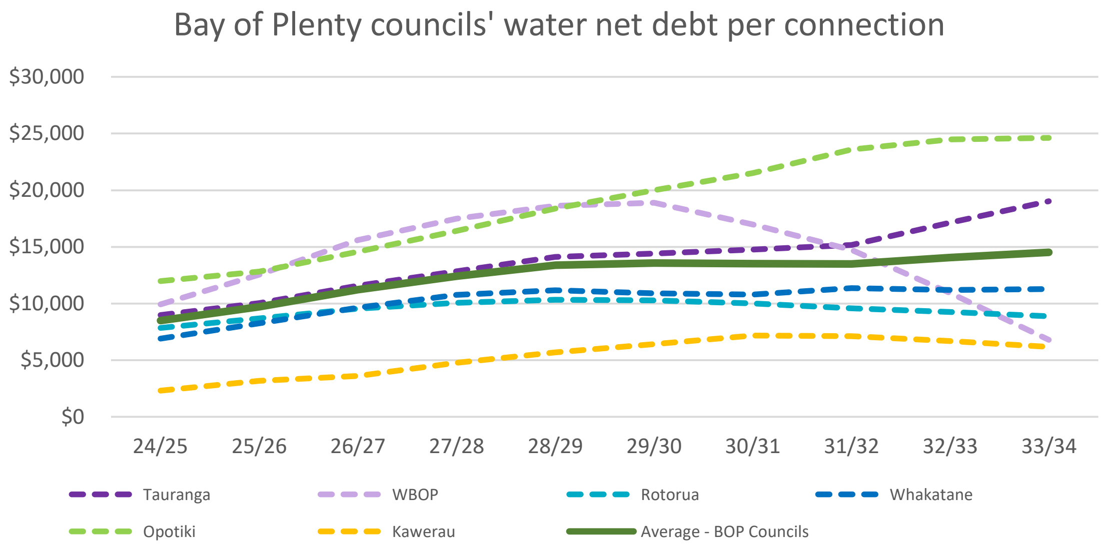
When considering these trade-offs each council should aim to:

- Keep debt to revenue at or below 500% of revenues (where possible); and
- Ensure a minimum FFO to debt ratio of 8% is maintained under a regional CCO model.

Where a council's FFO to debt is below 8% beyond FY27/28, consideration should be given to rebalancing revenues, operating costs and/or investment levels.







Comparison of Bay of Plenty councils' water services – updating financial projections for a Bay of Plenty Water CCO

ANNEX 4

Per connection comparison of Bay of Plenty councils (financial projections updated for minimum Bay of Plenty Water CCO FFO to net debt requirements)

Average charges per connection may change for each Bay of Plenty council under a regional Bay of Plenty CCO

If a regional Bay of Plenty Water CCO was established, each council could reset their water services revenue requirements to maintain minimum borrowing covenant requirements from LGFA.

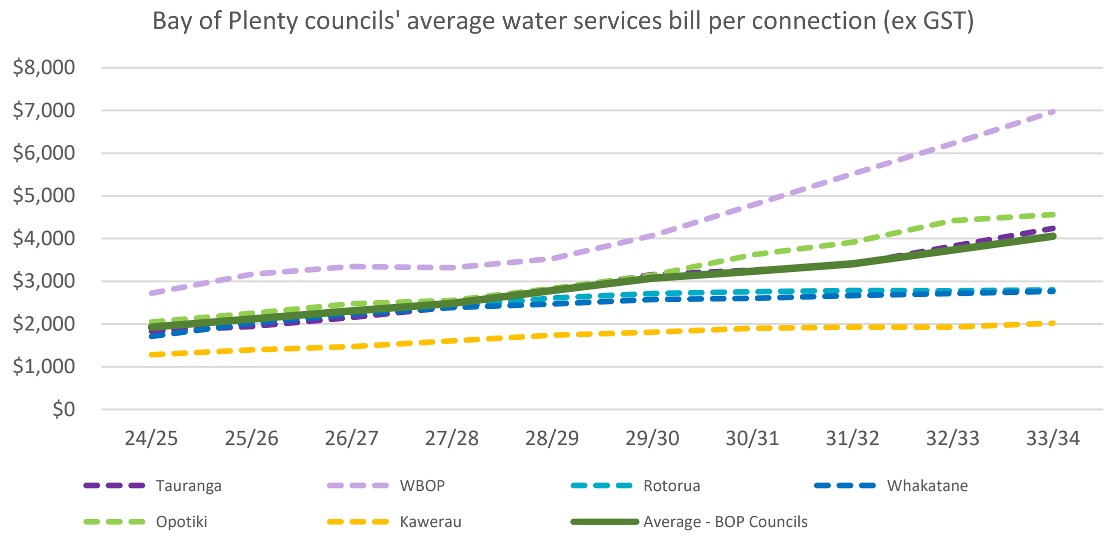
This would enable effective pricing of water to ensure financial sustainability of water services provision (by ensuring sufficient revenues) whilst benefiting from financing efficiencies that can be unlocked from a larger, regional water CCO that can borrow from LGFA at more favourable covenants than councils can currently.

For the same levels of capital investment and operating costs as set out in 2024-34 LTPs, this could result in changes to revenue requirements, and consequently household charges.

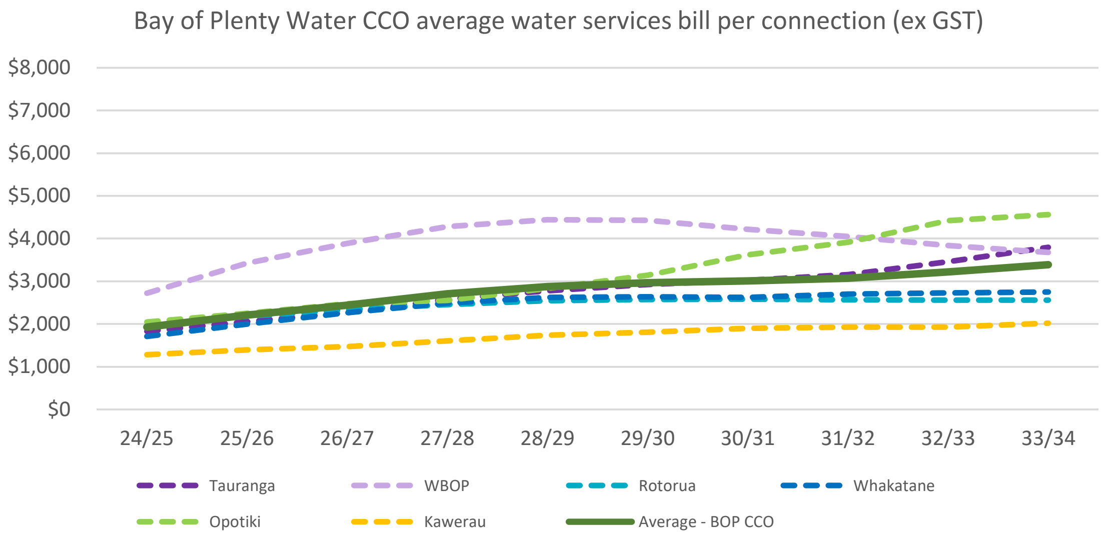
The charts below compares projected average charges per connection for each Bay of Plenty council based on 2024-34 LTP projections with projected average charges per connection under a Regional Bay of Plenty Water CCO, adjusted to ensure sufficient revenues and efficient use of debt financing to fund capital investment.

Annex 6 provides further illustrative detail for each Bay of Plenty council, comparing 2024-34 LTP projections to financially sustainable projections for each council's portion of a regional Bay of Plenty Water CCO.

Projected charges in 2024-34 LTPs



Projected charges recalculated in a Bay of Plenty Water CCO (FFO 8%)



Water services financing across Bay of Plenty councils in a Bay of Plenty Water CCO

Resetting each council's financial projections to a minimum FFO to net debt requirement would ensure that a Bay of Plenty Water CCO's leverage would be within a tolerable range for LGFA lending

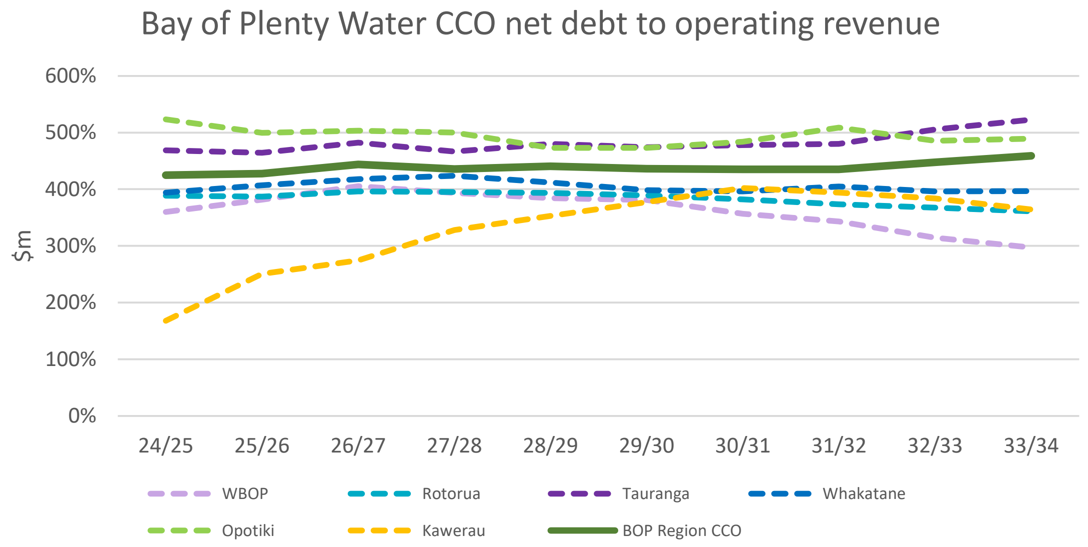
When revenue and debt funding sources are recalculated to anchor around a minimum FFO to net debt requirement, this changes the borrowing profile of Bay of Plenty councils' water services.

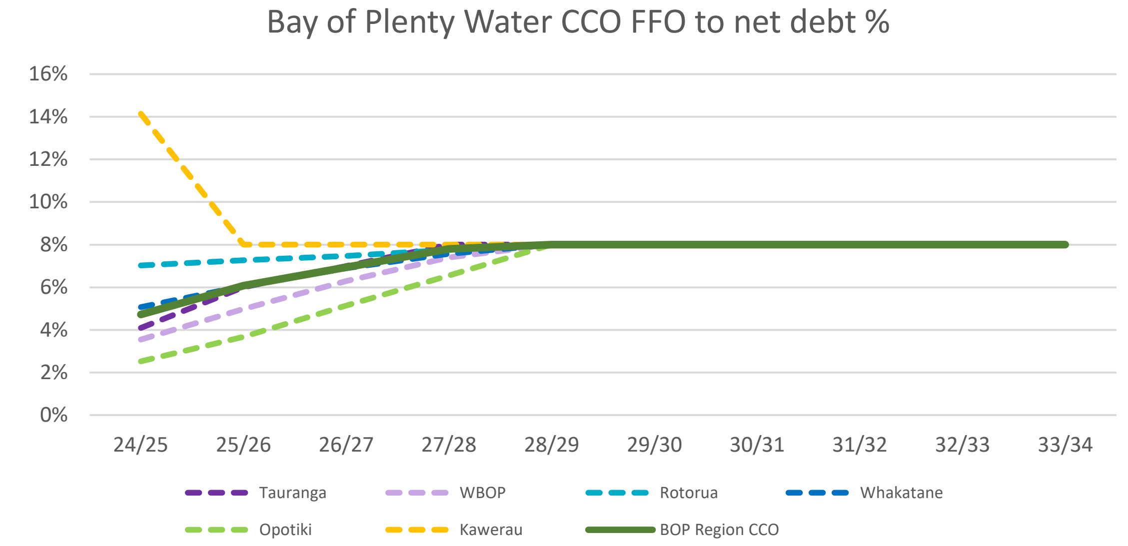
The analysis assumes that all councils water services funding sources are reset to ensure a target 8% FFO to net debt ratio is met from FY28/29.

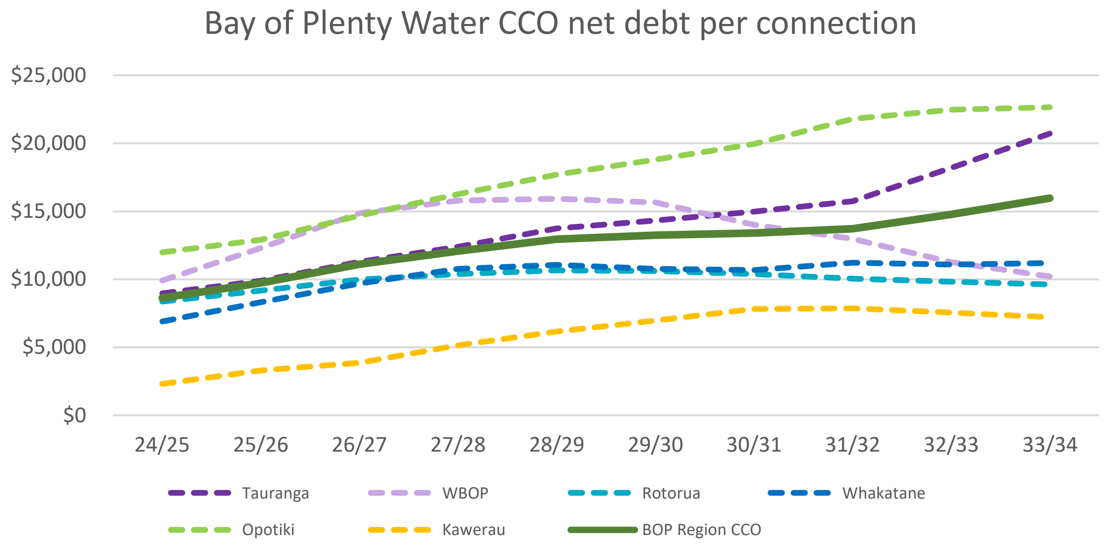
Anchoring to a minimum operating cashflow requirement to service debt smooths out borrowing requirements, where:

- New borrowings are drawn down to fund new capital investment; and
- Operating revenues provide sufficient cash margins to pay down 8% of the outstanding debt balance each year.

Annex 6 provides further illustrative detail for each Bay of Plenty council, comparing 2024-34 LTP projections to financially sustainable projections for each council's portion of a regional Bay of Plenty Water CCO.







Assessing the financial viability of a Bay of Plenty Water CCO

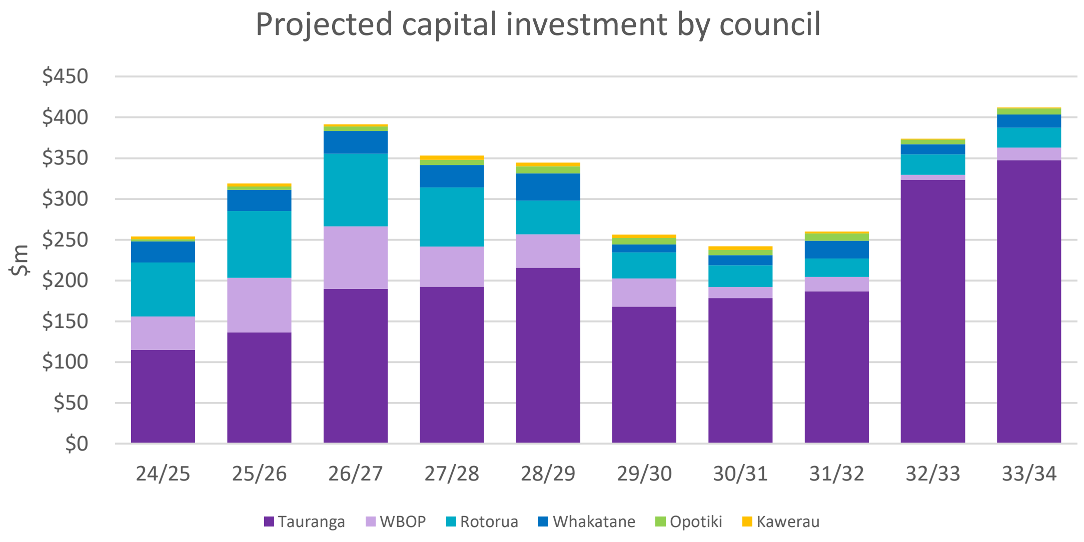
ANNEX 5

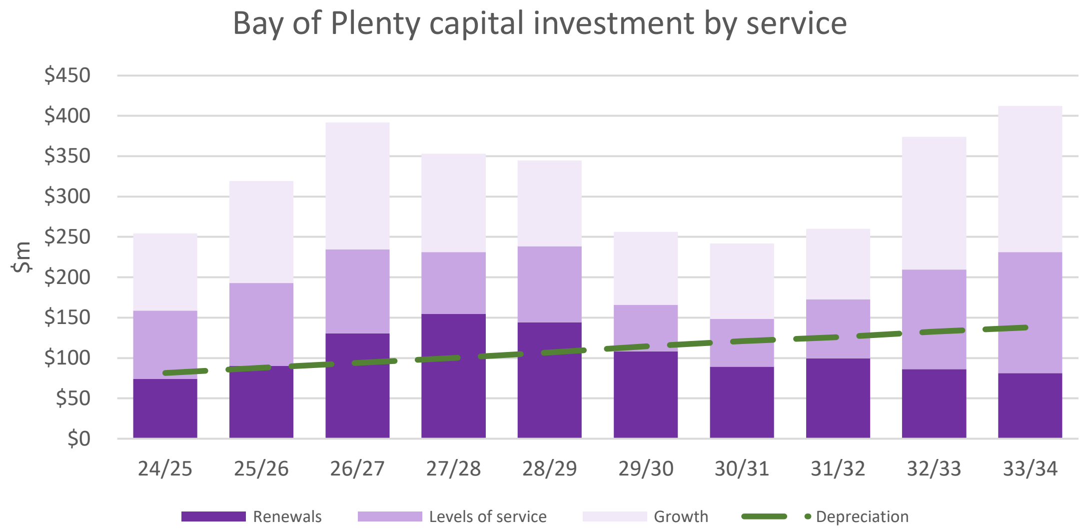
Bay of Plenty combined water services capital investment

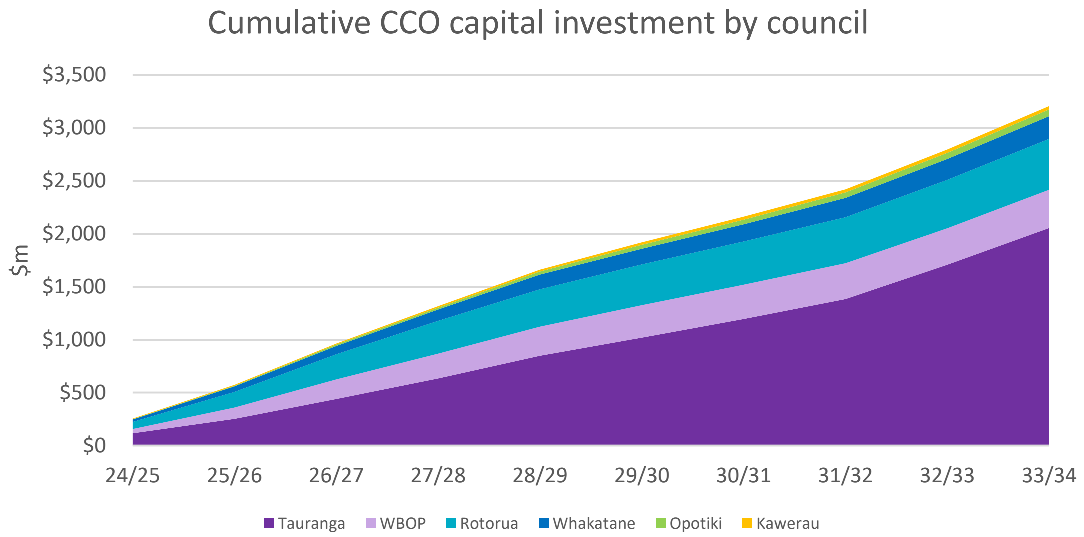
Overview of regional water services capital investment requirements

Bay of Plenty councils are cumulatively projecting $3.2 billion of capital investment into water services infrastructure over ten years. This proposed level of investment is substantial – approximately triple projected depreciation charges over ten years.

While this capital programme is fundable for a Bay of Plenty Water CCO, there may be merit in the Bay of Plenty councils working together on a joint investment programme to determine the most efficient and deliverable phasing of investment, and to identify opportunities to reduce costs. Consideration should also be given to any reduction to investment requirements that could be achieved due to announced future regulatory changes, including a single wastewater standard and National Engineering Design Standards.







Bay of Plenty Water CCO financial viability – LTP projected revenues and debt financing

Overview of water services revenues and debt financing at LTP projected levels

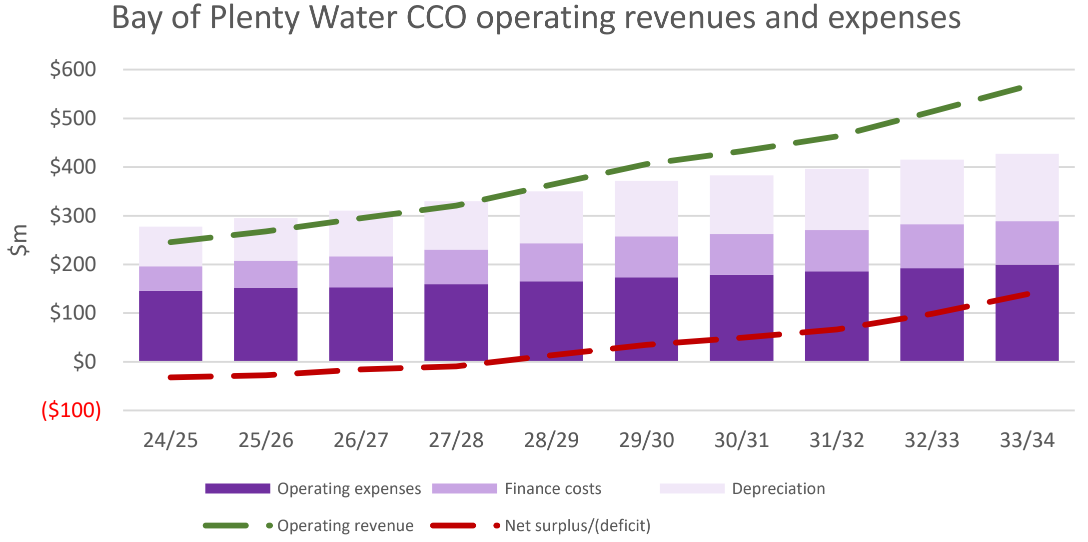
The projected levels of water services revenues are sufficient for the level of investment and expenditure proposed, and fully cover all operating costs including depreciation from FY28/29.

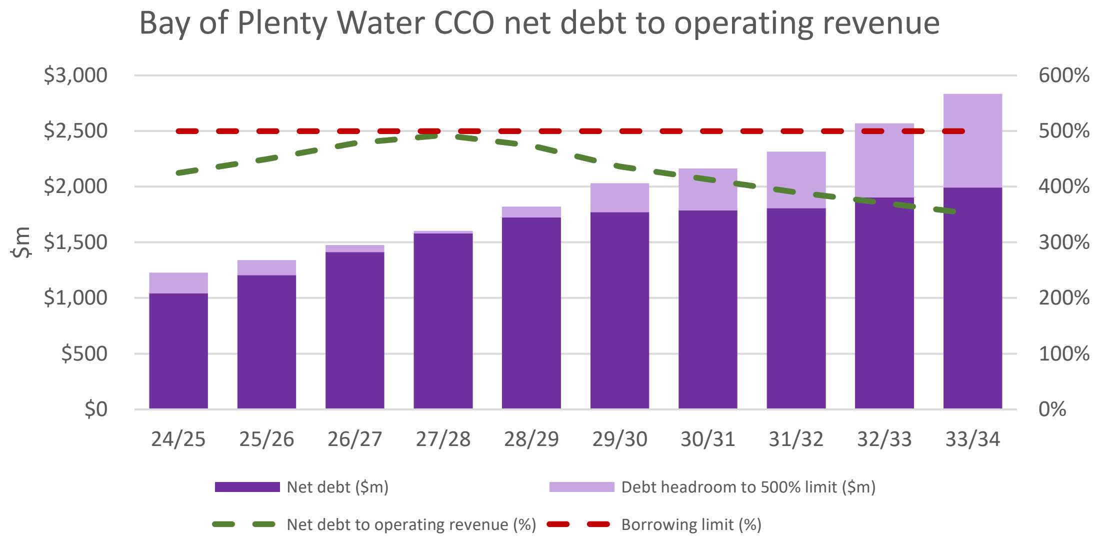
Bay of Plenty councils are projecting high leverage for water services in 2024-34 LTPs. On a simple aggregation basis, net debt to revenue would peak at near to 500% of operating revenues in FY27/28, before subsequent revenue increases generate debt repayments.

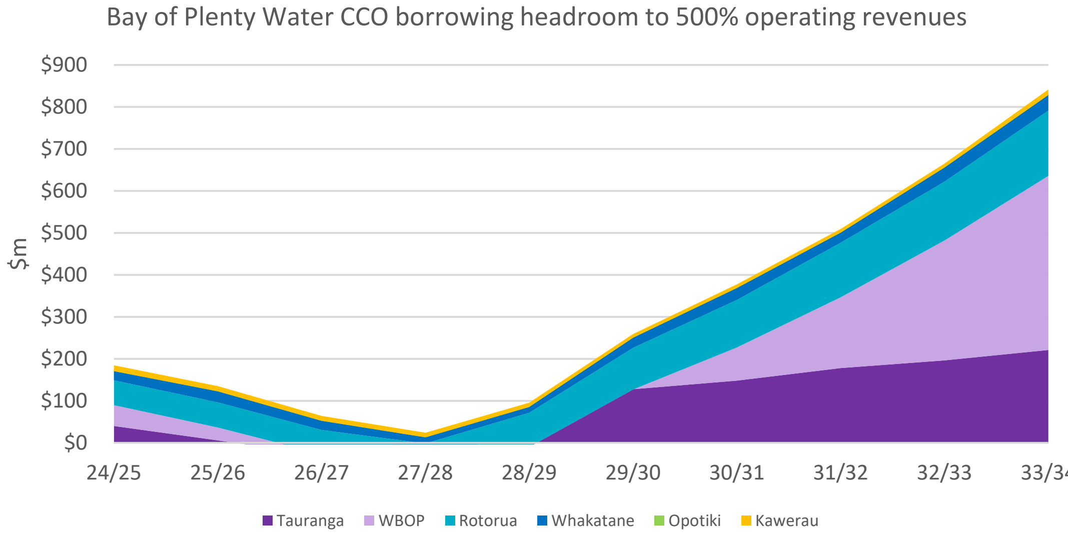
LGFA lending to Water CCOs will require FFO to net debt covenants as opposed to debt to revenue covenants, which is fundamentally different to council covenants for LGFA borrowing.

Each council has trade-off decisions to make between levels of revenue, investment and debt financing to strike an appropriate balance for consumers, as part of a regional Water CCO. **Each council should reevaluate the level of water services revenues required, for the level of investment proposed, to ensure compliance with expected LGFA covenants.**

On the following slide we have reset the revenue and debt financing, anchored to an FFO to debt ratio of 8% to demonstrate this.







Bay of Plenty Water CCO financial viability – updated revenue and financing to meet minimum FFO requirement

Overview of water services revenues and debt financing at minimum FFO levels

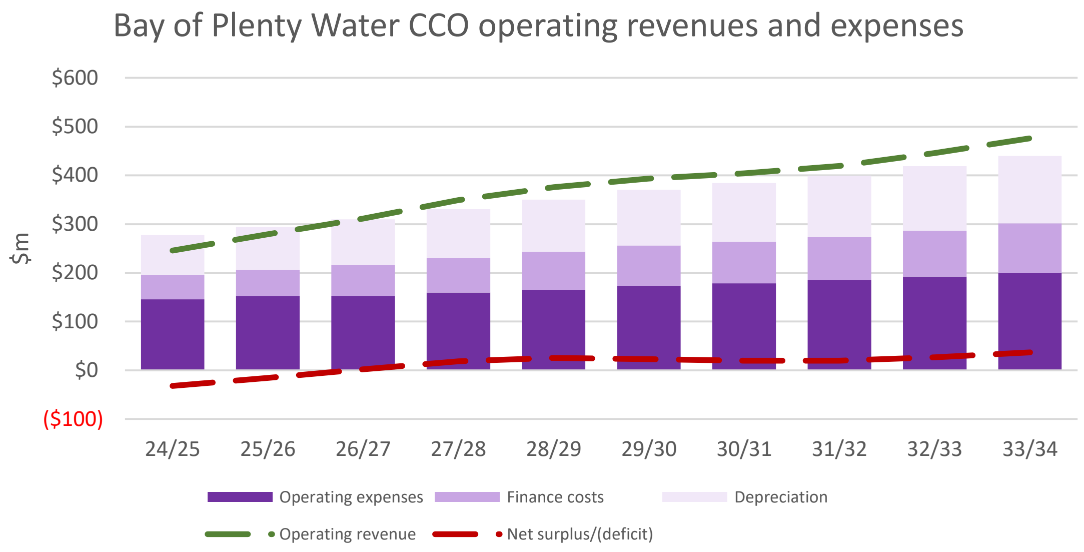
The 2024-34 LTP projected levels of water services revenues are sufficient in aggregate across the Bay of Plenty councils to form a viable Bay of Plenty Water CCO.

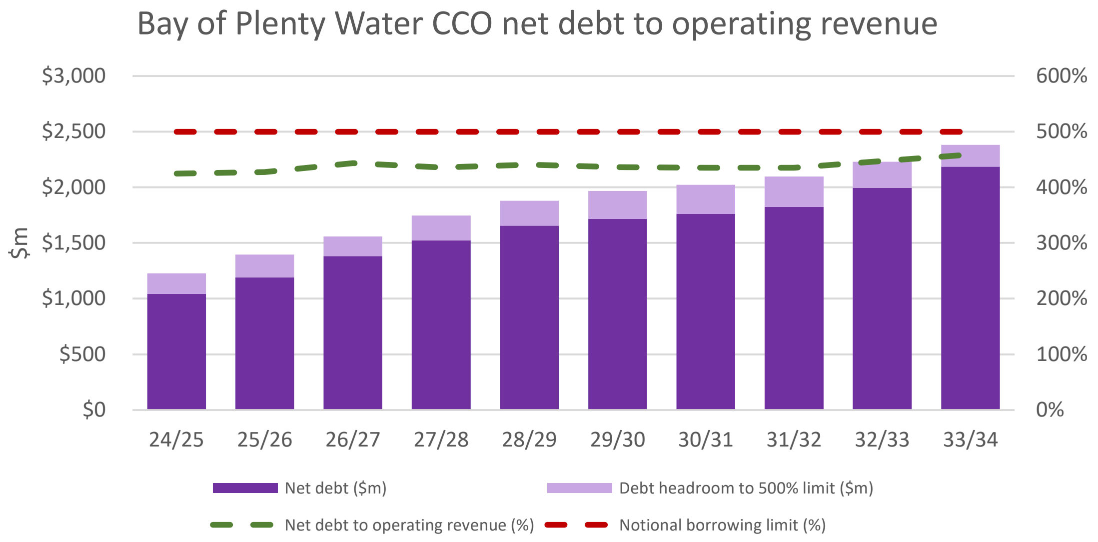
The financing efficiency of a regional CCO could be utilised to reset revenues to the minimum requirement to meet borrowing covenants – primarily on an FFO to net debt basis (assumed 8%).

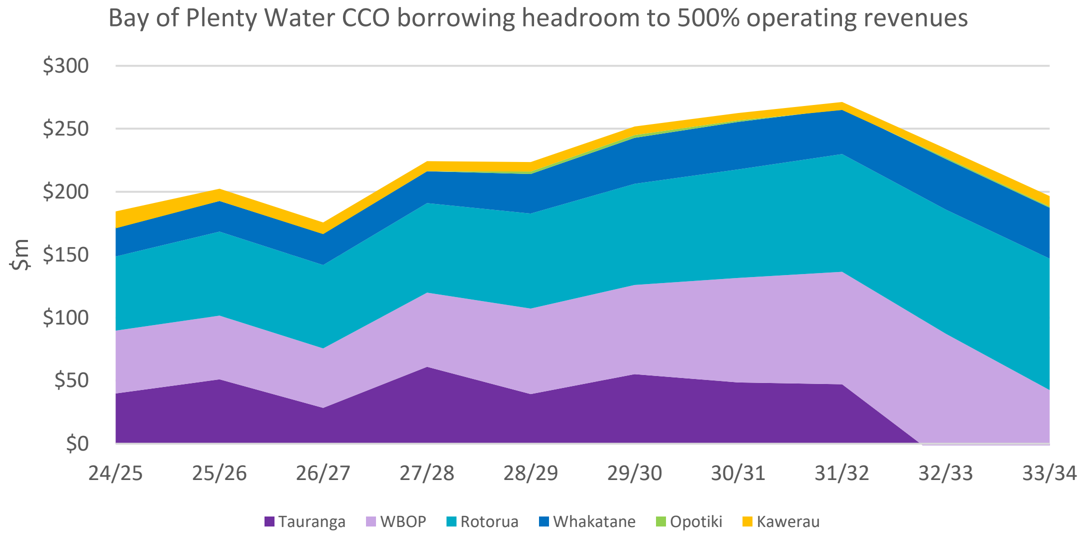
We have modelled a Bay of Plenty Water CCO, amending the borrowing profile and revenue requirements to prudently utilise borrowing capacity and minimise revenue requirements, against the assumed minimum FFO requirement.

To meet a minimum FFO requirement would require lower revenue requirements in later years of the LTP period, as financing efficiencies kick in.

Each council has trade-off decisions to make between levels of revenue, investment and debt financing to strike an appropriate balance for consumers, as part of a regional Water CCO, which could unlock more efficient utilisation of financing and lower charges for consumers.

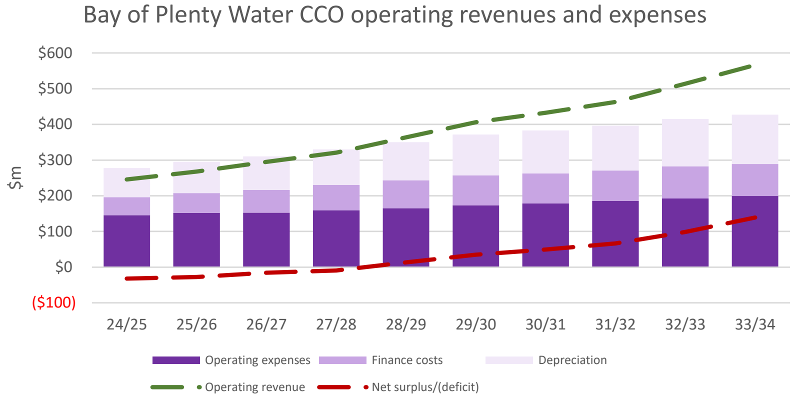


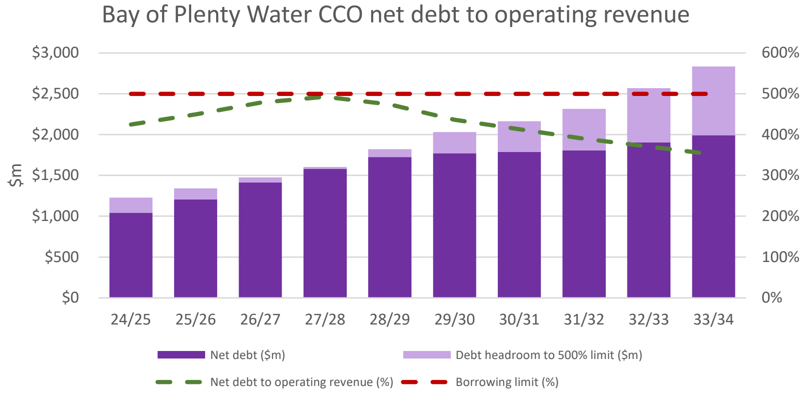


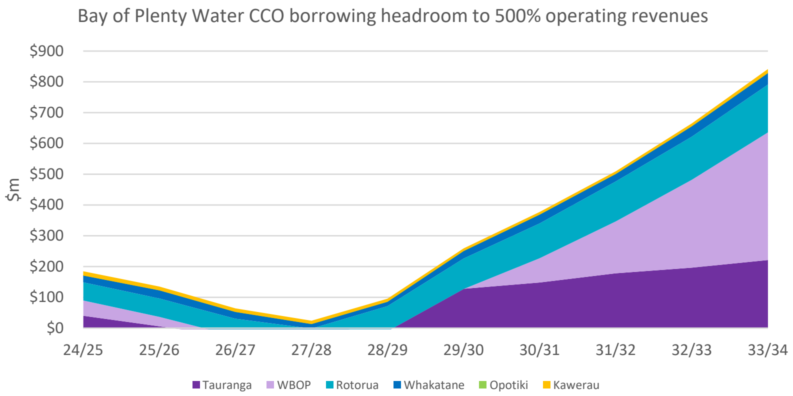


Comparing LTP projections to Bay of Plenty Water CCO projections that utilise debt financing in a way to meet expected LGFA covenants

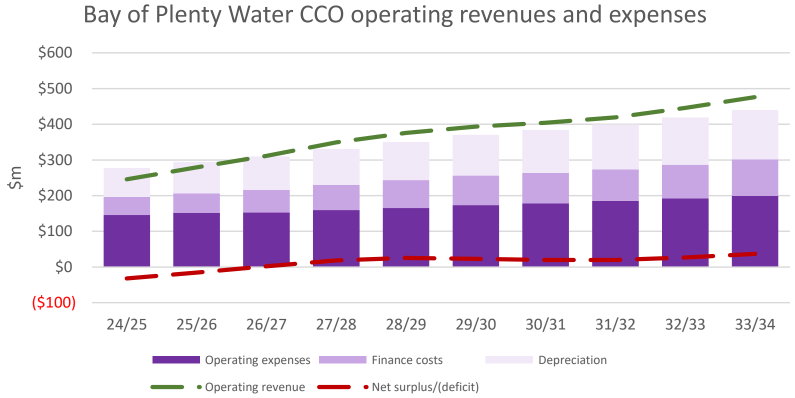
LTP projected revenues and debt financing

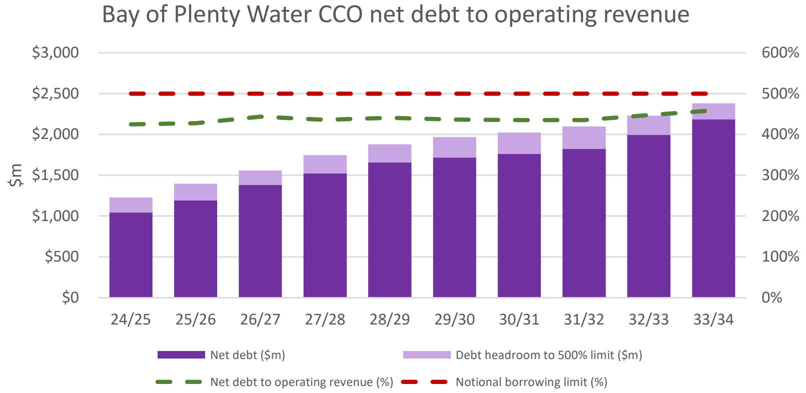


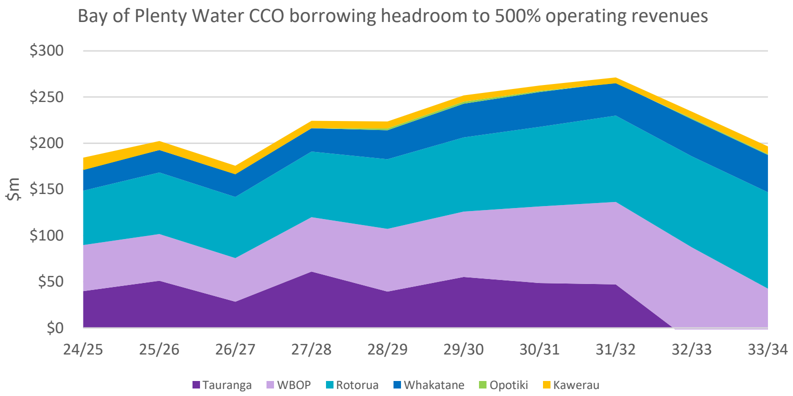




Regional Water CCO projections that meet assumed minimum FFO requirements (8%)







Comment on operating revenues and expenses

LTP projections show revenues increasing significantly above operating costs (including depreciation) in the last five years of LTP.

These operating revenue increases generate substantial operating cash margins, as depreciation is a non-cash item, which are used to pay down debt.

A regional Water CCO would not need to meet a 'balanced budget' requirement, so depreciation charges would not necessarily need to be covered by operating revenues, if that was inefficient from a financing perspective.

To meet a minimum 8% FFO requirement under a Bay of Plenty Water CCO would require lower revenue requirements in later years of the 2024-34 LTP period, as financing efficiencies kick in.

Comment on net debt to operating revenue

LGFA will treat the borrowings of a water CCO as separate to owning councils.

In LTPs water borrowing requirements are substantial and take councils up close to borrowing limits, meaning that revenue increases are required to pay down debt to more manageable levels over the ten-year LTP period.

With a Water CCO, this constraint is removed, replaced by a shareholding council guarantee or uncalled capital.

This means that substantial projected revenue increases could be avoided, if a Bay of Plenty Water CCO maintained its leverage position towards its borrowing limit, while prudently ensuring that a minimum FFO to debt ratio is maintained.

Comment on net debt to operating revenue

Due to LTP projected revenue increases and debt repayments in the last 5 years of the LTP period, a Bay of Plenty Water CCO that adopted those baseline projections would result in significant underutilisation of borrowing capacity from FY29/30, paid for by increases in revenues and charges to households.

Setting revenues to a target FFO to debt ratio means that debt is prudently managed by generating the amount of operating cashflow that is needed to service and pay down the debt over a reasonable time period.

Utilisation of borrowing capacity, for any given level of capital investment over time, results in lower revenue requirements and lower charges to consumers.

A Bay of Plenty Water CCO would need to determine an appropriate level of borrowing headroom to prudently manage risk and maintain an ability to respond to shocks or urgent investment requirements.

Scenarios for Bay of Plenty councils’ water services provision

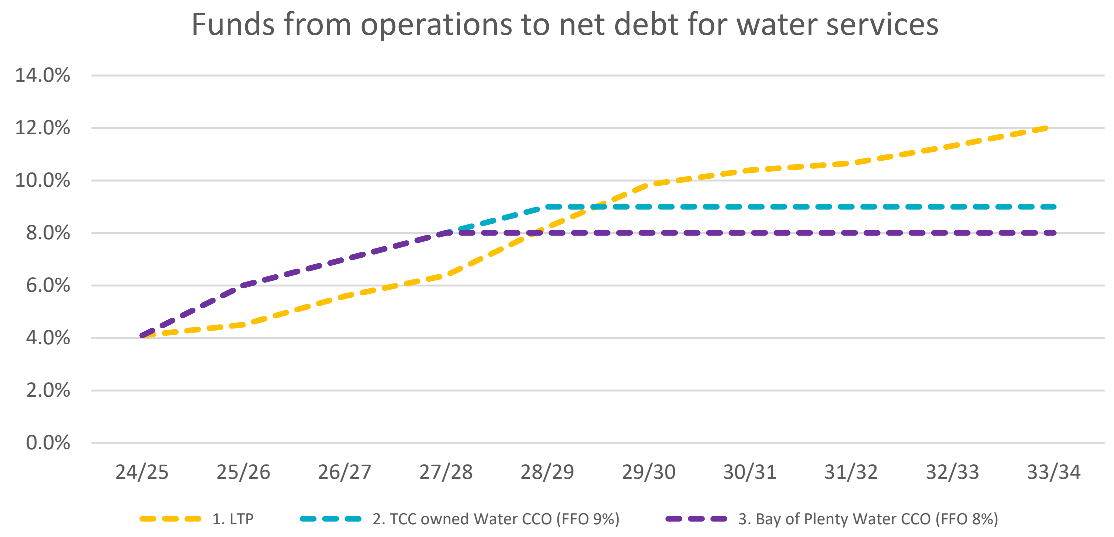
ANNEX 6

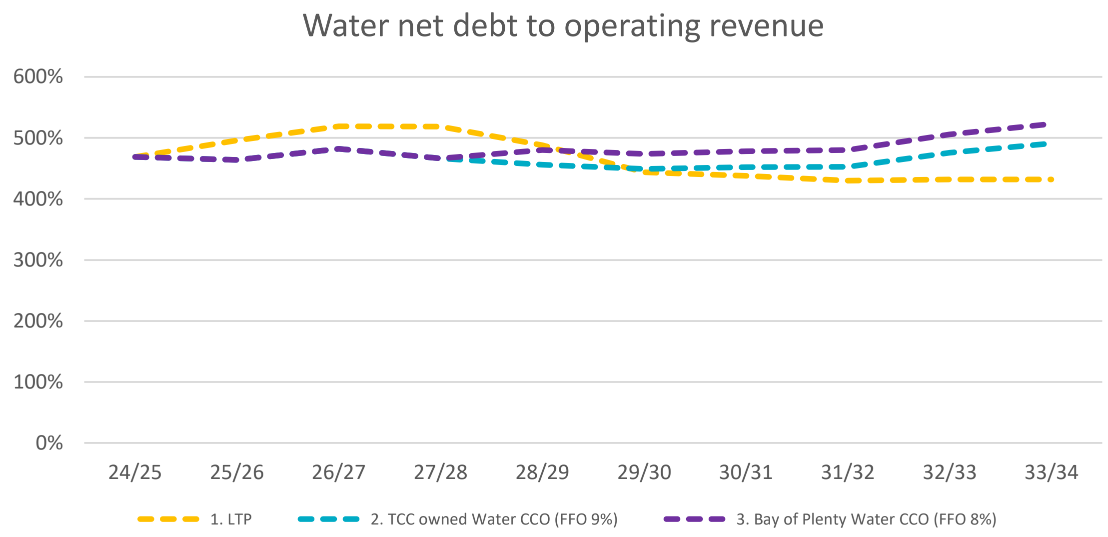
Tauranga City Council

Tauranga City Council – borrowing metrics

Debt to revenue and 'FFO to net debt' metrics under scenarios

- The FFO to net debt metrics below are the key driving assumption of revenues, charges and borrowing requirements under the various scenarios.
- 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**.
- The scenarios have been developed and compared:
    - 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.
- Establishing a Water CCO would enable a lower FFO to net debt ratio than projected in Tauranga City Council's 2024-34 LTP. A Bay of Plenty Water CCO would be able to maintain a lower minimum FFO to net debt ratio than a Tauranga City Council owned Water CCO.

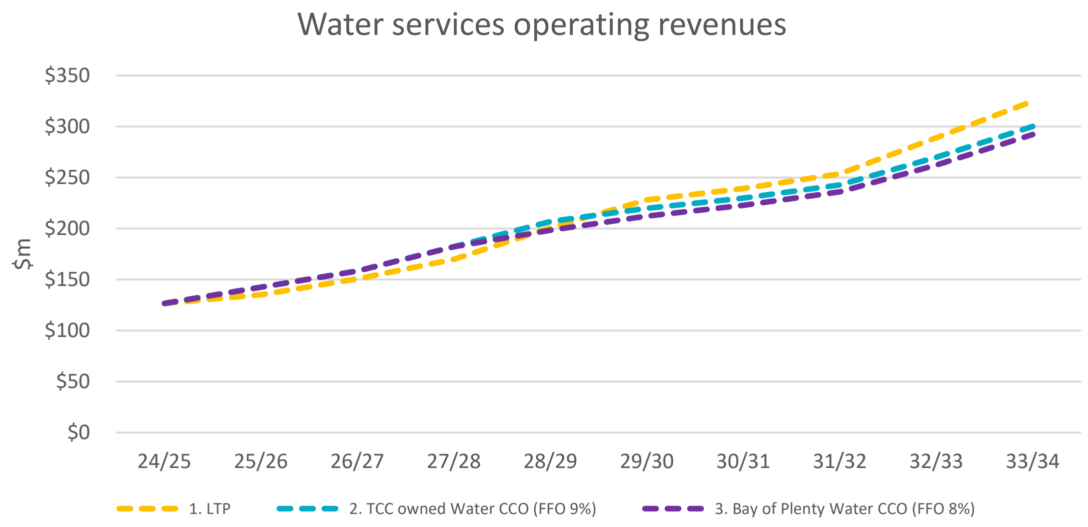


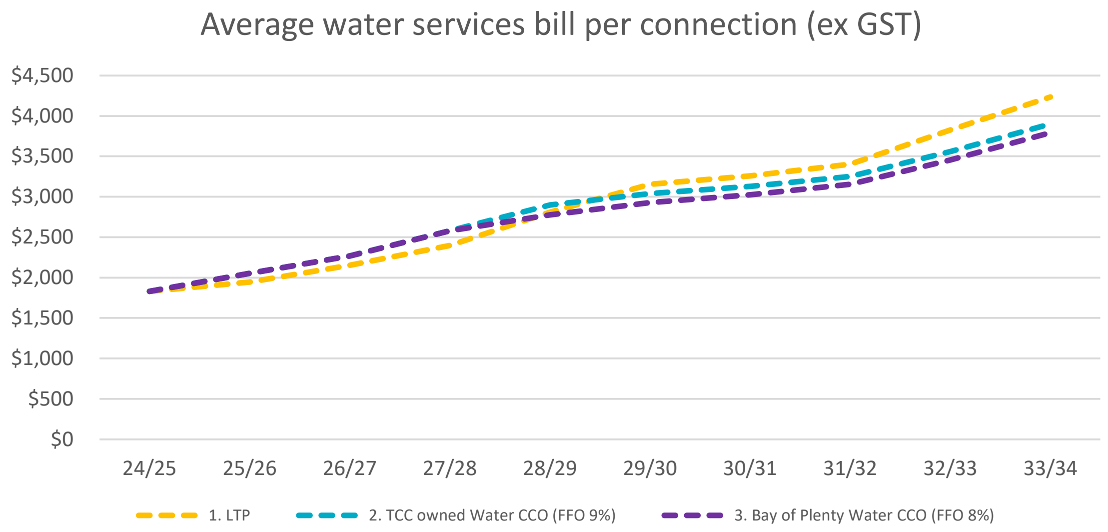


Tauranga City Council – revenue and charges

Revenue and pricing requirements under scenarios

- The 2024-34 LTP projects water services revenues to increase from $127 million in FY24/25 to $325 million in FY33/34 (+157% over nine years).
- This results in calculated average charges increasing from $1,829+GST in FY24/25 to $4,236+GST in FY33/34 (+132% over nine years).
- Under the Water CCO scenarios run below, water services operating revenues (and charges) could be set lower than projected in the 2024-34 LTP.
- Establishing a Water CCO would enable lower minimum operating revenue and charges to support the borrowings required to deliver Tauranga City Council's water services capital programme.
- A Bay of Plenty Water CCO could result in marginally lower charges to consumers than a Tauranga City Council owned Water CCO, due to requiring lower minimum operating revenues to support FFO to net debt covenants.

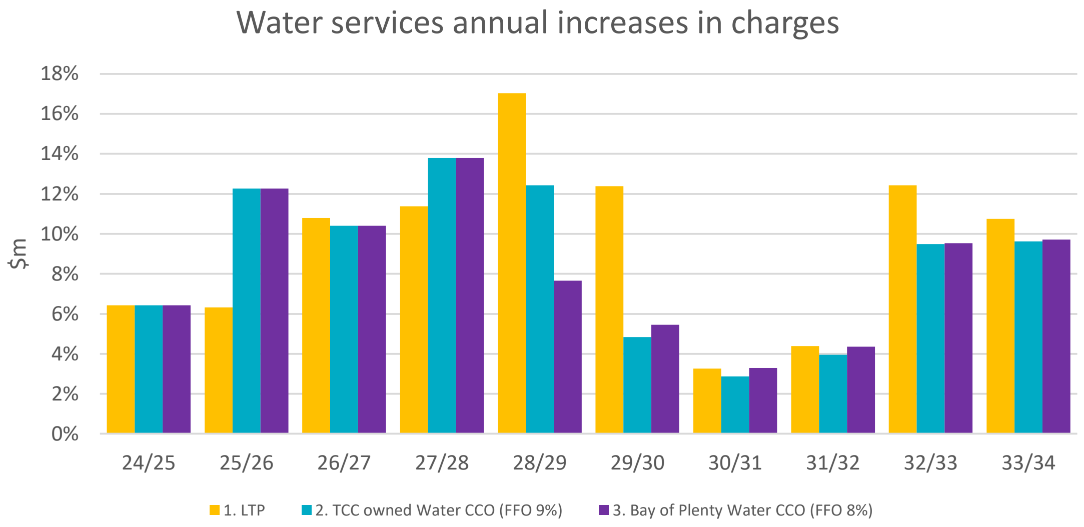


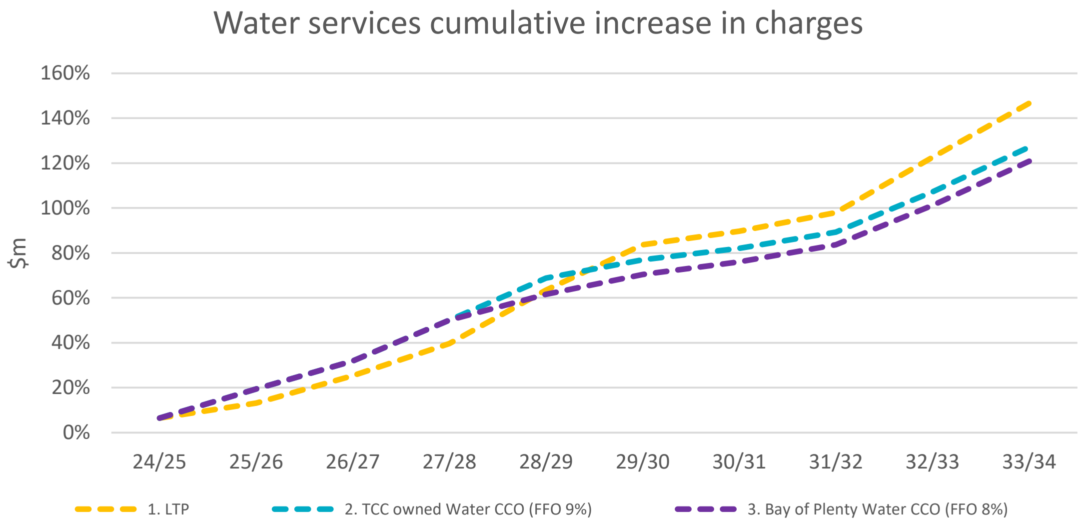


Tauranga City Council – price increases per year

Annual price increases under scenarios

- Setting water services revenues to meet minimum FFO requirements, for the given level of investment and operating costs, would result in lower charges than set out in the 2024-34 LTP, if a Water CCO is established.
- Consideration could be given to smoothing the impact of price increases over a number of years to bring revenues up to financially sustainable levels, and avoid one-off price shocks.
- Tauranga City Council would also receive significant new borrowing headroom as owning council from establishing a Water CCO. This new borrowing headroom could be used to reduce non-water rates requirements. The following slide sets this out in further detail.





Price increases	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33	33/34
Scenario 1. LTP	6%	6%	11%	11%	17%	12%	3%	4%	12%	11%
Scenario 2. TCC owned Water CCO (FFO 9%)	6%	12%	10%	14%	12%	5%	3%	4%	9%	10%
Scenario 3. Bay of Plenty Water CCO (FFO 8%)	6%	12%	10%	14%	8%	5%	3%	4%	10%	10%

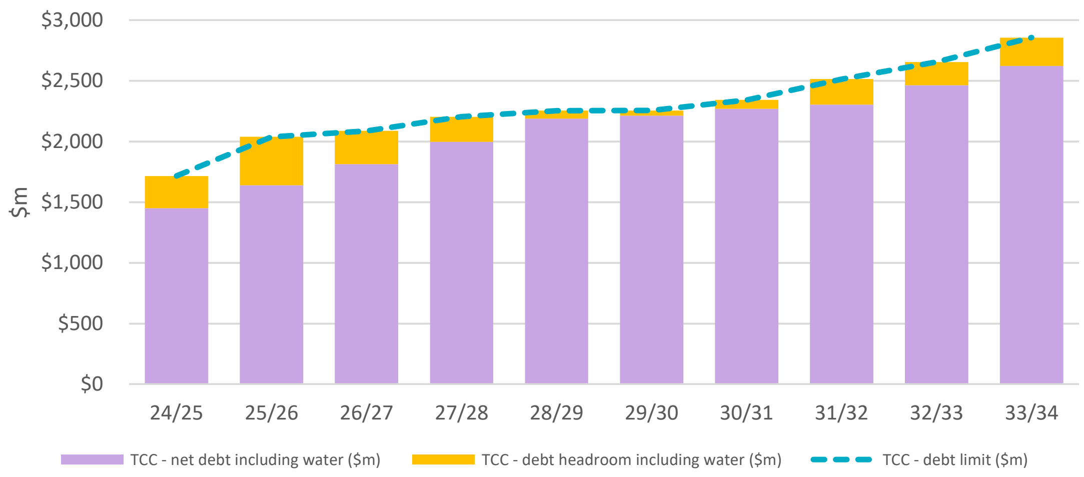
Price increases cumulative	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33	33/34
Scenario 1. LTP	6%	13%	25%	40%	63%	84%	90%	98%	123%	147%
Scenario 2. TCC owned Water CCO (FFO 9%)	6%	19%	32%	50%	69%	77%	82%	89%	107%	127%
Scenario 3. Bay of Plenty Water CCO (FFO 8%)	6%	19%	32%	50%	62%	70%	76%	84%	101%	121%

Establishing a Water CCO creates new borrowing headroom for TCC

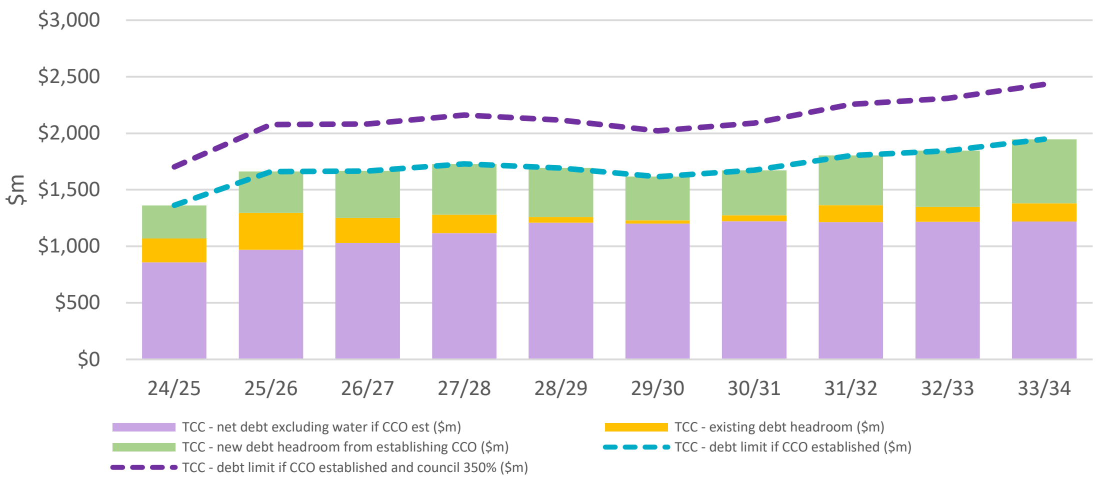
Impact on council financial position from establishing a Water CCO

- 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).
- At an all-council level, Tauranga City Council's debt to revenue is projected to peak at 275% in FY29/30 (against a limit of 280%), before reducing to 257% in FY33/34.
- 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 Tauranga City Council would create significant new borrowing headroom for TCC. **By FY33/34 this creates $568 million in new borrowing capacity for TCC**. At LTP projected revenues, **net debt to revenue would reduce to 175% by FY33/34**.
- If TCC also secured increased borrowing capacity from LGFA as a high-growth council (to 350% of revenues), then this would add a further $487 million in borrowing capacity for TCC by FY33/34.
- New borrowing headroom created for TCC would significantly improve the 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.
- Consideration could also be given as to how TCC borrowing capacity could potentially be utilised to support water services investment requirements, through this would require corporate financing and structuring advice.

Council net debt including water



Council net debt excluding water if CCO established



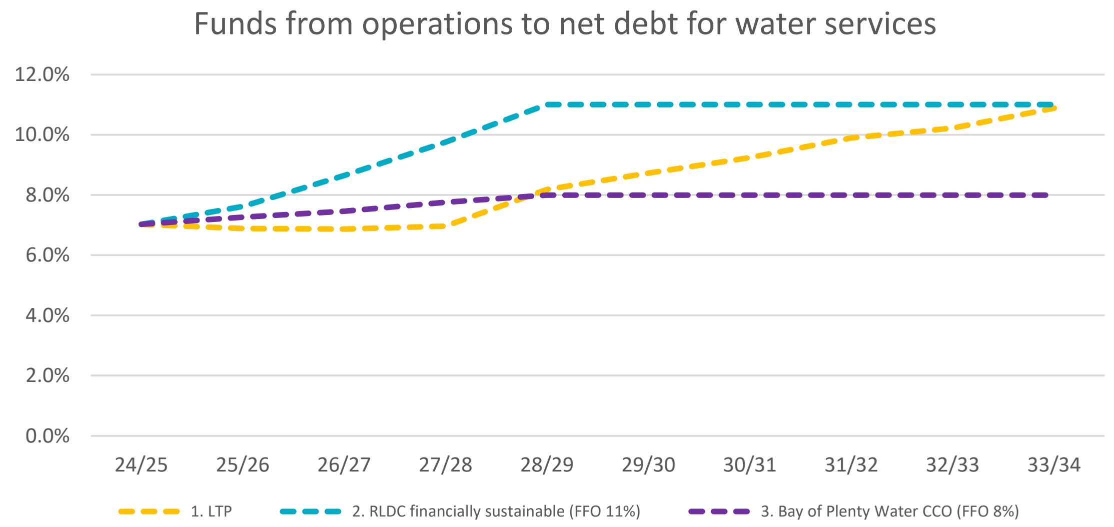
Council net debt to operating revenue if CCO established ($m)	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Operating revenue - excluding water services	486	593	595	617	605	577	597	644	659	695
Net debt - excluding water services	858	969	1,030	1,117	1,209	1,201	1,221	1,213	1,215	1,219
Net debt to operating revenue - excluding water services	176%	163%	173%	181%	200%	208%	204%	188%	184%	175%
Debt headroom created for TCC from establishing a Water CCO ($m)	293	366	416	450	434	386	399	440	498	568
Net debt to operating revenue - including water services (LTP)	237%	225%	243%	254%	272%	275%	271%	257%	260%	257%

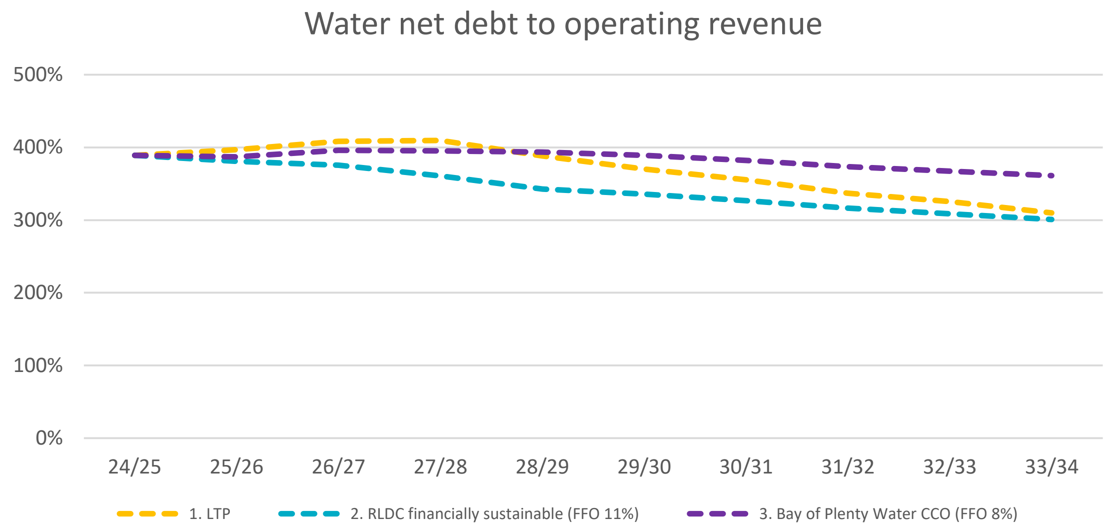
Rotorua Lakes District Council

Rotorua Lakes District Council (RLDC) – borrowing metrics

Debt to revenue and 'FFO to net debt' metrics under scenarios

- The FFO to net debt metrics below are the key driving assumption of revenues, charges and borrowing requirements under the various scenarios.
- 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**.
- The scenarios have been developed and compared:
    - Scenario **1. LTP**: 2024-34 LTP projections;
    - Scenario **2. RLDC financially sustainable (FFO 11%)**: 2024-34 LTP projections, modified so that a target FFO to debt ratio of 11% is met from 1 July 2028 onwards (this applies to in-house delivery or a RLDC owned Water CCO); 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.
- Establishing a Bay of Plenty Water CCO would enable a lower FFO to net debt ratio than projected in RLDC's 2024-34 LTP. This in turn enables greater leverage on a net debt to revenue basis.

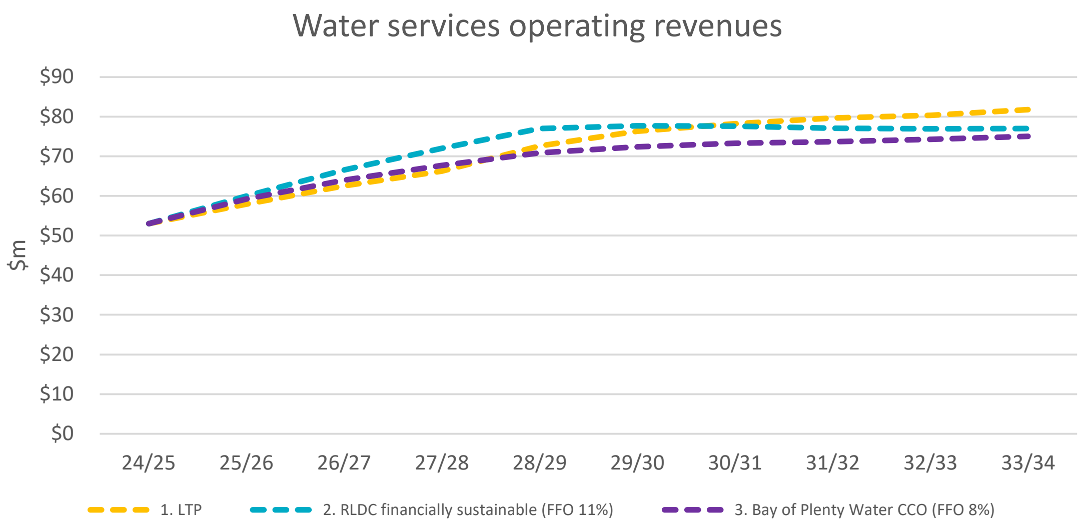


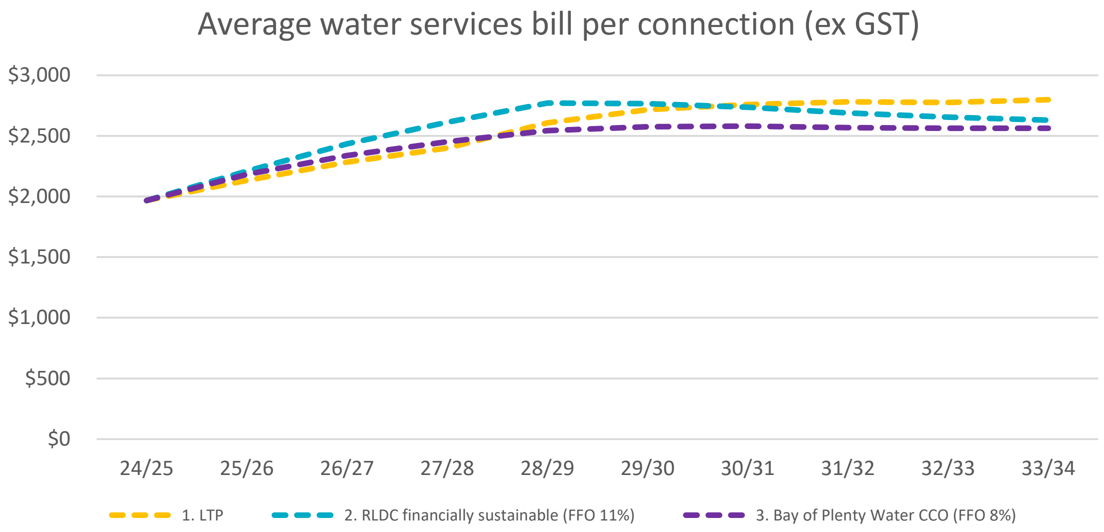


Rotorua Lakes District Council – revenue and charges

Revenue and pricing requirements under scenarios

- The 2024-34 LTP projects water services revenues to increase from $53 million in FY24/25 to $82 million in FY33/34 (+54% over nine years).
- This results in calculated average charges increasing from $1,966+GST in FY24/25 to $2,799+GST in FY33/34 (+42% over nine years).
- Under the Water CCO scenarios run below, water services operating revenues (and charges) could be set lower than projected in the 2024-34 LTP.
- Establishing a Bay of Plenty Water CCO would enable lower minimum operating revenue and charges to support the borrowings required to deliver RLDC's water services capital programme.

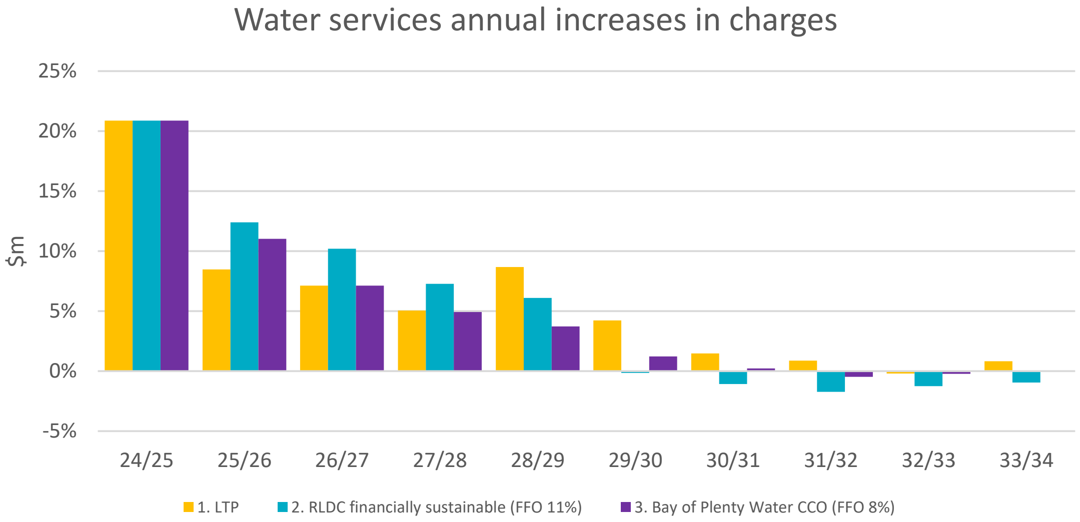


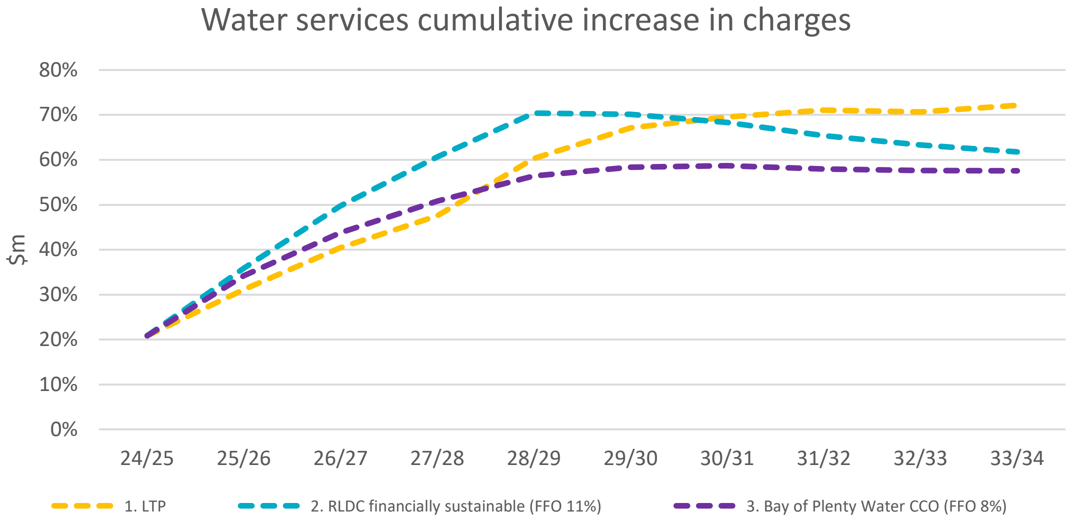


Rotorua Lakes District Council – price increases per year

Annual price increases under scenarios

- Setting water services revenues to meet minimum FFO requirements, for the given level of investment and operating costs, would result in lower charges than set out in the 2024-34 LTP, if a Bay of Plenty Water CCO is established.
- Consideration could be given to smoothing the impact of price increases over a number of years to bring revenues up to financially sustainable levels, and avoid one-off price shocks.
- Rotorua Lakes District Council would also receive significant new borrowing headroom as owning council from establishing a Water CCO. This new borrowing headroom could be used to reduce non-water rates requirements. The following slide sets this out in further detail.





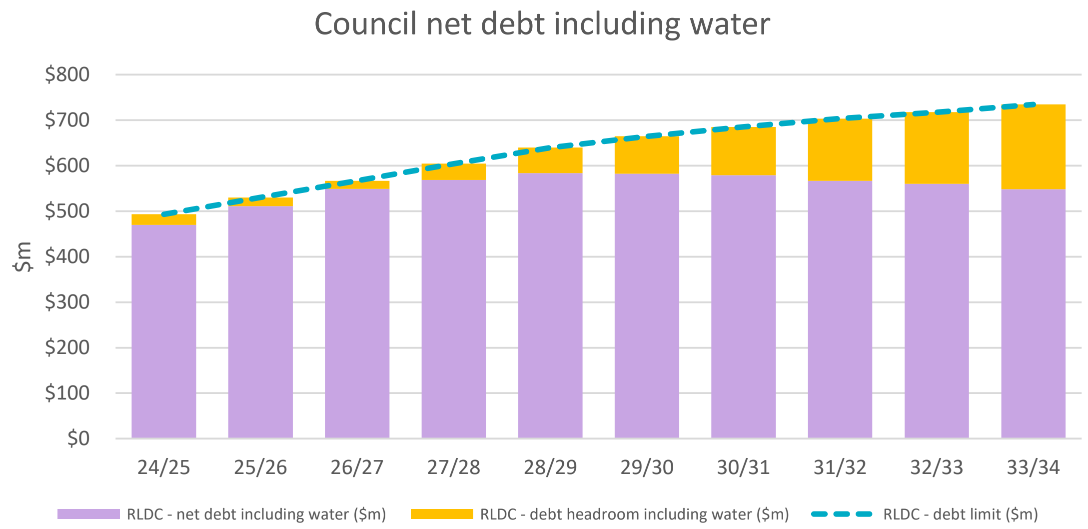
Price increases	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33	33/34
Scenario 1. LTP	21%	8%	7%	5%	9%	4%	1%	1%	0%	1%
Scenario 2. RLDC financially sustainable (FFO 11%)	21%	12%	10%	7%	6%	0%	-1%	-2%	-1%	-1%
Scenario 3. Bay of Plenty Water CCO (FFO 8%)	21%	11%	7%	5%	4%	1%	0%	0%	0%	0%

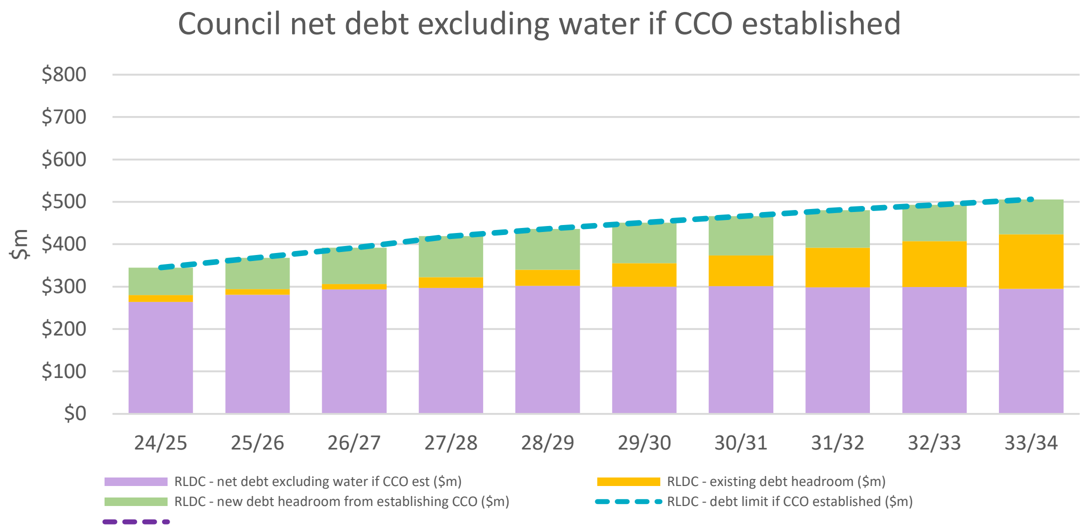
Price increases cumulative	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33	33/34
Scenario 1. LTP	21%	31%	40%	48%	60%	67%	70%	71%	71%	72%
Scenario 2. RLDC financially sustainable (FFO 11%)	21%	36%	50%	61%	70%	70%	68%	65%	63%	62%
Scenario 3. Bay of Plenty Water CCO (FFO 8%)	21%	34%	44%	51%	56%	58%	59%	58%	58%	58%

Establishing a Water CCO creates new borrowing headroom for RLDC

Impact on council financial position from establishing a Water CCO

- 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).
- At an all-council level, RLDCs debt to revenue is projected to peak at 271% in FY26/27 (against a limit of 280%), before reducing to 209% in FY33/34.
- 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 RLDC would create significant new borrowing headroom for RLDC. **By FY33/34 this creates $83 million in new borrowing capacity for RLDC**. At LTP projected revenues, **net debt to revenue would reduce to 163% by FY33/34**.
- New borrowing headroom created for RLDC would significantly improve the 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.





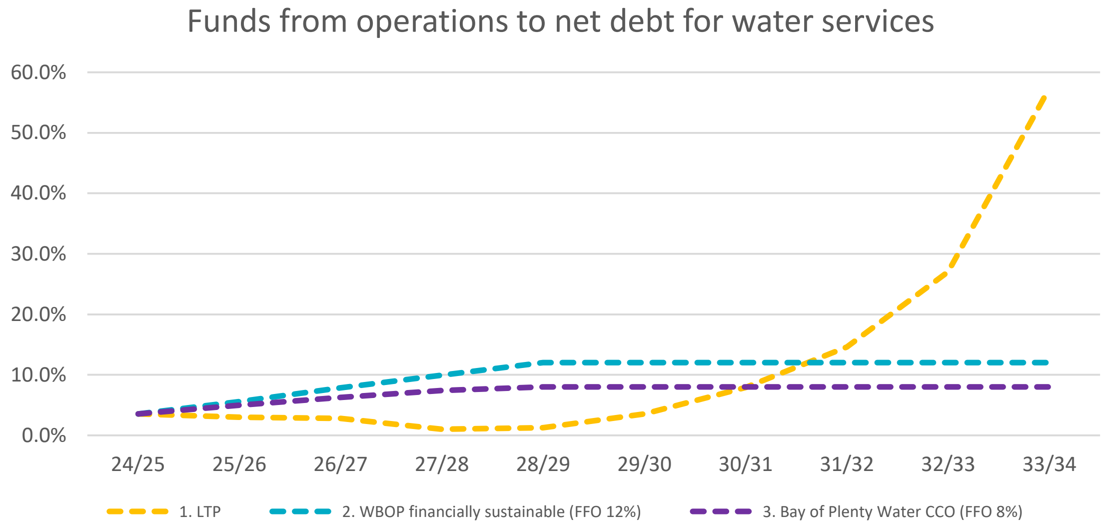
Council net debt to operating revenue if CCO established ($m)	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Operating revenue - excluding water services	123	131	140	150	156	161	167	172	176	181
Net debt - excluding water services	264	281	294	297	302	300	301	299	299	295
Net debt to operating revenue - excluding water services	214%	214%	210%	199%	194%	186%	181%	174%	170%	163%
Debt headroom created for RLDC from establishing a Water CCO ($m)	65	74	86	97	96	95	93	89	86	83
Net debt to operating revenue - including water services (LTP)	267%	270%	271%	263%	255%	245%	237%	226%	219%	209%

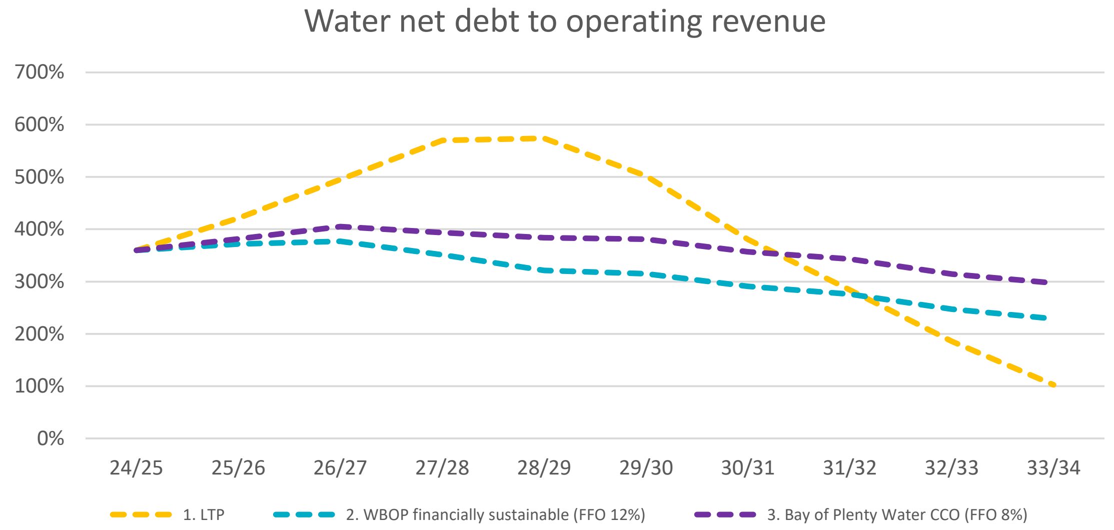
Western Bay of Plenty District Council

Western Bay of Plenty District Council (WBOP) – borrowing metrics

Debt to revenue and 'FFO to net debt' metrics under scenarios

- The FFO to net debt metrics below are the key driving assumption of revenues, charges and borrowing requirements under the various scenarios.
- 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**.
- The scenarios have been developed and compared:
    - 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 (this applies to in-house delivery or a WBOP owned Water CCO); 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.
- Financially sustainable water services provision for WBOP requires a higher FFO to net debt than shown in the first half of the 2024-34 LTP. Establishing a Bay of Plenty Water CCO, however, would enable leverage to be kept at minimum required FFO to net debt levels, negating the requirement for future revenue and price increases to repay water services borrowings by FY33/34.

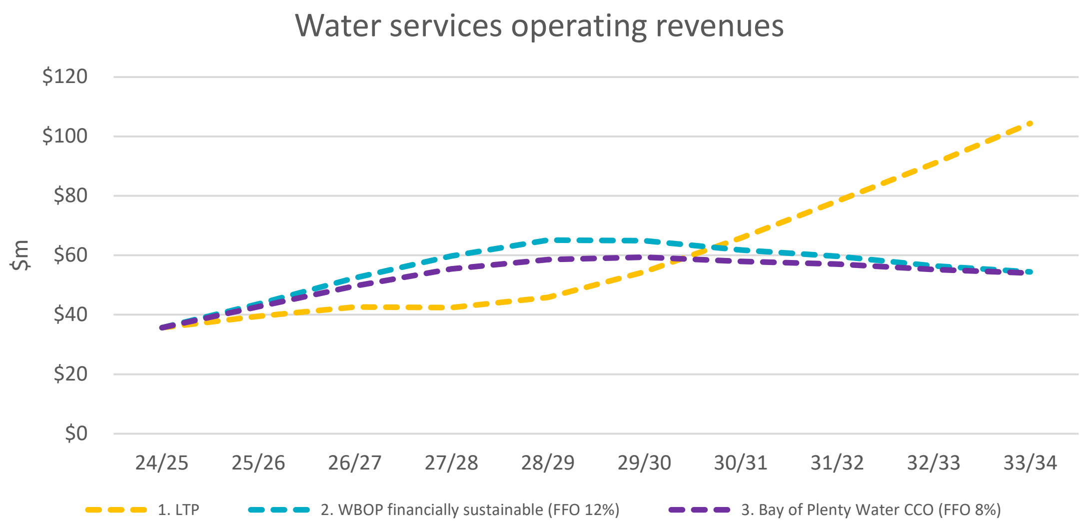


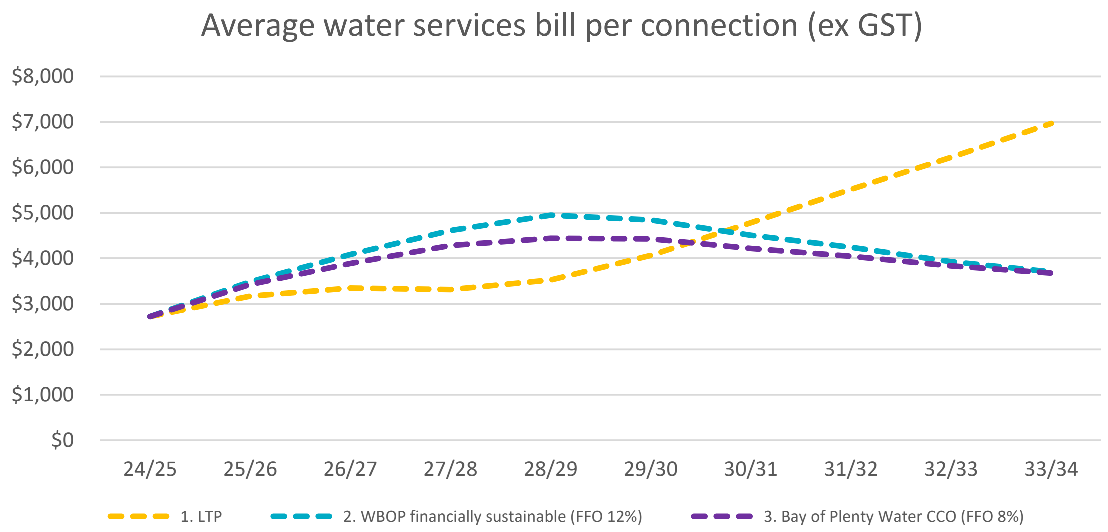


Western Bay of Plenty District Council – revenue and charges

Revenue and pricing requirements under scenarios

- The 2024-34 LTP projects water services revenues to increase from $36 million in FY24/25 to $104 million in FY33/34 (+193% over nine years).
- This results in calculated average charges increasing from $2,721+GST in FY24/25 to $6,968+GST in FY33/34 (+156% over nine years).
- Under a Bay of Plenty Water CCO, water services operating revenues (and charges) would need to be higher than set out in the first half of the LTP period (which is required for financially sustainable water services); however results in significant savings in the second half of the LTP period.
- Establishing a Bay of Plenty Water CCO would enable lower minimum operating revenue and charges to support the borrowings required to deliver WBOP's water services capital programme than would otherwise be required on a financially sustainable basis in-house or for a WBOP owned Water CCO..

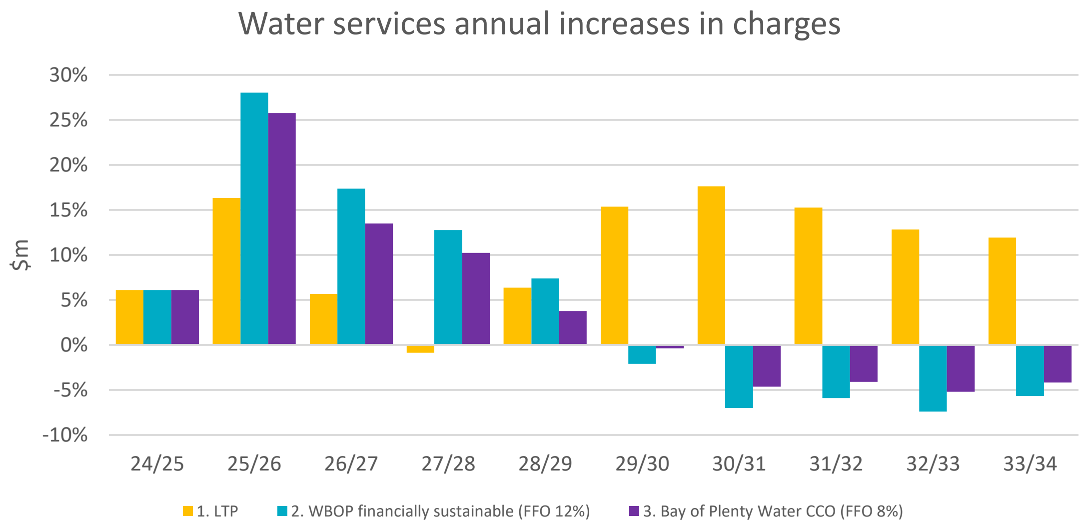


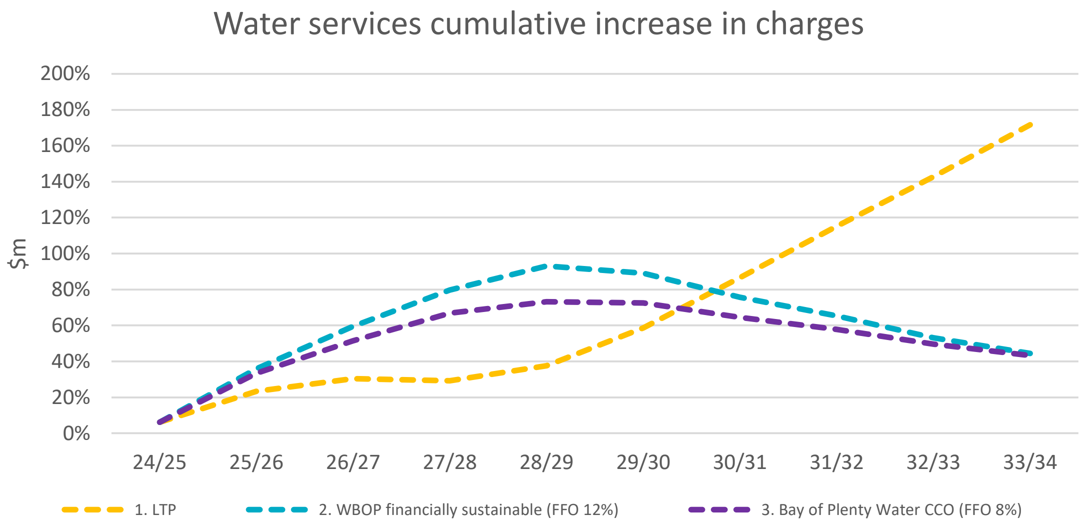


Western Bay of Plenty District Council – price increases per year

Annual price increases under scenarios

- Setting water services revenues to meet minimum FFO requirements, for the given level of investment and operating costs, would result in lower charges than set out in the 2024-34 LTP, if a Bay of Plenty Water CCO is established.
- Consideration could be given to smoothing the impact of price increases over a number of years to bring revenues up to financially sustainable levels, and avoid one-off price shocks.
- WBOP would also receive significant new borrowing headroom as owning council from establishing a Water CCO. This new borrowing headroom could be used to reduce non-water rates requirements. The following slide sets this out in further detail.





Price increases	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33	33/34
Scenario 1. LTP	6%	16%	6%	-1%	6%	15%	18%	15%	13%	12%
Scenario 2. WBOP financially sustainable (FFO 12%)	6%	28%	17%	13%	7%	-2%	-7%	-6%	-7%	-6%
Scenario 3. Bay of Plenty Water CCO (FFO 8%)	6%	26%	13%	10%	4%	0%	-5%	-4%	-5%	-4%

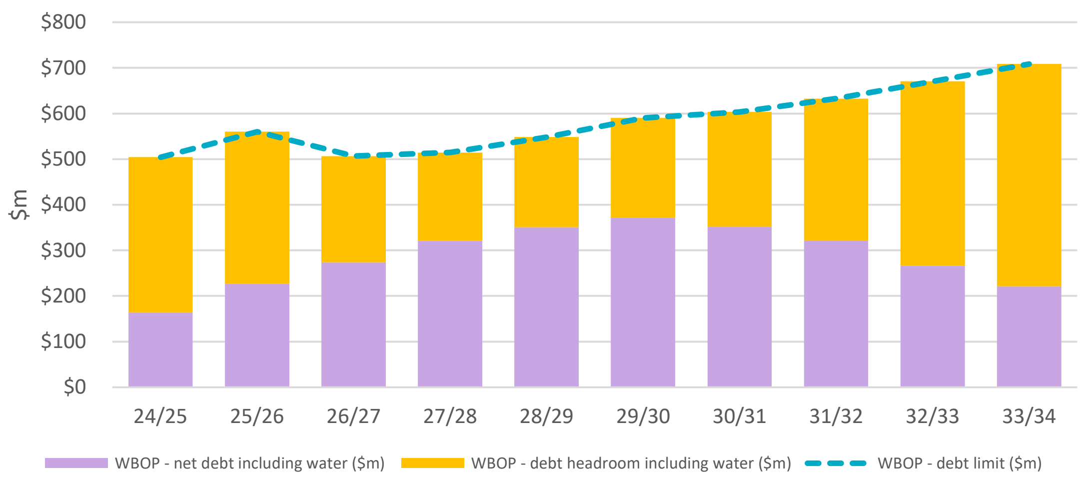
Price increases cumulative	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33	33/34
Scenario 1. LTP	6%	23%	30%	29%	37%	59%	87%	115%	143%	172%
Scenario 2. WBOP financially sustainable (FFO 12%)	6%	36%	59%	80%	93%	89%	76%	65%	53%	44%
Scenario 3. Bay of Plenty Water CCO (FFO 8%)	6%	33%	51%	67%	73%	73%	65%	58%	50%	43%

Establishing a Water CCO creates new borrowing headroom for WBOP

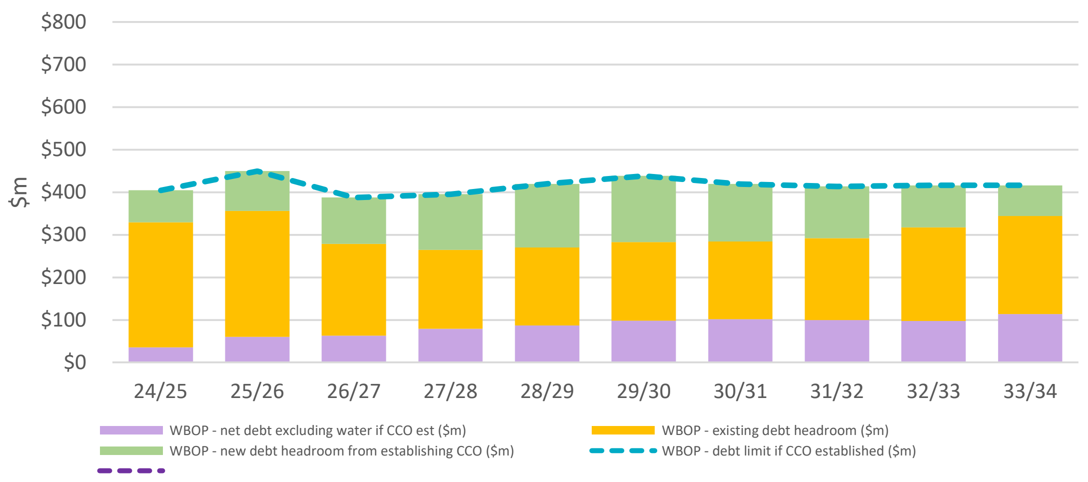
Impact on council financial position from establishing a Water CCO

- 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).
- At an all-council level, WBOPs debt to revenue is projected to peak at 179% in FY28/29 (against a covenant of 280%, and council self-imposed limit of 200%), before being paid down to 87% in FY33/34.
- 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 WBOP would create significant new borrowing headroom for WBOP. **By FY28/29 this creates $181 million in new borrowing capacity for WBOP**. At LTP projected revenues, **net debt to revenue would reduce from the LTP projected 179% to 58% in FY28/29**.
- New borrowing headroom created for WBOP would significantly improve the 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.

Council net debt including water



Council net debt excluding water if CCO established



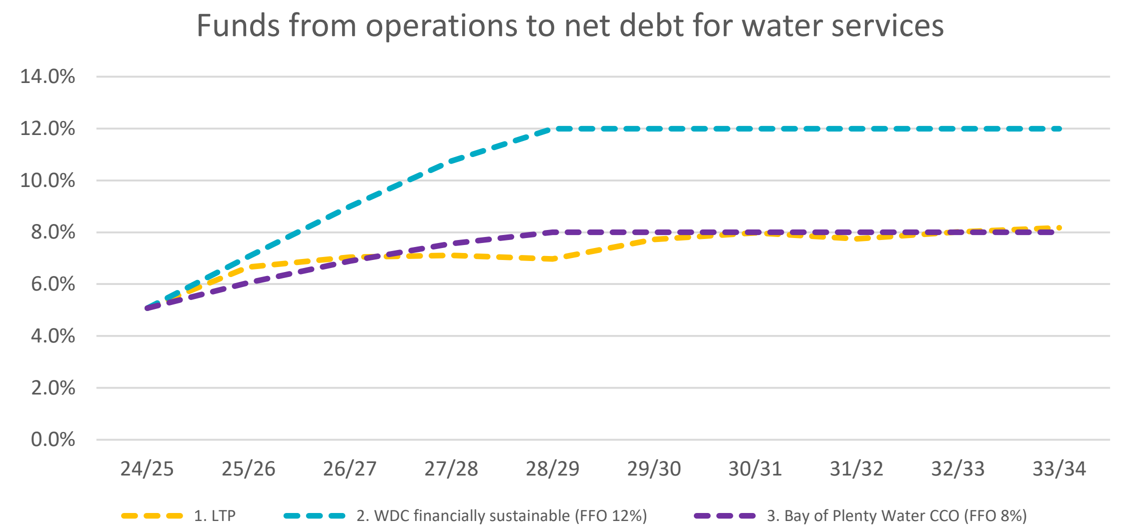
Council net debt to operating revenue if CCO established ($m)	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Operating revenue - excluding water services	144	161	138	141	150	157	150	148	149	149
Net debt - excluding water services	36	60	63	79	87	98	102	99	97	114
Net debt to operating revenue - excluding water services	25%	38%	45%	56%	58%	63%	68%	67%	65%	77%
Debt headroom created for WBOP from establishing a Water CCO ($m)	96	121	147	168	181	177	143	111	68	16
Net debt to operating revenue - including water services (LTP)	91%	113%	151%	175%	179%	176%	163%	142%	111%	87%

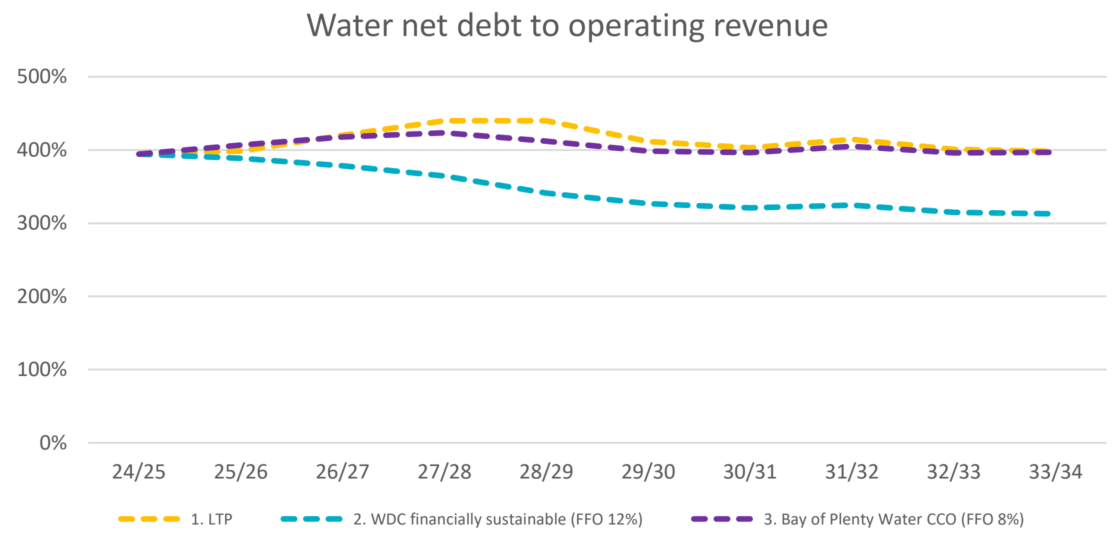
Whakatane District Council

Whakatane District Council (WDC) – borrowing metrics

Debt to revenue and 'FFO to net debt' metrics under scenarios

- The FFO to net debt metrics below are the key driving assumption of revenues, charges and borrowing requirements under the various scenarios.
- 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**.
- The scenarios have been developed and compared:
  - Scenario **1. LTP**: 2024-34 LTP projections;
  - Scenario **2. WDC 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 (this applies to in-house delivery or a WDC owned Water CCO); 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.
- The 2024-34 LTP projections for WDC's water services are materially in line with requirements under a Bay of Plenty Water CCO. Financially sustainable water services provision for in-house delivery, or under a WDC owned Water CCO, would likely require a higher FFO (and higher revenues) and lower leverage than set out in the 2024-34 LTP.

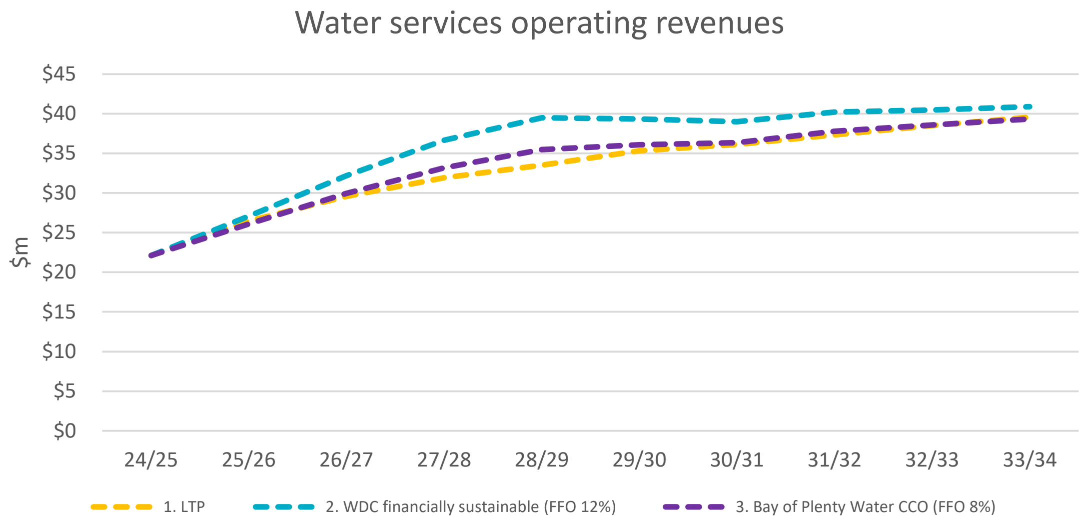


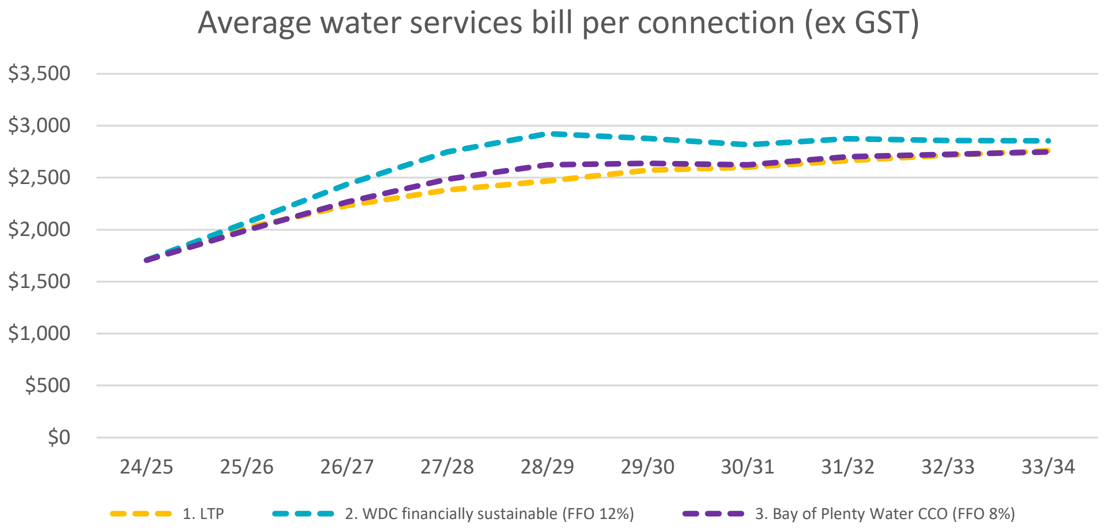


Whakatane District Council – revenue and charges

Revenue and pricing requirements under scenarios

- The 2024-34 LTP projects water services revenues to increase from $22 million in FY24/25 to $40 million in FY33/34 (+79% over nine years).
- This results in calculated average charges increasing from $1,707+GST in FY24/25 to $2,760+GST in FY33/34 (+62% over nine years).
- The 2024-34 LTP projections for WDC's water services are materially in line with requirements under a Bay of Plenty Water CCO.
- In-house water services delivery, or a WDC owned Water CCO, would likely require higher revenues and charges than set out in the 2024-34 LTP (at the LTP assumed levels of operating costs and investment required) to be financially sustainable.
- Establishing a Bay of Plenty Water CCO would therefore enable lower minimum operating revenue and charges to support the borrowings required to deliver WDC's water services capital programme.

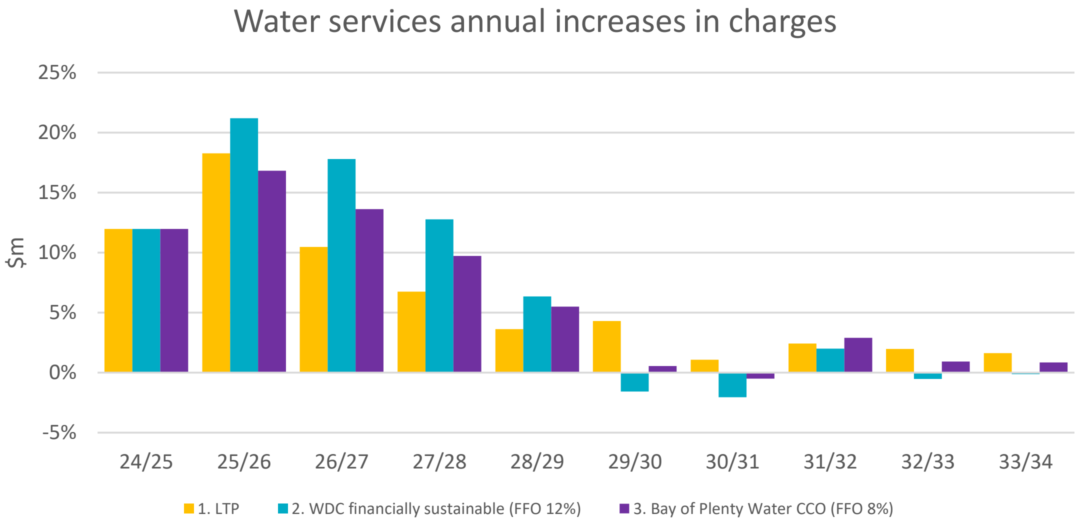


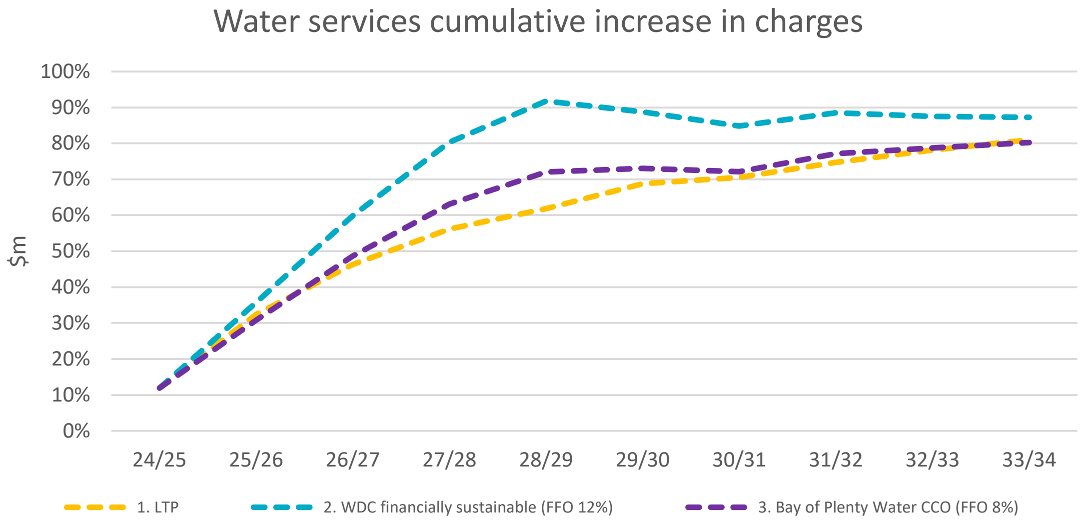


Whakatane District Council – price increases per year

Annual price increases under scenarios

- A Bay of Plenty Water CCO would require water services revenues materially in line with the 2024-34 LTP.
- Consideration could be given to smoothing the impact of price increases over a number of years to bring revenues up to financially sustainable levels, and avoid one-off price shocks.
- Whakatane District Council would also receive significant new borrowing headroom as owning council from establishing a Water CCO. This new borrowing headroom could be used to reduce non-water rates requirements. The following slide sets this out in further detail.





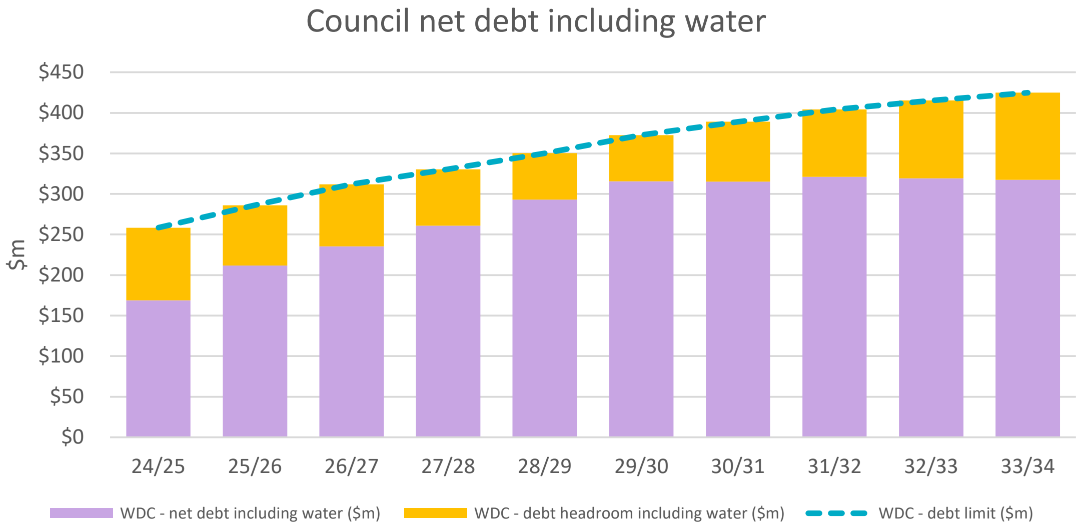
Price increases	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33	33/34
Scenario 1. LTP	12%	18%	10%	7%	4%	4%	1%	2%	2%	2%
Scenario 2. WDC financially sustainable (FFO 12%)	12%	21%	18%	13%	6%	-2%	-2%	2%	-1%	0%
Scenario 3. Bay of Plenty Water CCO (FFO 8%)	12%	17%	14%	10%	5%	1%	0%	3%	1%	1%

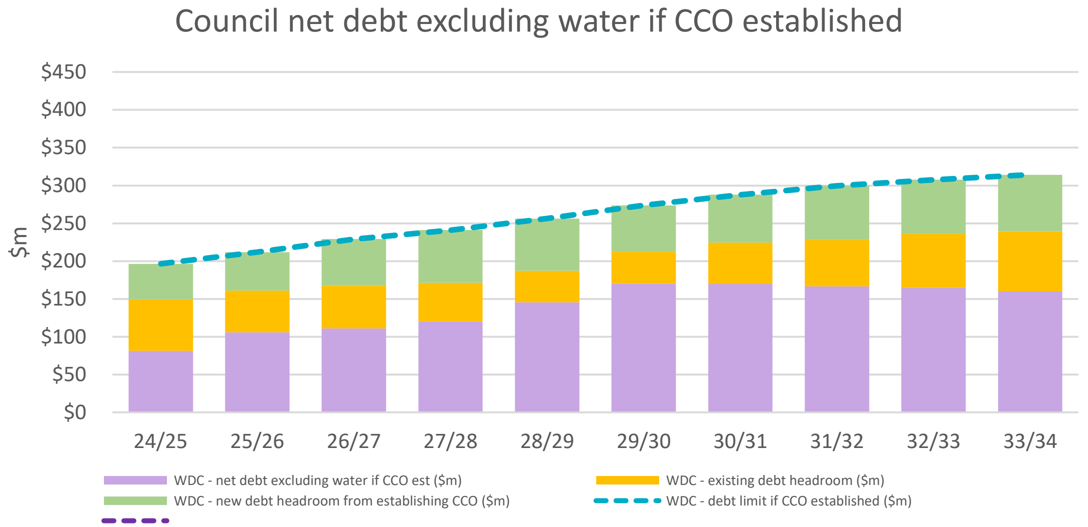
Price increases cumulative	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33	33/34
Scenario 1. LTP	12%	32%	46%	56%	62%	69%	71%	75%	78%	81%
Scenario 2. WDC financially sustainable (FFO 12%)	12%	36%	60%	80%	92%	89%	85%	88%	87%	87%
Scenario 3. Bay of Plenty Water CCO (FFO 8%)	12%	31%	49%	63%	72%	73%	72%	77%	79%	80%

Establishing a Water CCO creates new borrowing headroom for WDC

Impact on council financial position from establishing a Water CCO

- 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).
- At an all-council level, WDC's debt to revenue is projected to peak at 237% in FY29/30 (against a covenant of 280%), reducing to 209% by FY33/34.
- 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 WDC would create significant new borrowing headroom for WBOP. **By FY33/34 this creates $75 million in new borrowing capacity for WDC**. At LTP projected revenues, **net debt to revenue would reduce from the LTP projected peak of 237% to 174% in FY29/30**.
- New borrowing headroom created for WDC would significantly improve the 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.





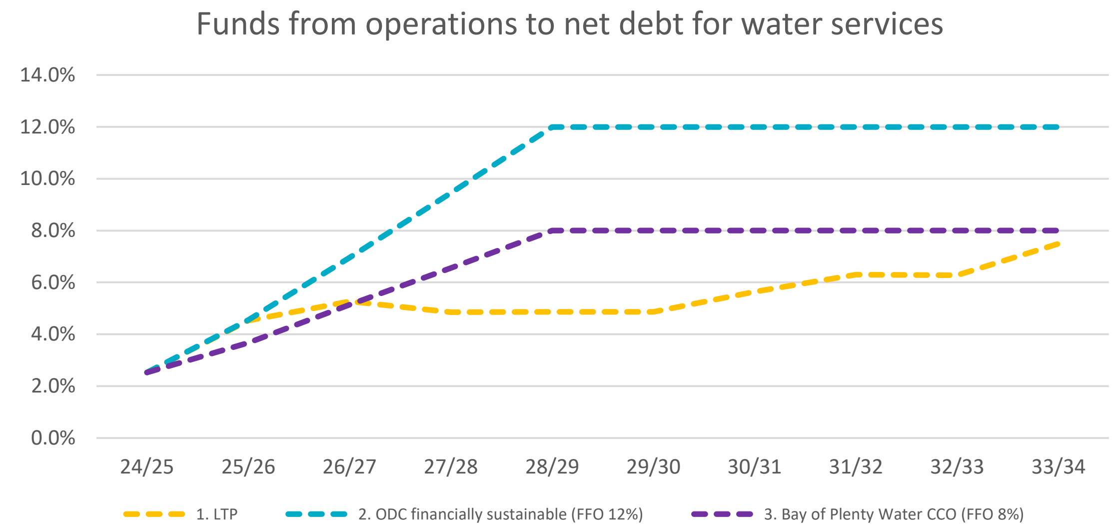
Council net debt to operating revenue if CCO established ($m)	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Operating revenue - excluding water services	70	76	82	86	92	98	103	107	110	112
Net debt - excluding water services	81	106	111	121	146	170	170	167	165	160
Net debt to operating revenue - excluding water services	116%	140%	136%	140%	159%	174%	165%	156%	150%	143%
Debt headroom created for WDC from establishing a Water CCO ($m)	47	51	62	70	69	62	64	72	72	75
Net debt to operating revenue - including water services (LTP)	183%	207%	211%	221%	234%	237%	227%	223%	215%	209%

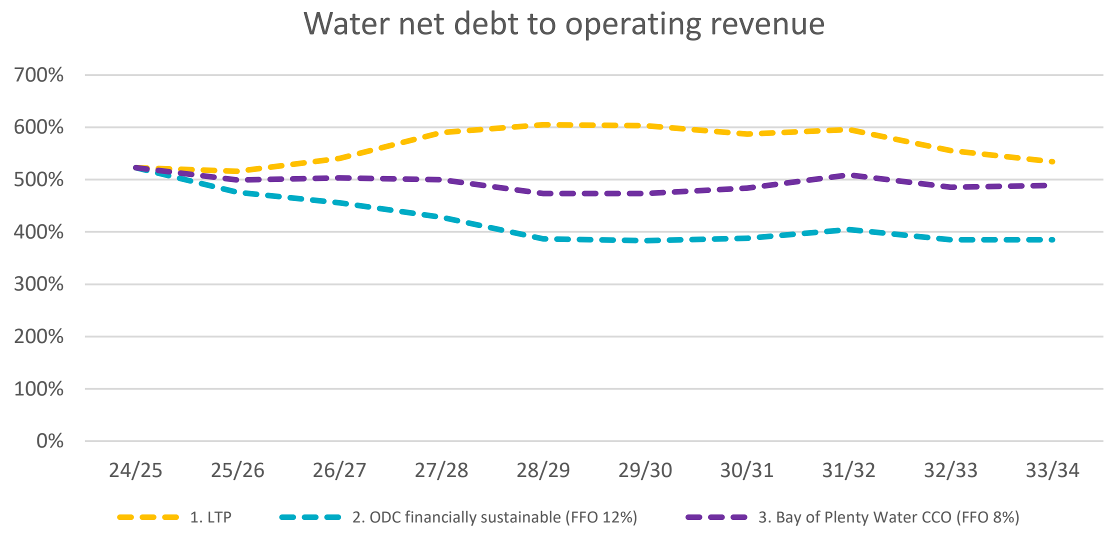
Opotiki District Council

Opotiki District Council (ODC) – borrowing metrics

Debt to revenue and 'FFO to net debt' metrics under scenarios

- The FFO to net debt metrics below are the key driving assumption of revenues, charges and borrowing requirements under the various scenarios.
- 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**.
- The scenarios have been developed and compared:
  - 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 (this applies to in-house delivery or an ODC owned Water CCO); 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.
- Where a minimum FFO to net debt requirement is met by 1 July 2028, water leverage is lower than LTP. This is due to requiring higher revenues to provide the necessary operating cash margins. Establishing a Bay of Plenty Water CCO, however, would enable a lower minimum FFO and higher leverage (requiring relatively lower revenues) than an ODC Water CCO, or in-house delivery with the same financial sustainability characteristics.

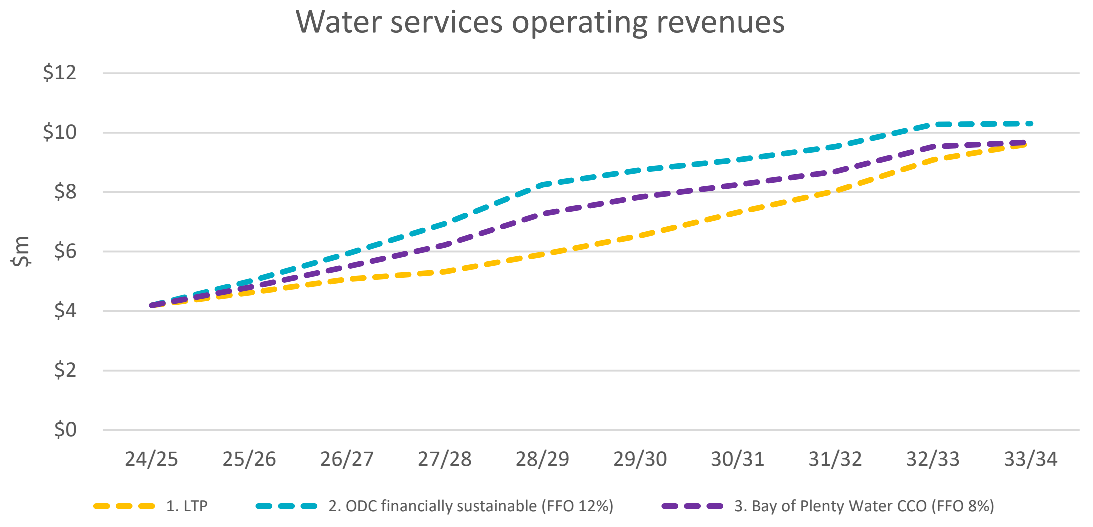


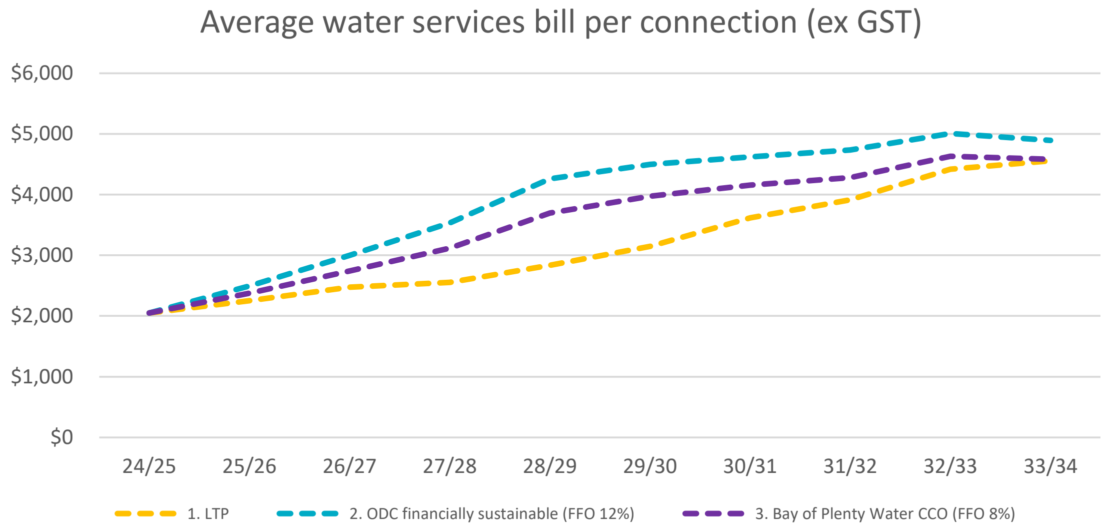


Opotiki District Council – revenue and charges

Revenue and pricing requirements under scenarios

- The 2024-34 LTP projects water services revenues to increase from $4 million in FY24/25 to $10 million in FY33/34 (+130% over nine years).
- This results in calculated average charges increasing from $2,049+GST in FY24/25 to $4,558+GST in FY33/34 (+122% over nine years).
- The 2024-34 LTP projections for ODC's water services are lower than requirements under a Bay of Plenty Water CCO, due to the LTP providing a lower FFO to net debt than a bankable stand-alone service would require.
- In-house water services delivery, or an ODC owned Water CCO, would likely require higher revenues and charges than set out in the 2024-34 LTP (at the LTP assumed levels of operating costs and investment required) to have similar financial sustainability characteristics as a Bay of Plenty Water CCO.
- The proposed capital investment requirement is the largest driver of revenue requirements, and required charges to consumers. A lower capital programme, or changes to timing of delivery, would have a significant impact on household charges. Changes to wastewater standards and new National Engineering Design Standards should assist in reducing the capital investment requirement for ODC against what is provisioned in the LTP.

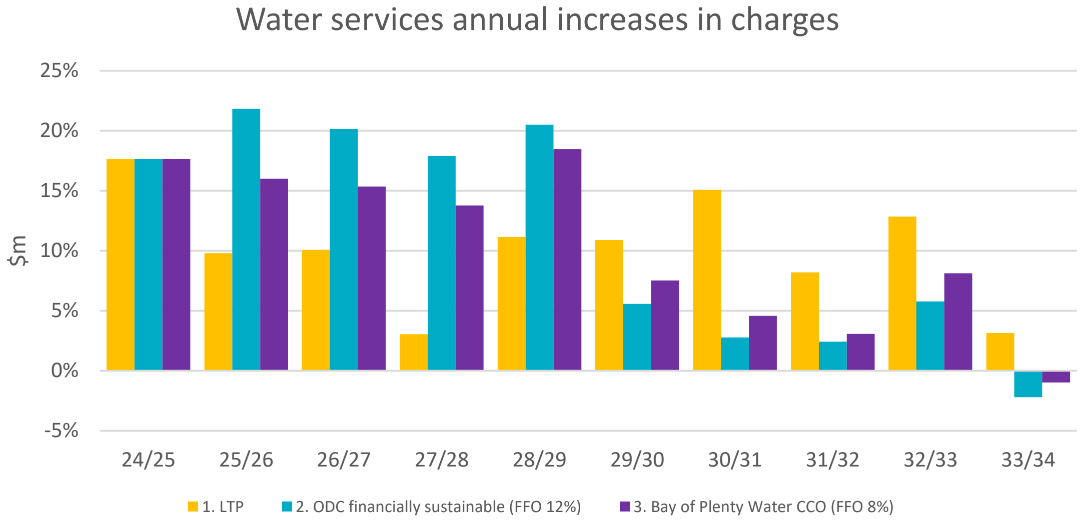


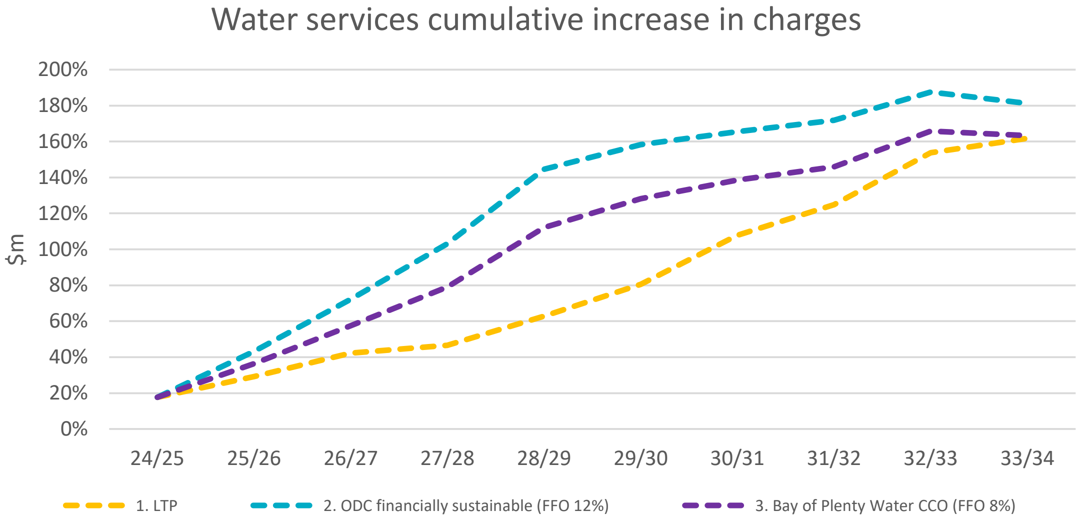


Opotiki District Council – price increases per year

Annual price increases under scenarios

- A Bay of Plenty Water CCO would require higher water services revenues than set out in the 2024-34 LTP to provide the necessary operating cash margins.
- Consideration could be given to smoothing the impact of price increases over a number of years to bring revenues up to financially sustainable levels, and avoid one-off price shocks.
- Opotiki District Council would receive significant new borrowing headroom as owning council from establishing a Water CCO. This new borrowing headroom could be used to reduce non-water rates requirements. The following slide sets this out in further detail.





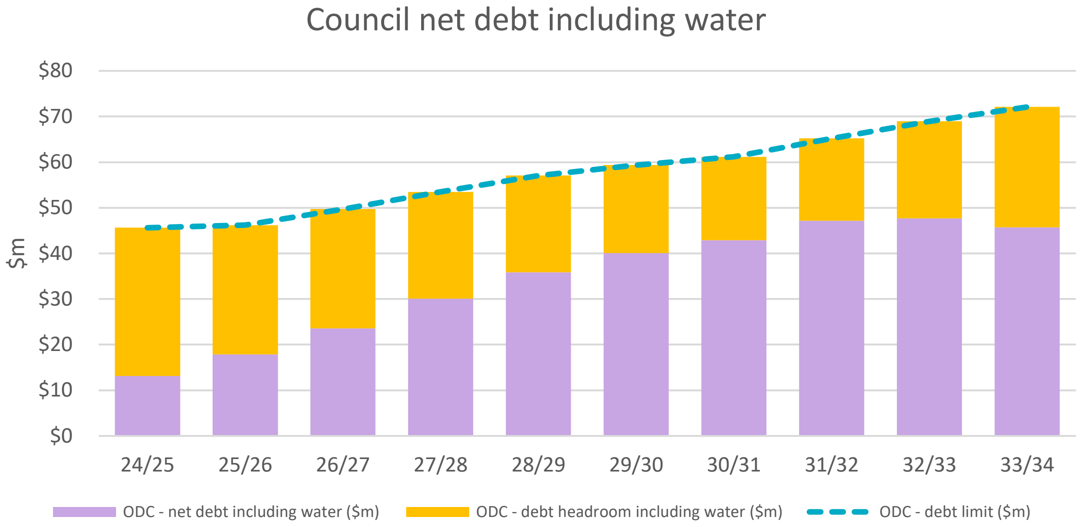
Price increases	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33	33/34
Scenario 1. LTP	18%	10%	10%	3%	11%	11%	15%	8%	13%	3%
Scenario 2. ODC financially sustainable (FFO 12%)	18%	22%	20%	18%	20%	6%	3%	2%	6%	-2%
Scenario 3. Bay of Plenty Water CCO (FFO 8%)	18%	16%	15%	14%	18%	8%	5%	3%	8%	-1%

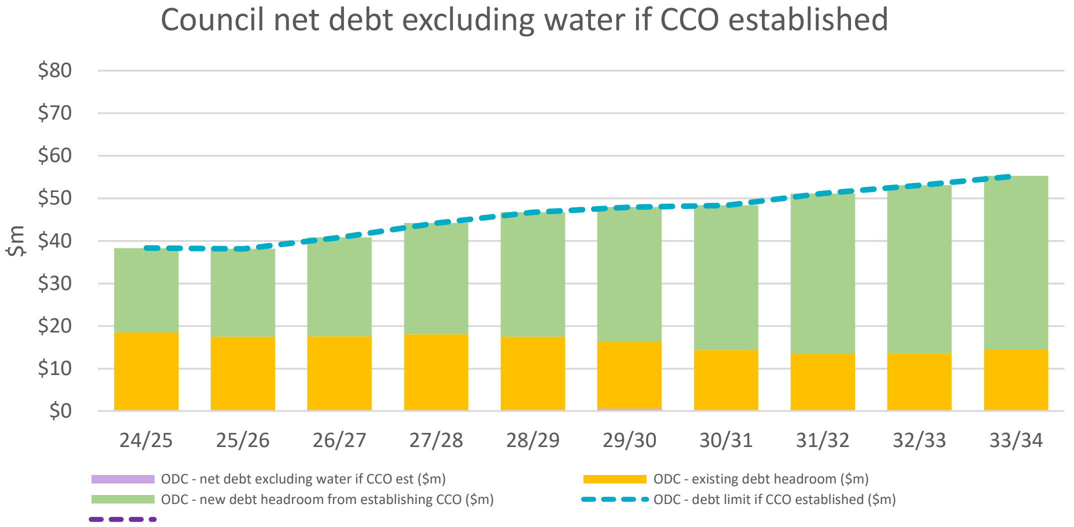
Price increases cumulative	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33	33/34
Scenario 1. LTP	18%	29%	42%	47%	63%	81%	108%	125%	154%	162%
Scenario 2. ODC financially sustainable (FFO 12%)	18%	43%	72%	103%	145%	158%	165%	172%	188%	181%
Scenario 3. Bay of Plenty Water CCO (FFO 8%)	18%	36%	57%	79%	112%	128%	139%	146%	166%	163%

Establishing a Water CCO creates new borrowing headroom for ODC

Impact on council financial position from establishing a Water CCO

- 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).
- At an all-council level, ODC's debt to revenue is projected to peak at 127% in FY31/32 (against a covenant of 175%), reducing to 111% by FY33/34.
- 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 ODC would create significant new borrowing headroom for ODC, eliminating all council debt. **By FY33/34 this creates $41 million in new borrowing capacity for ODC**. **ODC would effectively have no debt** at LTP projected levels of revenues, as the council's borrowings relate to water services, which would transfer to a CCO.
- New borrowing headroom created for ODC would significantly improve the 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.





Council net debt to operating revenue if CCO established ($m)	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Operating revenue - excluding water services	22	22	23	25	27	27	28	29	30	32
Net debt - excluding water services	(9)	(6)	(4)	(1)	0	1	(0)	(1)	(3)	(6)
Net debt to operating revenue - excluding water services	-40%	-27%	-16%	-5%	1%	2%	0%	-2%	-9%	-18%
Debt headroom created for ODC from establishing a Water CCO ($m)	20	21	23	26	29	32	34	38	39	41
Net debt to operating revenue - including water services (LTP)	50%	68%	83%	98%	110%	118%	123%	127%	121%	111%

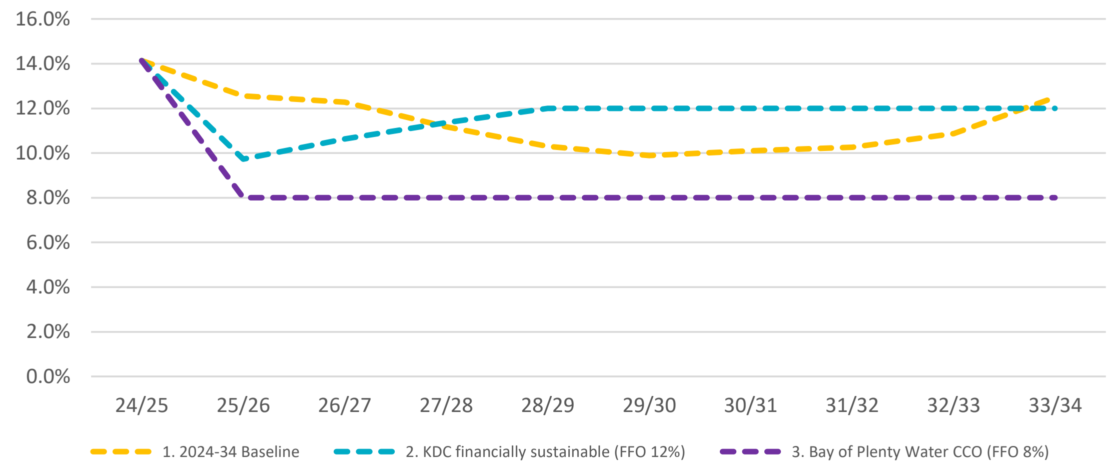
Kawerau District Council

Kawerau District Council (KDC) – borrowing metrics

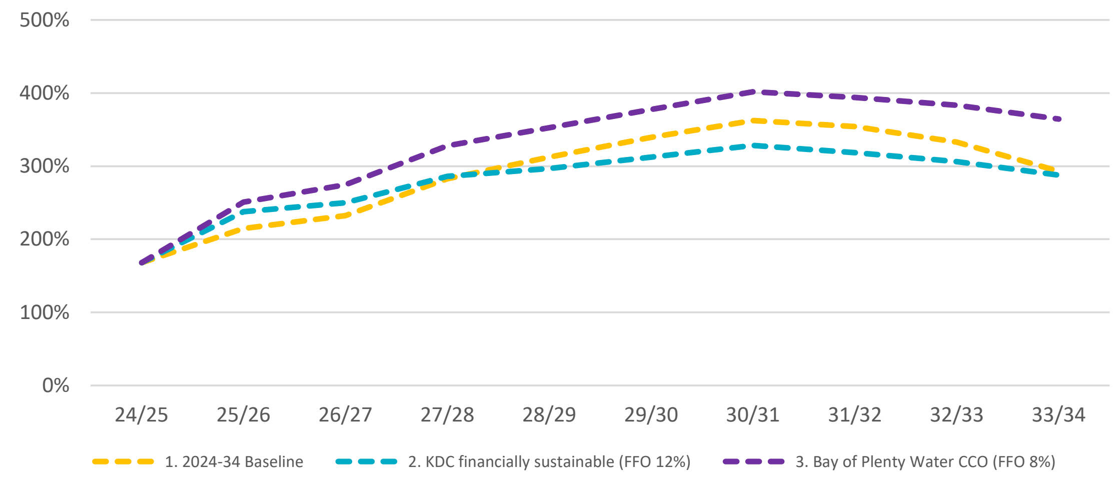
Debt to revenue and 'FFO to net debt' metrics under scenarios

- The FFO to net debt metrics below are the key driving assumption of revenues, charges and borrowing requirements under the various scenarios.
- 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**.
- The scenarios have been developed and compared:
    - Scenario **1. 2024-34 Baseline**: baseline 2024-34 projections provided by KDC officers.
    - Scenario **2. KDC financially sustainable (FFO 12%)**: baseline 2024-34 projections , modified so that a target FFO to debt ratio of 12% is met from 1 July 2028 onwards (this applies to in-house delivery or a KDC owned Water CCO); and
    - Scenario **3. Bay of Plenty Water CCO (FFO 8%)**: baseline 2024-34 projections , modified so that a target FFO to debt ratio of 8% is met from 1 July 2028 onwards.
- The minimum FFO to net debt requirements under the tested scenarios is lower than set out in KDC baseline financial projections. Establishing a Bay of Plenty Water CCO, would enable a lower minimum FFO and higher leverage (requiring marginally lower revenues).

Funds from operations to net debt for water services



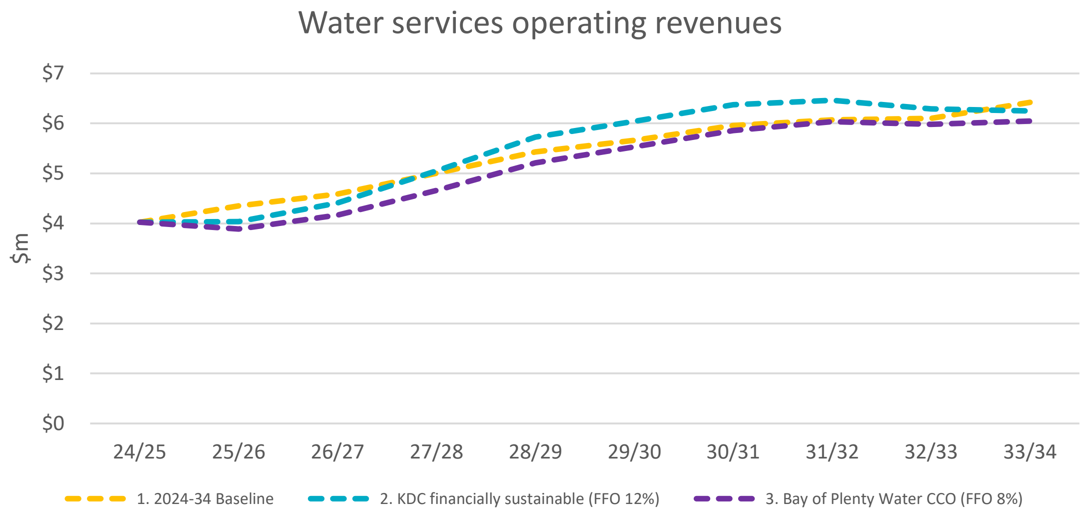
Water net debt to operating revenue

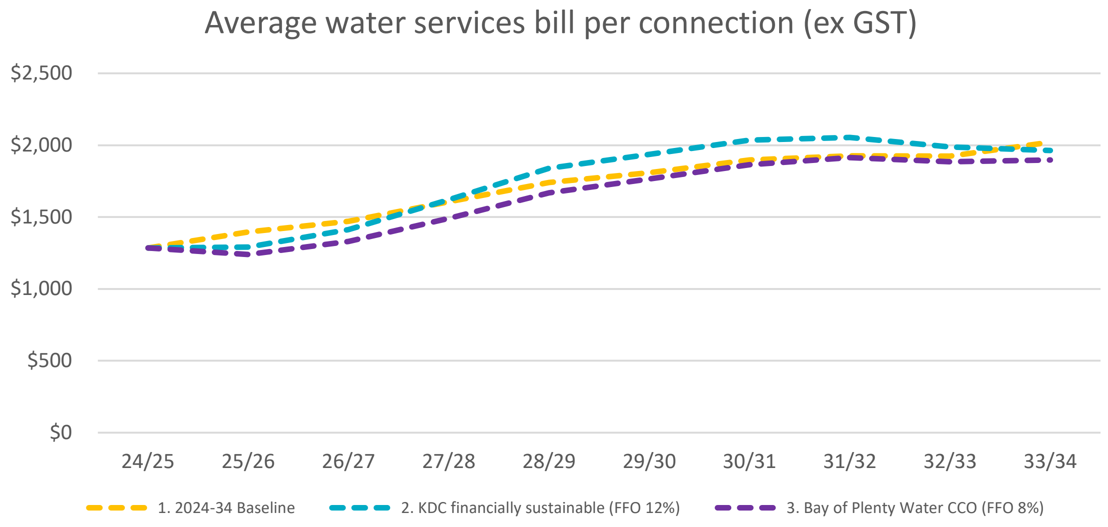


Kawerau District Council – revenue and charges

Revenue and pricing requirements under scenarios

- The 2024-34 baseline financial projections provided by KDC officers shows water services revenues to increase from $4.0 million in FY24/25 to $6.4 million in FY33/34 (+60% over nine years).
- This results in calculated average charges increasing from $1,285+GST in FY24/25 to $2,020+GST in FY33/34 (+57% over nine years).
- The baseline projected revenue requirements are materially in line with minimum revenue requirements under a Bay of Plenty Water CCO.

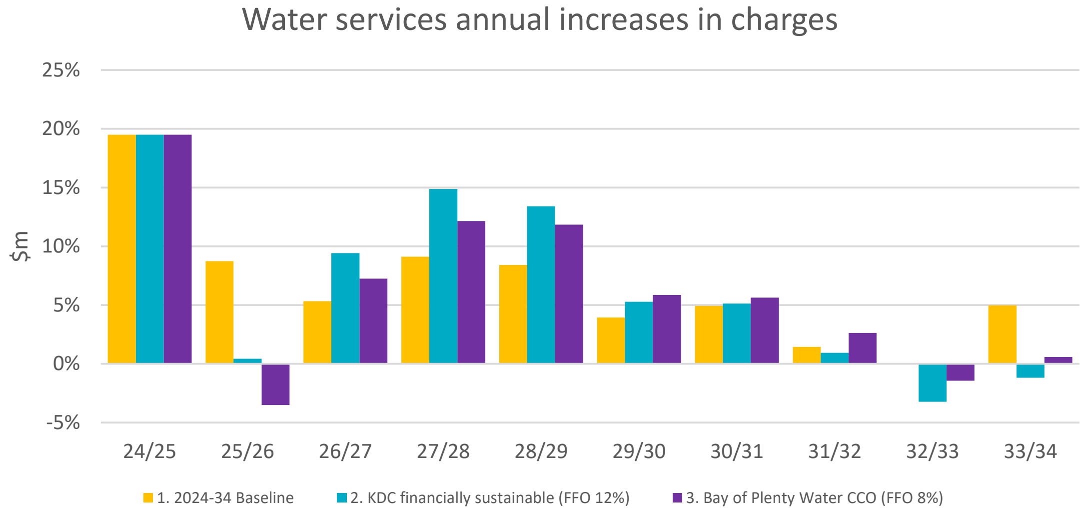


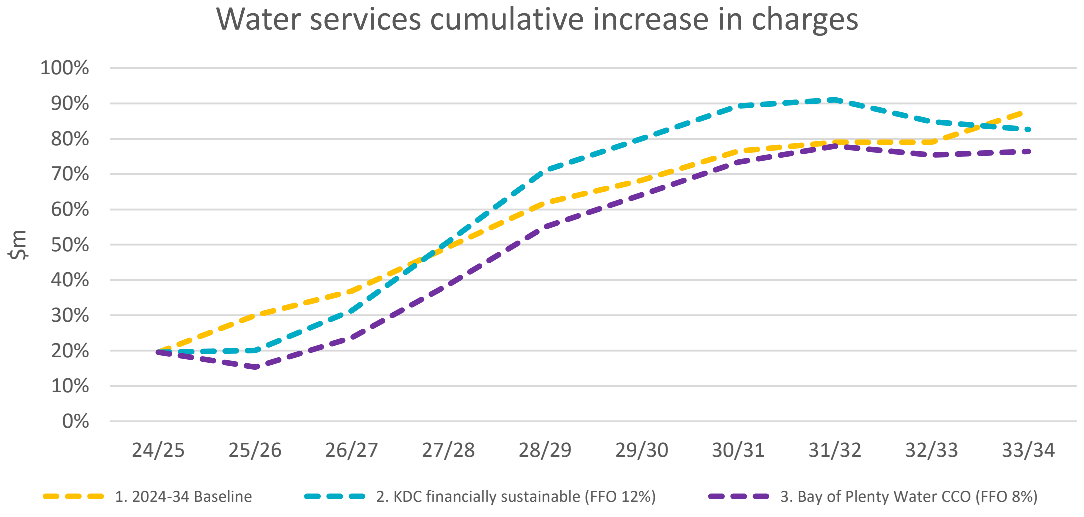


Kawerau District Council – price increases per year

Annual price increases under scenarios

- Revenues and charges to households would be materially similar whether delivered in-house or as part of a Bay of Plenty Water CCO.
- Consideration could be given to smoothing the impact of price increases over a number of years to bring revenues up to financially sustainable levels, and avoid one-off price shocks.
- Kawerau District Council would, however, receive significant new borrowing headroom as owning council from establishing a Water CCO. This new borrowing headroom could be used to reduce non-water rates requirements. The following slide sets this out in further detail.





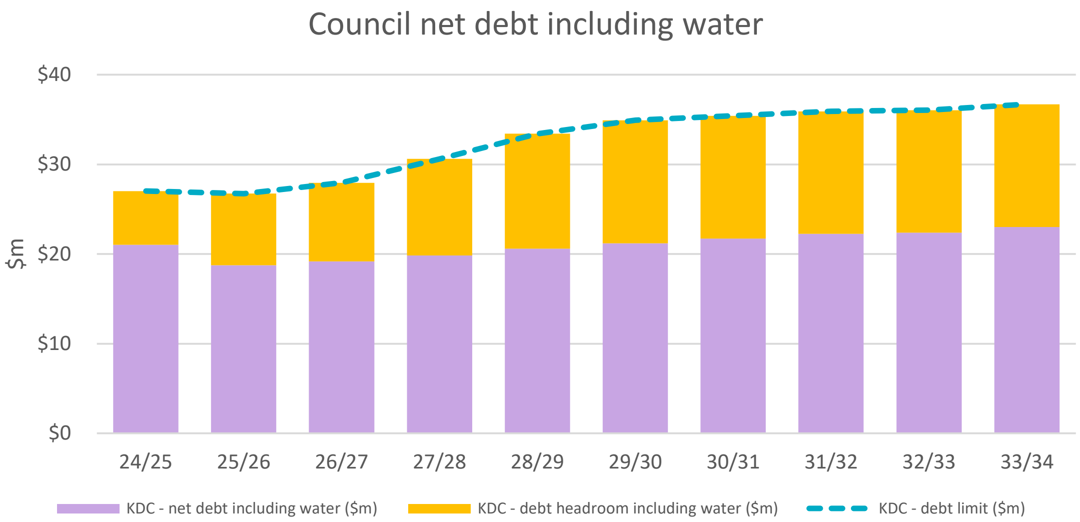
Price increases	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33	33/34
Scenario 1. 2024-34 Baseline	20%	9%	5%	9%	8%	4%	5%	1%	0%	5%
Scenario 2. KDC financially sustainable (FFO 12%)	20%	0%	9%	15%	13%	5%	5%	1%	-3%	-1%
Scenario 3. Bay of Plenty Water CCO (FFO 8%)	20%	-4%	7%	12%	12%	6%	6%	3%	-1%	1%

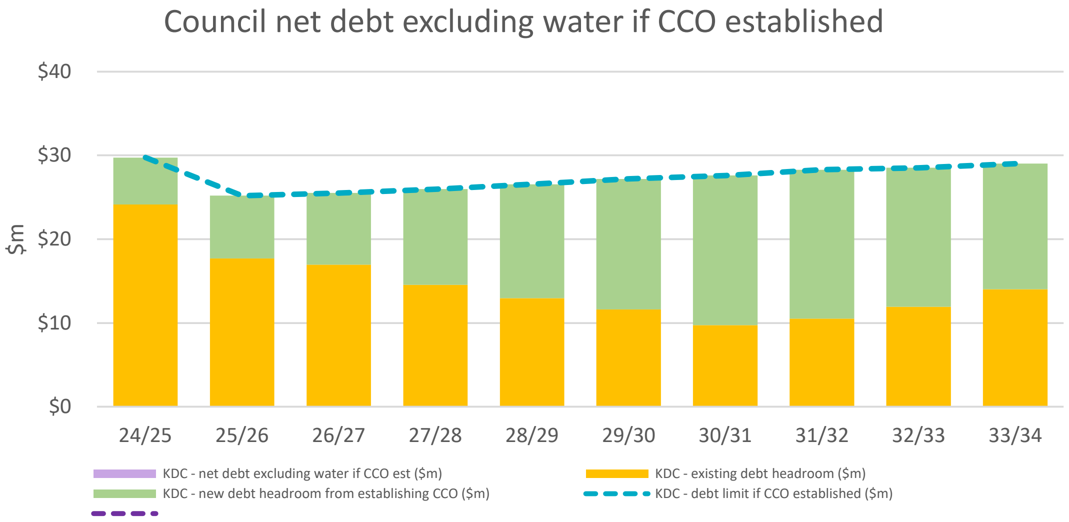
Price increases cumulative	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33	33/34
Scenario 1. 2024-34 Baseline	20%	30%	37%	49%	62%	68%	77%	79%	79%	88%
Scenario 2. KDC financially sustainable (FFO 12%)	20%	20%	31%	51%	71%	80%	89%	91%	85%	83%
Scenario 3. Bay of Plenty Water CCO (FFO 8%)	20%	15%	24%	39%	55%	64%	73%	78%	75%	76%

Establishing a Water CCO creates new borrowing headroom for KDC

Impact on council financial position from establishing a Water CCO

- 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).
- At an all-council level, KDC's debt to revenue is projected to peak at 65% in FY29/30 (against a covenant of 280%), reducing to 60% by FY33/34. Virtually all of KDC's borrowings relate to water services.
- 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 KDC would create significant new borrowing headroom for KDC, eliminating all council debt. **By FY33/34 this creates $15 million in new borrowing capacity for KDC**. **KDC would effectively have no debt** at LTP projected levels of revenues, as the council's borrowings relate to water services, which would transfer to a CCO.
- New borrowing headroom created for KDC would significantly improve the 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.





Council net debt to operating revenue if CCO established ($m)	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Operating revenue - excluding water services	17	14	15	15	15	16	16	16	16	17
Net debt - excluding water services	(1)	(1)	(2)	(3)	(4)	(6)	(8)	(8)	(7)	(5)
Net debt to operating revenue - excluding water services	-4%	-9%	-13%	-23%	-27%	-35%	-50%	-48%	-41%	-31%
Debt headroom created for KDC from establishing a Water CCO ($m)	6	7	9	11	14	16	18	18	17	15
Net debt to operating revenue - including water services (LTP)	29%	43%	46%	54%	62%	65%	63%	62%	61%	60%