

Thursday, 31 July 2025

Te Hui o Te Kaunihera ā-Rohe o Heretaunga
Hastings District Council
Council Meeting

Kaupapataka **Agenda**

Te Rā Hui:
Meeting date: **Thursday, 31 July 2025**

Te Wā:
Time: **1.00pm**

Te Wāhi:
Venue: **Council Chamber
Ground Floor
Civic Administration Building
Lyndon Road East
Hastings**

Te Hoapā:
Contact: **Democracy and Governance Services
P: 06 871 5000 | E: democracy@hdc.govt.nz**

Te Āpiha Matua:
Responsible
Officer: **Chief Executive - Nigel Bickle**

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HASTINGS DISTRICT COUNCIL
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TE KAUNIHERA Ā-ROHE O HERETAUNGA

Thursday, 31 July 2025

Te Hui o Te Kaunihera ā-Rohe o Heretaunga

Hastings District Council

Council Meeting

Kaupapataka

Agenda

Tiamana

Chair: Mayor Sandra Hazlehurst

Mematanga:

Membership:

Ngā KaiKaunihera

Councillors: Ana Apatu, Marcus Buddo, Alwyn Corban, Malcolm Dixon, Michael Fowler, Damon Harvey, Henry Heke, Kellie Jessup, Tania Kerr (Deputy Mayor), Hana Montaperto-Hendry, Simon Nixon, Wendy Schollum, Heather Te Au-Skipworth and Kevin Watkins and one councillor vacancy

Tokamatua:

Quorum:

8 members

Apiha Matua

Officer Responsible:

Chief Executive – Nigel Bickle

Te Rōpū Manapori me te

Kāwanatanga

Democracy and

Governance Services:

Louise Stettner (Extn 5543)

Te Rārangi Take

Order of Business

1.0 Opening Prayer – *Karakia Whakatūwheratanga*

2.0 Apologies & Leave of Absence – *Ngā Whakapāhatanga me te Wehenga ā-Hui*

At the close of the agenda no apologies had been received.

At the close of the agenda no requests for leave of absence had been received.

3.0 Conflict of Interest – *He Ngākau Kōnatunatu*

Members need to be vigilant to stand aside from decision-making when a conflict arises between their role as a Member of the Council and any private or other external interest they might have. This note is provided as a reminder to Members to scan the agenda and assess their own private interests and identify where they may have a pecuniary or other conflict of interest, or where there may be perceptions of conflict of interest.

If a Member feels they do have a conflict of interest, they should publicly declare that at the start of the relevant item of business and withdraw from participating in the meeting. If a Member thinks they may have a conflict of interest, they can seek advice from the General Counsel or the Manager: Democracy and Governance (preferably before the meeting).

It is noted that while Members can seek advice and discuss these matters, the final decision as to whether a conflict exists rests with the member.

4.0 Confirmation of Minutes – *Te Whakamana i Ngā Minitī*

No Minutes to be confirmed.

5.0 Local Water Done Well Decision

7

6.0 Minor Items – *Ngā Take Iti*

7.0 Urgent Items – *Ngā Take Whakahihiri*

8.0	Recommendation to Exclude the Public from Items 9 and 10	85
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9.0	Local Water Done Well - Heads of Agreement Schedules 4 and 5
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10.0	Kerbside Recycling Collection and Drop Off Centre Operations Management (Supplementary Agenda)
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Thursday, 31 July 2025

Item 5

Te Hui o Te Kaunihera ā-Rohe o Heretaunga
Hastings District Council: Council Meeting

Te Rārangi Take

Report to Council

Nā: Jess Noiseux, Strategic Financial Advisor
From: Graham Watson, Chief Financial Officer
Bruce Allan, Deputy Chief Executive
Craig Thew, Group Manager: Infrastructure

Te Take:
Subject: Local Water Done Well Decision

1.0 Executive Summary – *Te Kaupapa Me Te Whakarāpopototanga*

1.1 The purpose of this report is to:

- Seek Council's decision on the water service delivery option following public consultation and hearing of submissions which will set the direction for the development of a Water Service Delivery Plan (WSDP) as required under the Local Government (Water Services Preliminary Arrangement) Act 2024 ('the Act') and the Local Government (Water Services) Bill 2024 ('the Bill'). The WSDP will be brought back to Council next month for adoption prior to submission to the Department of Internal Affairs (DIA) by 3 September 2025.
- Endorse the draft Heads of Agreement between the four Hawke's Bay Councils (including Napier City Council, Wairoa District Council and Central Hawke's Bay District Council), based on a decision to establish a regional Water Service Council Controlled Organisation (WSCCO). The Heads of Agreement outlines key transition arrangement and agreed terms/commitments to achieve the regional operating model and objectives.

1.2 In April, officers presented a comprehensive analysis of the potential delivery models for Local Water Done Well, covering both the financial impacts and the non-financial advantages and disadvantages of each option. Since that time, there have been no significant changes to this analysis. A recap of this analysis has been provided in section 4.31 to 4.56 of this report.

1.3 The regional WSCCO presents the strongest case in terms of financial sustainability, resilience, service capability, efficiencies of scale and regional collaboration. It has received strong community support, with 83% of submissions favouring a regional WSCCO.

1.4 The Heads of Agreement has been prepared collaboratively with the other Hawkes Bay Councils to support the transition to a regional WSCCO.

2.0 Recommendations - Ngā Tūtohunga

- A) That Council receive the report titled Local Water Done Well Decision dated 31 July 2025.
- B) Notes that this matter and decision is recognised as of high significance in accordance with Council's Significance and Engagement policy.
- C) That Council approves, as its future Water Service Delivery Model, a joint Water Services Organisation (in the form of a Water Service Council-Controlled Organisation) – with at least Napier City Council and the other Hawke's Bay territorial authorities (being Wairoa District Council and Central Hawke's Bay District Council) if they also decide to form a joint Water Services Organisation.
- D) That Council directs the Officers to prepare a joint Water Service Delivery Plan in conjunction with the other participating Hawke's Bay Councils, with the final plan to be brought back to Council in August for approval prior to submission to the Department of Internal Affairs by 3 September 2025.
- E) Council endorses the draft Heads of Agreement document (**Attachment 1**) outlining key transition arrangements and agreed terms/commitments to achieve the joint operating model and objectives.
- F) Council authorises and delegates to the Chief Executive to execute the Heads of Agreement on behalf of Council, which begins the process to establish a joint WSCCO alongside the other participating Councils.
- G) Notes that recommendations C – D above are contingent on at least Napier City Council also deciding to form a joint Water Services Organisation.
- H) Notes that recommendations E–F above are contingent on the substantive decisions of the other three Hawke's Bay territorial authorities regarding water service delivery. At the time of writing, Central Hawke's Bay District Council has met (24 July) and agreed to the establishment of a joint WSCCO. Napier City Council is scheduled to meet on the same day as Hastings District Council to consider this decision. Wairoa District Council is scheduled to meet on 29 July to take its decisions on this matter. Should Wairoa District Council choose not to participate in the regional WSCCO, the draft Heads of Agreement will be brought back to Council for approval after amendments have been made to remove Wairoa from the agreement.

3.0 Background – Te Horopaki

Legislative and Policy Framework – Recap

- 3.1 The Local Government (Water Services Preliminary Arrangements) Act 2024 ("the Act") was enacted on 2 September 2024. The Local Government (Water Services) Bill ("the Bill") was introduced in early December 2024 and builds on the foundations set in the Act. The combined legislation set minimum requirements for service delivery models that included:

1. New economic, environmental and water quality regulations
2. A new planning and accountability framework
3. Financial sustainability objectives
4. New statutory objectives consistent for all water providers
5. Restrictions against privatisation

- 3.2 All Councils are required under this legislation to consider options and determine a preferred water service delivery model.
- 3.3 The Act requires that water services be delivered in a financially sustainable manner by 30 June 2028. DIA guidance is that financial sustainability means water services revenue is sufficient to meet the costs of delivering water services. The costs of delivering water services includes meeting all regulatory standards, and long-term investment requirements in water services.
- 3.4 There are three key factors to how financial sustainability will be assessed:
- 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 levels of service, regulatory requirements and provide for growth?
 - Financing sufficiency – are funding and finance arrangements sufficient to meet investment requirements?
- 3.5 The process to develop a one-off, transitional Water Services Delivery Plan (WSDP) for submission to DIA by 3 September 2025 is designed to get Councils to demonstrate how financially sustainable water services provision will be achieved from 30 June 2028 at the latest.
- 3.6 Under Local Water Done Well, the Local Government Funding Agency (LGFA) has committed to allowing Water CCOs to access debt financing, provided they are financially supported (through a guarantee) by their parent council or councils. The LGFA, as the lowest financing cost provider to local government, is already utilised by Council. The purpose of this specific lending facility is to support Councils through a WSCCO to address water investment needs while enabling 'balance sheet separation'. This approach can help reduce debt associated with water services on Council's balance sheet, potentially freeing-up debt capacity for other Council activities or alleviating pressure on Council rates.
- 3.7 Under the CCO model (single or joint), LGFA will not consolidate the debt of a WSCCO into the overall debt position of Council. However, LGFA guidance indicates that credit rating agencies will consider the debt of a WSCCO part of the parent Council's balance sheet if that Council owns more than 50 per cent of the WSCCO (i.e. this will impact on Councils credit rating). Councils credit rating influences the cost of borrowing for Council from the LGFA. As a result, the parent Council under a single CCO may face a lower credit rating score (and higher borrowing costs) compared to a parent Council that is part of a joint CCO, as discussed below.
- 3.8 For a multi-council, or Regional CCO where no council owns a majority of the organisation, both the LGFA and S&P (Councils credit rating agency) will treat the debt of the water CCO separately to the parent Council. Credit rating agencies are expected to recognise the water CCO as a contingent liability for the shareholding Councils, and assess the Council's stand-alone debt position without the water debt held by the Regional CCO.
- 3.9 If a council decides to maintain In-House delivery of water services through a new business unit, their existing water debt will remain on the council's books, despite the ring-fencing provisions in the LWDW legislation. This will mean considerably less debt headroom for Councils against their LGFA limits from both an LGFA and rating agency perspective.

Water Service Delivery Plans

- 3.10 Council must submit a WSDP by 3 September 2025, which explicitly shows its preferred proposed water services delivery model. The WSDP must include:
1. The proposed water services delivery model
 2. Whether to transfer (or not) Councils water services and/or assets
 3. Financial separation of its water services from the rest of Council activities

4. Demonstrations that financial sustainability will be achieved by 30 June 2028. The plan must be adopted by Council and certified as being true by the Chief Executive, before being submitted to Central Government.
- 3.11 The WSDP must be accompanied by an Implementation Plan for the preferred delivery model and submitted to the Secretary of Local Government (Secretary) - via DIA, by 3 September 2025. The WSDP is then either:
1. Accepted by the Secretary, who can only accept a WSDP if it complies with the Act (as above)
 2. Not accepted by the Secretary, who may make a recommendation to the Minister of Local Government (the Minister)
- 3.12 The Minister has the power to appoint a Crown Facilitator and/or Water Services Specialist if a council or group of councils, are failing in delivering or implementing a WSDP. This includes not meeting an accepted measure of financial sufficiency. A council can also request the appointment of a Crown Facilitator and/or Water Services Specialist.

Legislative Planning and Accountability Framework

- 3.13 The framework is intended to improve transparency and accountability for future delivery of water services. There are three documents that form the framework within which each water service provider's strategic and investment priorities, and performance settings, will be developed, explained and reported.

A Statement of Expectations

- 3.14 A statement of expectations is prepared by shareholders and issued to the water organisation they own, relating to a period of at least ten financial years. It will set out the shareholders' expectations for the water organisation. It will inform and guide the decisions and actions of the organisation's board. Water organisations must give effect to these statements.
- 3.15 The statement of expectations provides an important opportunity for council, as the shareholder, to communicate with the water organisation. Note that in the select committee report on the Bill, amendments have been made to this part of the Bill (outlined in section 4.3 of this report). The Bill sets out in detail what a statement of expectations must include, covering:
- The shareholders' expectations of the water organisation
 - The outcomes the shareholders expect the water organisation to achieve by providing water services
 - Requirements relating to the TA's resource management planning and land use planning

The bill also includes a range of matters that shareholders may choose to include in a statement of expectation, including:

- How the shareholders require the water organisation to conduct its relationships with the shareholders, the shareholders' communities, hapū, iwi, and other Māori organisations, consumers, and other specified consumers
- Performance indicators and measures that the shareholders may use to monitor the water organisation
- Expectations relating to the strategic priorities to be included in the water organisation's water services strategy
- A requirement that the water organisation act in accordance with an obligation that a shareholder may have (including with hapū, iwi or other Māori organisation) and undertake a specified obligation on behalf of a shareholder
- A requirement to undertake community or consumer engagement and the contents of that engagement

- Expectations in relation to collaborating with shareholders and other parties when providing water services
- A requirement that part or all of the water organisation's water services strategy must be independently reviewed or audited

A water services strategy (prepared by water service providers)

- 3.16 A water services strategy is prepared by water service providers every three years and supported by an annual budget in the other years. This document will set out how the provider is proposing to perform, respond to local expectations and priorities, and meet statutory objectives and regulatory requirements for water. It will include financial forecasting information over 10 years, and infrastructure and investment information over 30+ years. Strategies prepared by water organisations will respond to matters in the statement of expectations. Prices and charges will be set in accordance with the proposals in the strategy. An annual budget will also be prepared for each financial year, consistent with the provider's intended approach to funding, revenue, and pricing.

A water services annual report (prepared by water service providers)

- 3.17 A water services annual report is prepared by water services providers every year, reporting on the provider's actual performance against the expectations and proposals in the above documents. It will include financial reporting against the forecast financials in the water services strategy and must be audited by the Office of the Auditor General.

Previous Council Resolutions and Consultation Process

On 29 April 2025, Council resolved to consult with the community on the following three delivery models:

1. Option 1 – A Regional Hawke's Bay Multi-owned Water Organisation (Regional WSCCO)
2. Option 2 – A single Council owned Water Organisation (HDC CCO); and
3. Option 3 – Internal Business Unit – modified status quo (also referred to as in-house and council delivered service)

Council also endorsed Option 1 as its preferred delivery model for water services.

- 3.18 The consultation process was extensive and in order to give significance to the communities affected, it went above the minimum consultation requirements of the Bill. The consultation process reflected a Special Consultative Process as provided for in the Local Government Act 2002.
- 3.19 A total of 1063 submissions were received, with 16 submitters presenting at the Hearings process on 8 July.
- 3.20 The submissions were split 87 per cent between the urban community and the rural community (13 per cent). From the responses received 90 per cent had at least one connection to a Council water service and 83 per cent supported Council's preferred option for a regional WSCCO.
- 3.21 The main themes coming through from the consultation from those supporting the regional WSCCO option included:
- Cost efficiency and economies of scale
 - Regional collaboration and shared infrastructure
 - Water metering and user pays
 - Independent, professional governance
- 3.22 The main themes coming through from those who opposed a regional WSCCO model included:
- Scepticism of financial benefits

- Desire to retain local control and accountability
- Opposition to price harmonisation
- Affordability and equity concerns
- Concerns about privatisation of assets
- Concerns over Governance complexity

Hawke's Bay Heads of Agreement Process

- 3.23 Following the decision by all four Hawke's Bay territorial authorities to endorse the joint WSCCO as the preferred option for public consultation, an independent facilitator was appointed to support discussions with respect to bespoke transitional arrangements and terms.
- 3.24 Although consultation was still in process and decisions yet to be made, it was agreed by Chief Executives and Mayors that progress needed to be made on these matters with a 'no regrets' approach given the tight timeframes councils were working to (set by Central Government) for submitting a WSDP. This information was required not only to support the implementation section of the WSDP, but more importantly to give elected members confidence in making informed decisions regarding future water service delivery for councils on behalf of their communities.
- 3.25 In the absence of formal decisions or a transitional entity, legal advice recommended that a Heads of Agreement (formal and binding), should be developed and entered into by participating councils. This was to cover areas such as:
- A commitment to work together to progress an overall establishment and transition plan against a timetable (which informs the implementation plan within the WSDP)
 - The key structural aspects of a joint WSCCO (shareholding, governance, operational layers) to form the basis for developing and agreeing the full future documents
 - Statement of Expectations minimum content/approach
 - Shareholders Representative Forum (or similar) minimum content/approach
 - The process for agreeing the basis on which transfers will occur
 - The process for existing Councils to exit this arrangement, and the terms relating to this
 - The process for admitting new Councils (if applicable) to this arrangement
 - Arrangements for sharing project costs incurred
- 3.26 Simpson Grierson have been engaged to draft a Heads of Agreement for the Hawke's Bay Councils. The content of this Heads of Agreement has been the subject of Council discussions and workshops over June and July, and the final recommended Heads of Agreement is attached to this Council paper (see **Attachment 1**) for endorsement at this meeting, should Council agree to proceed with the regional model.
- 3.27 Given the matters of commercial negotiation and sensitivity in Schedules 4 (Commercial Terms Sheet) and 5 (Strategic Priorities or Intentions) - these sections have been removed from the public Council paper (and **Attachment 1**) and will be endorsed separately in a public excluded session.

4.0 Discussion – Te Matapakitanga

Local Water Done Well Legislative and Policy Framework – Final Bill Update

- 4.1 On 3 July 2025, the Finance and Expenditure Select Committee reported back on the Local Government (Water Services) Bill. This is the final piece of legislation to implement the Government's Local Water Done Well policy.

- 4.2 The select committee has recommended the bill pass, with extensive amendments (the select committee report notes there are more than 360 amendments proposed – although most are technical). From here, the bill is expected to pass in the coming weeks.
- 4.3 A summary of changes relevant to Local Government and/or the Hawke's Bay Councils' submission on the Bill includes:

Clause / Bill Section	Comments
Clause 15 - Objectives of water service providers	<ul style="list-style-type: none"> The committee has agreed with submitters that an additional objective be added to support housing growth and urban development. This was a request included in the joint submission provided to select committee by the four Hawke's Bay Councils. The Hawke's Bay joint submission also suggested that objectives be added around being resilient and responsive to population growth and supporting economic development objectives, however these were not added. Our submission had also suggested a more explicit objective around water services being provided in a "cost-effective and financially sustainable manner", as well as provide direction on the relationship between water organisations and Māori (such as acting consistently with the obligations of its shareholding councils) but these suggestions were not picked up. The select committee did amend the way that Treaty settlement obligations are referred to in the legislation, by bringing the requirement to act consistently with Treaty settlement obligations earlier in the bill, and to make it clear that it is a requirement for all persons in relation to the Act (not just the water services providers, as previously drafted). The select committee has also removed the objective to provide water services that do not have adverse effects on the environment, noting that any environmental effects would be regulated under the Resource Management Act 1991 rather than this legislation.
Clauses 184 – 189 – Statement of Expectations: <i>Shareholder role and influence in water organisations</i>	<ul style="list-style-type: none"> The select committee report notes that some submissions were concerned that the statement of expectations would give shareholders too much power and control over a water organisation. While the report notes that the accountability framework in the bill, including the statement of expectations, is intended to be flexible and differ from the existing provisions around CCOs in the Local Government Act, the select committee has made some amendments. In particular, the select committee has removed one of the purposes of the statement of expectation – to set the priorities and strategic direction of the water organisation – noting that instead strategic priorities should be set by the board of the water organisation, but can be informed and guided through the Statement of Expectations. The amendments also now state that, unless provided for in the foundational documents of a water organisation, a statement of expectations cannot include any requirements or expectations relating to the water organisation's performance or exercise of a duty, function or power under the Act, or require the water organisation to perform, or not perform, a specified act, or to achieve a specified result, in relation to a specified person or persons.
Clauses 190 – 199, Schedule 3, Clause 9: Process for making	<ul style="list-style-type: none"> The select committee has inserted a new clause to increase transparency in shareholder involvement in water services strategies, by requiring the final strategy to include a summary of the comments provided by shareholders, and

water services strategy	<p>an explanation of whether shareholders required changes and approved the final strategy.</p> <ul style="list-style-type: none"> The Hawke's Bay joint submission did note that proposals in the bill as introduced around allowing shareholders to amend water services strategies and annual budgets seemed to undermine the purpose of the legislation and having water organisations operate independently of political influence.
Development contributions	<ul style="list-style-type: none"> The transitional provisions in the bill around development contributions have been amended. This is to ensure a smoother transition from the status quo (where councils charge development contributions) to water organisations charging development contributions under this bill – and ahead of the Government's future development levy regime under its "Going for Housing Growth" work programme. Amendments include enabling asset-owning water organisations to adopt the relevant aspects of councils' policies as their first development contributions policy and ensuring that water organisations can calculate development contributions based on previous capital expenditure incurred by the council. The Hawke's Bay joint submission noted there was a lack of clarity around how developers were meant to interact between a water organisation and the Territorial Authority.
Facilitating transfers to new arrangements	<ul style="list-style-type: none"> The select committee has made a series of changes around transfer agreements, including to clarify that a council can discharge most of its responsibilities for providing water services by entering into a transfer agreement, and to make it clear that no person can require councils or water organisations to provide them with water services. Amendments have also been made to remove "gaps" in the process for entering into transfer agreements, and to expand on the required content of transfer agreements to add transparency.
The financial sustainability of water organisations	<ul style="list-style-type: none"> In the Hawke's Bay submission, we noted that 'financial sustainability' was a core requirement of Water Services Delivery Plans under the Preliminary Arrangements Act, but that this had not been carried over to the financial principles for water services providers, and suggested that this be added for consistency. This was not included, but several amendments to the principles have been made, particularly relating to dividend payments. The select committee made changes to support greater transparency and financial disciplines including to require information around dividends must be transparent to the public (in the same way as revenue and expenses are) and that water organisations must not pay a dividend that would compromise a water organisation's ability to act in accordance with the financial principle that revenue and funding is sufficient to sustain the provider's long-term investment in its water services. There have also been changes to the clauses around the Commerce Commission's regulation of water services, including to more directly link the Commission's monitoring and enforcement powers to the financial principle of spending revenue and funding on providing water services, and enabling the Commerce Commission to limit dividends paid by a water organisation.

Water Service Delivery Plan (WSDP)

- 4.4 A WSDP will be developed based on Council's decision on the delivery model, as required by the Act. On the basis that all Hawke's Bay councils agree to the recommended delivery model, this will be a joint regional WSDP between participating Hawke's Bay territorial authorities.
- 4.5 Following the decisions across all four Hawke's Bay territorial authorities to endorse the joint WSCCO as the preferred option for public consultation, it was agreed across councils to proceed with developing a regional WSDP template given the tight timeframes to submit a thorough document to DIA by 3 September. Any information that fed into the regional WSDP could be pulled out to support individual plans if required.
- 4.6 Officers across the four councils have worked together over the past month to support the development of a draft WSDP, leveraging the extensive financial modelling already. This draft has largely been driven by financial and asset data to date, given the key implementation sections of the WSDP will be finalised once all councils have made decisions on their water service delivery model and endorse the draft Heads of Agreement (that contains the majority of this information in terms of transitional steps for establishment).
- 4.7 The draft WSDP and figures were submitted to DIA for an initial review to gain as much feedback as possible on the Hawke's Bay region's and individual councils' positions. This feedback will be incorporated into the final plan and capture any necessary changes. Officers have had a session with DIA to discuss this feedback and this will be summarised and presented back to Council (in addition to any key changes required) in August.
- 4.8 The final WSDP will be brought back to Council workshop on 7 August, and then to a Council meeting later in August for adoption (at the time of writing this report the August meeting date for Council is yet to be confirmed). The objectives and key principles of the implementation plan will be included in this report.
- 4.9 The Chief Executive will then be required to certify the WSDP prior to lodgement to the Secretary for Local Government for approval on or by 3 September 2025. The Secretary for Local Government can only accept a WSDP if it complies with the Act. Once the WSDP is submitted to the DIA for approval, amendments to the WSDP may be required should the Department propose changes to ensure the WSDP aligns with the Act.

Draft Regional Heads of Agreement

- 4.10 The purpose of a Heads of Agreement is to set out how councils in a multi-council WSCCO will work together to develop and establish the water organisation. It is a formal, binding agreement for Councils, recording the terms of their commitment to developing the joint operating model, achieving the Objectives of the Heads of Agreement and establishing the regional WSCCO.
- 4.11 Simpson Grierson have been engaged to draft a Heads of Agreement for the Hawke's Bay Councils. The content of this Heads of Agreement has been the subject of Council discussions and workshops over June and July, and the final recommended Heads of Agreement is attached to this Council paper for endorsement at this meeting, should Council agree to proceed with the regional model. Given the matters of commercial negotiation and sensitivity in Schedules 4 (Commercial Terms Sheet) and 5 (Strategic Priorities or Intentions) - these sections have been removed from the public Council paper and attachment and will be endorsed separately in a public excluded session.
- 4.12 The Heads of Agreement outlines how the Councils will work together on both governance and management of the project. It also sets the initial direction for the establishment of the WSCCO, including requirements for various foundational documents (such as the Constitution and Shareholders' Agreement) which will be brought back to Council for approval at a later date.

Key Components

- 4.13 The key components of the Heads of Agreement are outlined below.
- 4.14 The Objectives of the agreement (Schedule 2, Clause 2.1) are:
- For the councils to continue to work closely, collaboratively and successfully to:

- o Progress a proposed joint operating model for the future delivery of water services in the Hawke's Bay region; and
- o Develop, adopt and submit a joint WSDP that meets each Council's needs and objectives for their respective communities, and which satisfies the requirements of the LG(WSDPA) Act;
- To agree the process (including key terms, governance and administrative support, allocation of responsibilities, timing and budget) for the establishment of the proposed joint operating model in accordance with the accepted WSDP;
- To facilitate timely decision-making by each Council, ensuring that all relevant statutory requirements can be satisfied, and the proposed joint operating model can be established in line with the accepted WSDP implementation plan; and
- To enable the Councils to consider and reach agreement on how they will operate together to ensure effective and efficient use of the Councils' resources, ultimately providing the greatest benefits to ratepayers as part of the transition to the proposed joint operating model.

4.15 The Heads of Agreement sets out the Governance model (Schedule 1 and Schedule 2, Clause 4.1) for the Project, namely:

- The Transitional Governance Group (TGG), made up of the Mayor and one other member (either elected member or appointee) from each of the shareholding Councils, plus an independent chair. Responsibilities of the TGG are set out in Schedule 2, clause 4.4 of the Heads of Agreement.
- The Project Steering Group (PSG), made up of the Chief Executives (or nominee) from each of the shareholding Councils. Responsibilities of the PSG are set out in Schedule 2, clause 4.5 of the Heads of Agreement.
- The Establishment Board, to be appointed by the TGG. Responsibilities of the Establishment Board are set out in Schedule 2, clause 4.6 of the Heads of Agreement.
- The Establishment Chief Executive, to be appointed by the Establishment Board. Responsibilities of the Establishment Chief Executive are set out in Schedule 2, clause 4.6 of the Heads of Agreement.
- The Project Team, made up of one named officer or external appointee from each of the shareholding Councils, with one member appointed as Project Team Lead. Responsibilities of the Project Team are set out in Schedule 2, clause 4.7 of the Heads of Agreement.

4.16 Schedule 3 of the Heads of Agreement sets out the Activities and Decisions for the different phases of the Project Plan, including the initial design phase and the implementation phase – which covers the establishment phase and the transition phase. The intention is for establishment of the new WSCCO by 1 July 2026, subject to officer confidence and a further developed Project Plan.

4.17 Schedule 4 of the Heads of Agreement is the Commercial Terms Sheet, providing an overview of key aspects of each of the foundational agreements for the new WSCCO. Each of these documents would be drafted, based on these key aspects, as a part of the Establishment Phase. The details of this Schedule have been removed from the public paper due to containing matters subject to commercial negotiations and will be reviewed separately.

4.18 Schedule 5 of the Heads of Agreement outlines the initial strategic priorities or intentions for the WSCCO. This is the section of the Heads of Agreement that reflects the priorities for the region, as well as the priorities for individual councils. The details of this Schedule have been removed from the public paper due to containing matters subject to commercial negotiations and will be reviewed separately.

Public Consultation and Hearings Feedback

- 4.19 The consultation process was extensive, going beyond the minimum requirements of the Bill and reflected the level of consultation required for a Special Consultative Process as per the Local Government Act 2002. This ensured that the voices of the communities were given full consideration.
- 4.20 A total of 1063 submissions were received, and 16 submitters presented at the hearings on 8 July.
- 4.21 The submissions reflected a divide between urban and rural communities, with 87% of submissions from urban communities and 13% from rural communities. Importantly, 90% of submissions had at least one connection to Council water services, while 83% expressed support for the Council's preferred option for a regional WSCCO. These findings highlight strong overall support for the regional WSCCO option, particularly from those directly impacted by Council water services.

Speakers in favour of a regional WSCCO

- 4.22 Eight of the speakers at the hearings expressed strong support for the regional WSCCO model, citing key benefits such as cost efficiency, resource pooling, and the ability to future-proof infrastructure. These supporters emphasized that the regional approach would enable better collaboration across councils, resulting in improved service delivery and shared resources.
- 4.23 There was also a clear recognition that the model would help to address regional water management challenges, such as ensuring long-term sustainability and improving service levels through a unified approach.

Speakers in opposition of a regional WSCCO

- 4.24 Of the 16 members of the community who took the opportunity to speak to Council, 8 were not in favour of a regional delivery model. This was primarily due to concerns about local control, affordability, and governance complexity. A common theme was the loss of local decision-making power and the fear that a more centralised governance structure could result in a dilution of local input into water service management.
- 4.25 A significant number of opponents were also concerned about price harmonisation, which they viewed as potentially unfair, particularly for smaller communities. There were also worries about the financial impact on ratepayers, with concerns that the regional model could lead to rising costs.

Additional Themes Emerging from the Hearings

- 4.26 As outlined in the Council paper on 8 July, the key themes coming from all submissions related to:

In favour of a regional WSCCO:

- **Cost efficiency and economies of scale.**
- **Regional collaboration and shared infrastructure**
- **Water metering and user pays**
- **Independent, professional governance**
- **Improved service delivery and infrastructure outcomes**
- **Other general comments**

While supportive of regional delivery there were some concerns about retaining public ownership of water services, and quite mixed views on mana whenua engagement, with some submissions strongly supporting and others raising concerns. There were also concerns raised about management of Council's remaining debt levels.

Opposed to a regional WSCCO

- **Perception of financial benefits**
- **Desire to retain local control and accountability**

- **Opposition to price harmonisation**
- **Affordability and equity concerns**
- **Governance complexity**

4.27 These themes were predominantly highlighted by speakers during the hearings process, with the only additional or strongly emphasised points being:

- **Skepticism about financial benefits**

A notable concern from speakers who opposed the regional model, was the perceived lack of financial transparency regarding the actual cost savings of the regional model. Some speakers believed the financial case for the regional WSCCO was not compelling enough, suggesting that the model simply shifts existing debt obligations rather than delivering real efficiencies.

- **Concern about local control and accountability**

Some speakers were particularly concerned about losing local influence over water services and that a centralised governance model would make it harder to address local needs effectively.

- **Desire for clearer governance structure**

There was concern over the complexity of the governance model and that the regional structure might make it more difficult for local ratepayers to have direct input into decisions that directly affect them.

- **Mixed views on mana whenua engagement**

The issue of mana whenua engagement was a central theme, with some speakers strongly advocating for more inclusive engagement (and for that engagement to include all levels of mana whenua, not just PSGEs), while others expressed concern about the level of influence or representation of Māori voices in decision-making decisions.

- **Support for the regional model's ability to improve service delivery**

Speakers highlighted that regional collaboration would allow for better infrastructure planning, more effective responses to weather events, and the pooling of resources to ensure more resilient water systems. The idea was that a regional entity would have the resources to improve service quality and build a more sustainable infrastructure for the future.

- **Acknowledgment of improved governance with regional expertise**

Some speakers noted that a professional, technically competent governance model would be a significant improvement, enabling decisions to be made independently of local political pressures. They recognised that the regional model would bring together a broader range of expertise and ensure more efficient and effective governance. This was seen as a major advantage in addressing complex issues around water management, which often require specialised knowledge.

- **Long-term financial sustainability**

A few speakers reinforced the potential financial benefits of the regional model, particularly in terms of cost efficiency and the ability to spread the costs of infrastructure upgrades across a broader ratepayer base. They pointed out that regional collaboration could enable economies of scale, which would ultimately result in more cost-effective service delivery in the long term.

- **Support for collaboration in water management**

Speakers noted that water sources, stormwater systems, and environmental responsibilities do not adhere to council boundaries, and a regional approach would allow for better coordination and shared responsibility in managing these critical resources. They argued that a regional WSCCO would help councils collaborate on issues that affect the entire region, and water networks, leading to more sustainable and equitable water management solutions.

4.28 There were a few items brought up that showed some factual misunderstandings or highlighted where the consultation documentation wasn't clear enough.

4.29 These included:

- **Price Harmonisation:** Concerns about price harmonisation were prevalent, with some speakers fearing that it would lead to increased costs and that decisions around price harmonisation would be made outside of Council control. However, any future decisions around price harmonisation would require approval through shareholder agreement, based on a majority decision. Such decisions would only be made in the future, when a regional approach to pricing is considered appropriate by all shareholders.
- **Governance Structure:** There were some concerns that the Governance structure for a regional CCO would mean a total loss of control. As outlined in the Heads of Agreement, it is anticipated that a Shareholder Council will sit above the board, with Council delegated nominees to represent Council decisions on voting matters. It is anticipated that some decisions will need to come back to Council for debate prior to Shareholder voting.

4.30 The consultation process has provided valuable insights into the community's preferences and concerns. Overall, the feedback revealed a strong support for the regional WSCCO model, particularly due to the perceived benefits of cost efficiency, regional collaboration, and resource sharing. However, concerns about affordability, local control, and complexity of governance were evident among a portion of submitters and speakers.

Recap of Options Analysis

4.31 On 29 April, Officers took Council through an extensive analysis of the different delivery models and the advantages and disadvantages of each model. Below in sections 4.32 to 4.55 is a recap of this analysis.

Financial Sustainability and Cost to Ratepayer

4.32 One of the primary benefits of the Regional CCO model is the improved financial sustainability it offers through operating and cost efficiencies. While costs are likely to be ring-fenced between councils to ensure financial independence, the Regional CCO allows for greater coordination and collaboration in the delivery of water services, which leads to reduced operational costs and enhanced efficiency.

4.33 For instance, by leveraging shared expertise, resources, and bulk purchasing power, the Regional CCO is expected to achieve lower per-unit costs for services and infrastructure compared to each council operating independently. These efficiencies can be achieved in areas such as procurement, maintenance, staffing, and technology investments. The result is a more cost-effective delivery model for water services, even while financial risks and liabilities remain distinct for each council.

4.34 **Regardless of the model chosen, the status quo for water charges is no longer viable.** Current water charges, as set in the latest Long-Term Plan (LTP), will not be sufficient to meet the financial requirements imposed by new regulatory and legislative changes. Councils will need to increase charges to consumers to meet debt covenant ratios and ensure compliance with mandatory financial sustainability measures. This increase in charges is necessary to ensure that councils remain financially stable and able to fund water services in line with the new requirements.

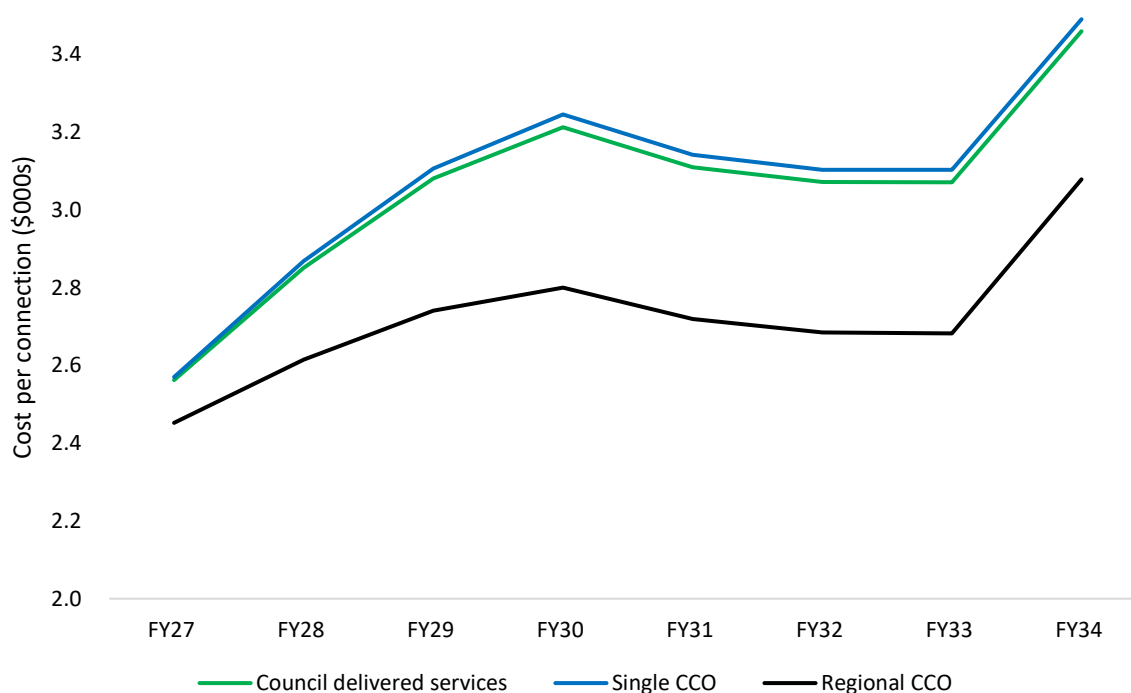
4.35 The cost per connection under each model, as per modelling data in **Attachment 2** is:

Average cost per connection (\$000s)

Model	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34
In-house	\$2.6	\$2.9	\$3.1	\$3.2	\$3.1	\$3.1	\$3.1	\$3.5
Single CCO	\$2.6	\$2.9	\$3.1	\$3.3	\$3.1	\$3.1	\$3.1	\$3.5
Regional CCO	\$2.5	\$2.6	\$2.7	\$2.8	\$2.7	\$2.7	\$2.7	\$3.1

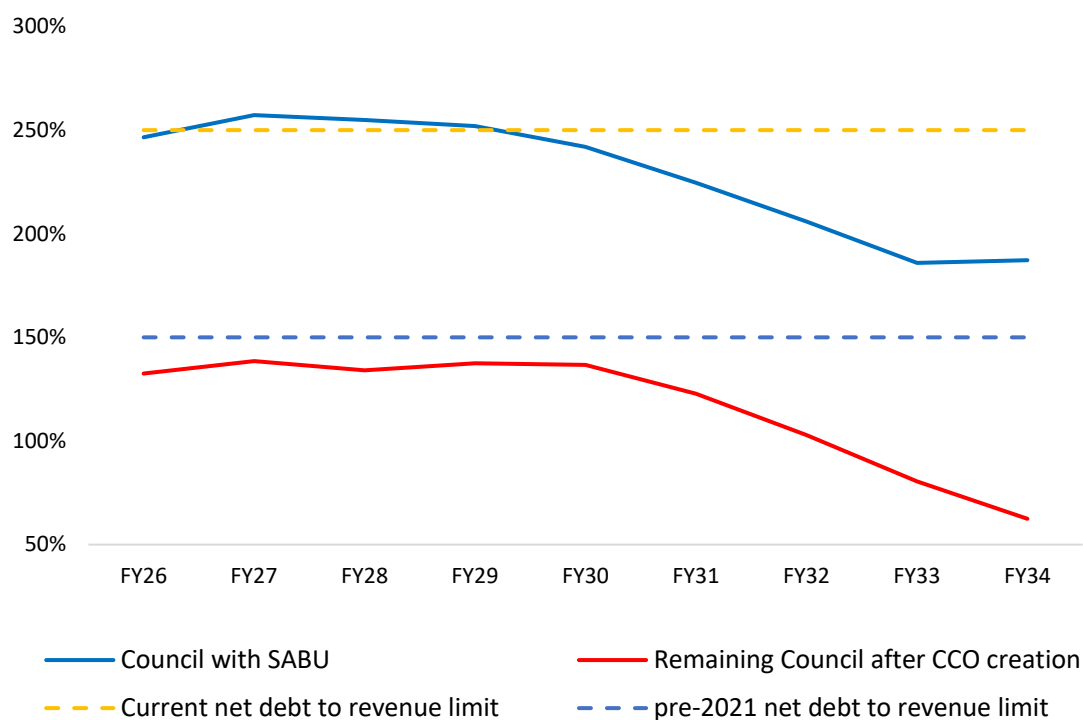
The graph below, which compares the current average connection costs outlined in the table above for each model based on the latest financial modelling.

Average cost per connection (\$000s)



- 4.36 As previously outlined, retaining the management of three waters as Council delivered services would significantly constrain the Council's debt headroom, bringing it close to the existing internal policy debt limit. Debt required to fund the necessary three waters investments and meet the new financial requirements imposed by the regulatory framework, would consume the majority of Council's borrowing headroom, leaving minimal capacity to respond to emergencies, maintain resilience in the face of major unexpected events, or debt-fund other critical infrastructure such as roading or community facilities.
- 4.37 Establishing either an HDC CCO or a Regional CCO would align the Council's net debt-to-revenue ratio more closely with pre-Cyclone Gabrielle levels and provide increased financial headroom to respond to future emergencies or make allowances for other Council activity requirements.
- 4.38 The graph below illustrates the impact on Council's net debt to revenue ratio under each scenario. It compares the position where three waters remain in-house with the improved debt position resulting from the establishment of a CCO, which would remove three waters-related debt from the Council's balance sheet.

Council net debt to revenue %



*This is based on Council's internal net debt to revenue calculation where one off Cyclone Recovery revenue is excluded

Non-financial Criteria analysis

- 4.39 In addition to financial sustainability, Councillors have asked for an assessment of each delivery model against a wider set of non-financial criteria. These criteria reflect the strategic priorities for Council, including service quality, resilience, capability building, and partnership with mana whenua. This section outlines how each model performs against these factors.

Service Quality and Equitable Outcomes

- 4.40 The Regional CCO model provides the greatest potential to maintain and enhance service levels across the water networks. By leveraging shared systems, resources, and regional oversight, this model supports consistent, high-quality service delivery and improved access to safe and reliable water services. It also enables more equitable service outcomes across the region through coordinated planning and prioritisation. Importantly, while regional collaboration allows for smarter investment decisions, each council retains financial independence; ensuring that funding remains ring-fenced and that no council is required to subsidise the capital works of another.
- 4.41 A single council-owned CCO would provide more operational flexibility than the in-house model, with a governance structure that could support longer-term planning and service improvements. However, it lacks the ability to coordinate service levels or share capabilities across a wider area, limiting its capacity to uplift underperforming parts of the network or respond to disparities in service outcomes.
- 4.42 The in-house model provides direct control but is the least likely to deliver consistent, long-term service quality improvements. As regulatory requirements increase and expectations around environmental and health outcomes rise, the limitations of a single-council model – particularly around access to skilled staff and funding – may constrain the ability to maintain service levels or respond proactively to issues.

Resilience, capital delivery and asset management

- 4.43 Water infrastructure requires substantial, long-term investment, and resilience is critical to ensuring reliable and sustainable service delivery. This Council is facing significant financial constraints, with its limited debt headroom, and managing the risks associated with water service delivery will potentially be a challenge. The council's indebtedness means that there is limited flexibility in its finances to invest in water infrastructure without compromising other essential services and projects across the community.
- 4.44 Given these financial constraints, prioritising water services due to regulatory changes, such as compliance with national water standards or the need to upgrade aging infrastructure, could divert funding away from other vital council activities. Essential areas like community facilities and transportation may suffer as a result, with projects being delayed or scaled back in favour of addressing immediate water infrastructure needs. This creates a difficult balancing act, particularly when the council is required to address pressing regulatory requirements within water services but also has obligations to ensure the ongoing well-being and development of the wider community.
- 4.45 The Regional CCO model offers a flexible and agile solution to this issue by enabling councils to collaborate and achieve operational and cost efficiencies. Through regional cooperation, councils can share expertise, resources, and services, leading to reduced operational costs without compromising their financial independence. Financial risks associated with water infrastructure investments, such as compliance costs and major capital projects, remain ring-fenced between councils but can be managed more effectively through shared approaches. This allows each council to continue meeting its water service obligations while minimizing the impact on other essential areas, ensuring that other activities and capital projects are not negatively affected by the demands of water infrastructure investment.
- 4.46 Moreover, the Regional CCO model provides greater access to expertise and investment, which means that the Regional CCO can participate in larger, more cost-effective projects that improve overall service delivery. These projects can be developed at a regional level, where economies of scale and joint investment can lead to more efficient, resilient water systems that serve the needs of multiple communities. With shared resources, the council can focus on ensuring that its water services meet regulatory requirements, while still having the capacity to fund and prioritize other critical areas.
- 4.47 In contrast, remaining with the in-house business unit or a single council-owned CCO would place more pressure on the council's financial situation, making it harder to balance the competing demands of water infrastructure investment and other community services. Without the support of regional collaboration, the council would face more significant challenges in prioritising water services without impacting other areas of service delivery. The Regional CCO model mitigates these concerns by ensuring a more equitable distribution of costs, risks, and resources across all participating councils, enabling a more sustainable and resilient approach to both water services and broader community needs.

Capability and Capacity

- 4.48 The Regional CCO model enhances the ability to attract and retain high-quality technical expertise, which is critical for the effective management of water services. By pooling resources across multiple councils, the Regional CCO can better access specialised knowledge, technology, and skilled personnel. This is increasingly important given the growing complexity of water management, including the challenges of climate change, evolving regulatory requirements, and increasing public expectations.
- 4.49 Beyond internal capability, the Regional CCO model also supports the development of a stronger and more sustainable supplier market. By coordinating investment across councils, the model enables the establishment of long-term, visible procurement pipelines that give contractors and suppliers confidence to invest in workforce growth, training, and innovation. This leads to better market competition, improved delivery capability, and more consistent service outcomes across the

region. The scale of this model also supports standardised procurement practices and modular delivery approaches, which can lower unit infrastructure costs and improve delivery efficiency over time.

- 4.50 While a single council-owned CCO could offer a degree of operational flexibility, it would not benefit from the same breadth of expertise or ability to support a region-wide industry pipeline. Similarly, the in-house business unit—while providing full operational control—may face significant challenges in accessing the technical innovation and procurement scale needed to future-proof the service. These models are less able to influence the market at scale, limiting their ability to drive down infrastructure unit costs through standardisation and modular delivery approaches.
- 4.51 Smaller entities also face greater challenges in retaining top-tier staff. Limited scale, resources, and advancement opportunities mean that skilled personnel may be drawn to larger regional or national organisations. This can impact service quality, continuity, and institutional knowledge retention. The Regional CCO model, by offering broader career pathways, coordinated training initiatives, and access to a larger talent pool, improves the ability to both attract and retain high-performing staff while also building sustainable capability within the wider water sector.

Mana Whenua involvement

- 4.52 A core consideration in the selection of a delivery model is the extent to which it reflects the priorities of and supports enduring relationships with mana whenua. Each model presents different opportunities and limitations in enabling effective collaboration, influence, and shared outcomes in the governance and delivery of water services.
- 4.53 The Regional CCO model provides the strongest platform for embedding Te Tiriti o Waitangi partnerships in a meaningful and consistent way across the region. It enables a consolidated and coordinated approach to engagement and co-governance with mana whenua, which can help build stronger, more enduring relationships. The scale of the entity allows for dedicated capability to support partnership development, culturally grounded planning, and an outcomes framework that align with mana whenua aspirations. It also supports the creation of region-wide mechanisms that enable mana whenua voices to be reflected in strategic decision-making, investment planning, and service delivery standards.
- 4.54 The HDC CCO model may allow for greater flexibility in how mana whenua relationships are structured locally, but it may lack the resourcing and system maturity to consistently deliver on those relationships at a strategic level. Engagement may also be less consistent across the region, particularly where water networks and iwi/hapū interests span multiple boundaries.
- 4.55 The in-house business unit maintains direct council control, which could support existing local partnerships and enable place-based responses. However, it may have less capacity to invest in dedicated iwi relationship management, capability development, or co-designed initiatives than a Regional CCO. There is also a risk that resource constraints could limit the ability to respond meaningfully to mana whenua aspirations in water planning and delivery.
- 4.56 Overall, while each model can be structured to uphold Te Tiriti commitments, the Regional CCO provides the greatest opportunity to invest in partnership capability, embed cultural values into regional water management, and support mana whenua in shaping long-term outcomes for water.

Impact of Other Councils Decision Making

- 4.57 The three other territorial authorities (TAs) that Council has been working with on a collaborative regional approach are Wairoa District Council, Napier City Council and Central Hawkes Bay District Council.
- 4.58 Officers and Chief Executives across all TAs have consistently taken a collaborative approach to investigating and evaluating what a regional delivery model for Local Water Done Well might look like.

- 4.59 Following the adoption of the regional delivery model as the preferred option for consultation by all four Councils, officers have jointly developed a draft WSDP. This draft is nearing completion and will shortly be ready for review and adoption, ahead of the 3 September submission deadline to the DIA.
- 4.60 While each Council identified the regional model as its preferred option during consultation, final decisions on whether to adopt this model for long-term water service delivery are still pending for some Councils.
- 4.61 Wairoa District Council initially scheduled a decision-making meeting for 22 July 2025 to confirm its preferred delivery model. That meeting was adjourned, and the matter set to be resolved at a future date. The Council report identified two viable options for Wairoa: a Wairoa owned CCO or the regional WSCCO. At the time of writing this report it was understood that their meeting was to continue on Tuesday 29 July.
- 4.62 On 3 July 2025 Central Hawkes Bay District Council resolved to confirm the regional WSCCO as its preferred delivery model for water services.
- 4.63 Napier City Council is scheduled to consider its preferred delivery model at a Council meeting on the morning of 31 July 2025. Officers expect to be able to update Council on the outcome following that meeting.
- 4.64 The recommendations in this report are contingent on Napier City Council (NCC) also adopting the regional WSCCO as the delivery model for Local Water Done Well. Without NCC's participation, the financial modelling and non-financial benefits outlined in 4.39 to 4.56 would not be realised to the extent described.
- 4.65 Should Wairoa District Council opt for a Wairoa-owned CCO instead of joining the regional WSCCO, there would be some impact on the distribution of shared establishment and initial operating costs. However, this impact is not considered material enough to alter the overall conclusion that the regional WSCCO remains the most cost-effective option. If Wairoa opts out, officers will revise the WSDP to exclude Wairoa-specific modelling and operational content.

Update on Mana Whenua Engagement

- 4.66 Engagement with mana whenua is ongoing and will need to deepen as the project progresses through its next stages. Engagement has occurred at both a regional and local level.
- 4.67 At a regional level, engagement has been led by the Regional Recovery Agency, supported by PwC, who have met with leaders (where available) from the Post-Settlement Treaty groups across the region, as well as NKII. These conversations took place in September 2024 and again in June 2025. PwC has summarised the draft themes emerging from these discussions as follows:
- *Mana whenua consistently noted that LWDW is one of many priorities and momentum appears to have slowed since previous engagement reflecting the amount of time that has passed since this kaupapa first began. Despite this, the aspiration for mana whenua representation in governance remains strong. **Water quality remains a top priority for mana whenua.** The quality of water continues to be a significant focus, especially in the aftermath of incidents like the Havelock North outbreak, with one representative stating, "Quality of water is non-negotiable, especially after what we've seen."*
 - ***Concerns around water scarcity - both current and future - were strongly expressed.** Mana whenua are advocating for stronger policies on water management, including greater access to untreated drinking water. Issues relating to wastewater discharge and stormwater management were also raised, reinforcing the need for closely monitored practices. This is consistent with previous advice from mana whenua.*
 - ***There are differences in how councils engage with mana whenua.** Some councils maintain regular dialogue with mana whenua and others less frequently. In some cases, communications have been sparse and vague, with mana whenua often left to interpret or infer what is happening.*

This is undermining confidence and creating skepticism about LWDW's actual commitment to partnership. This disparity is a barrier to trust and raises concerns that the future model will embed those inconsistencies into its foundations.

- **Mana whenua expressed a strong preference for governance models that embed their voices from the outset.** *There is a general call for an enduring, structured partnership model through mechanisms like Memorandums of Understanding (MoU), co-design panels and dedicated seat(s) on decision-making bodies. While this is consistent with previous advice, mana whenua are aware that legislative timelines are looming and feel there is a lack of clarity about how and when their input will be formalised. There is concern that the process could bypass real co-design in favour of last-minute consultation.*
- **Mana whenua emphasised that the Local Government Act 2002 and Treaty settlement legislation are important instruments that delineate the responsibilities and relationships between the Crown and Māori.** *Under the Local Government Act 2002, particularly Sections 4 and 14(1)(d), local authorities are mandated to recognise and respect the Crown's responsibility to take appropriate account of the principles of the Treaty of Waitangi. This includes maintaining and improving opportunities for Māori to contribute to local government decision-making processes. These obligations are further reinforced through specific Treaty settlement legislation.*
- *In the context of LWDW, mana whenua have articulated that these legislative obligations should translate into tangible actions, such as governance arrangements, shared decision-making, and the integration of mātauranga Māori into water management practices. They view these steps as essential for honouring the Treaty partnership and achieving equitable outcomes in water service delivery.*
- **Economic pressures continue to weigh heavily on communities.** *Mana whenua continue to voice concerns over rising water rates and the financial burdens faced by Māori communities. There is a perception that current governance structures may inadequately account for these economic realities of these communities.*

4.68 At a local level, engagement remains ongoing, with further conversations planned, particularly with rural-focused entities. Discussions to date have focused on providing background and context about LWDW – clarifying what the programme is and is not – and outlining the processes ahead. Initial conversations have also begun regarding how mana whenua involvement and the development of key themes could be effectively progressed following a decision on the preferred delivery option.

5.0 Options – Ngā Kōwhiringa

Option One - Recommended Option - Te Kōwhiringa Tuatahi – Te Kōwhiringa Tūtohunga

5.1 Under this option, Council would approve, as its future Water Service Delivery Model, a joint Water Services Organisation (in the form of a WSCCO) with the other participating territorial authorities within the Hawke's Bay region.

Advantages:

- Creates opportunities for operating and cost efficiencies while maintaining financial ringfencing.
- Improves ability to attract and retain specialist staff within a larger, more resilient entity.
- Offers more agile and flexible responses to regulatory and operational challenges.
- Reduces pressure on Council's debt capacity, supporting other council activities and capital works.
- Aligns well with national expectations for scale, resilience, and service capability.
- Governance and accountability risks are mitigated through shareholder agreements, water strategies, letters of shareholder expectations, and structured reporting mechanisms.

Disadvantages:

- Requires compromise and coordination with other councils on governance and prioritisation
- Perceived reduction in local control over service delivery decisions
- May involve longer establishment timeframes due to multi-party arrangements

5.2 This option presents the Regional CCO model as the most likely to deliver long-term sustainability, efficiency, and service quality, while also addressing current financial constraints.

Option Two – Te Kōwhiringa Tuarua

5.3 Under this option, Council would approve, as its future Water Service Delivery Model, a Water Services Organisation (in the form of a WSCCO) with Council as the sole shareholder.

Advantages:

- Maintains full ownership and strategic control over service delivery
- Provides operational independence and commercial flexibility compared to in-house delivery
- More adaptable to performance-focused service delivery and contractual management

Disadvantages:

- Limited access to efficiency gains from shared services or regional expertise
- Higher exposure to staffing challenges, including risk of staff migration to larger regional entities
- Places full financial and governance burden on a single council
- May not fully align with national expectations around regional coordination or resilience
- Does not alleviate debt headroom pressure to the same extent as a regional model

Option Three – Te Kōwhiringa Tuatoru

5.4 Under this option, Council would approve an In-House Business Unit model as its future Water Service Delivery Model.

Advantages:

- Maximum direct control over operations, staffing, and service priorities
- Maintains status quo governance and organisational familiarity
- No establishment time or external negotiations required

Disadvantages:

- Poor alignment with national policy direction toward scale and capability
- Limited resilience and flexibility to respond to increasing regulatory demands
- High risk of losing skilled staff to larger regional entities
- Significantly constrained by Council's existing debt limits, which may impact other Council services or investments
- Does not benefit from cost efficiencies or shared risk management
- Less likely to meet future compliance, financial sustainability, and service quality expectations

6.0 Next steps – Te Anga Whakamua

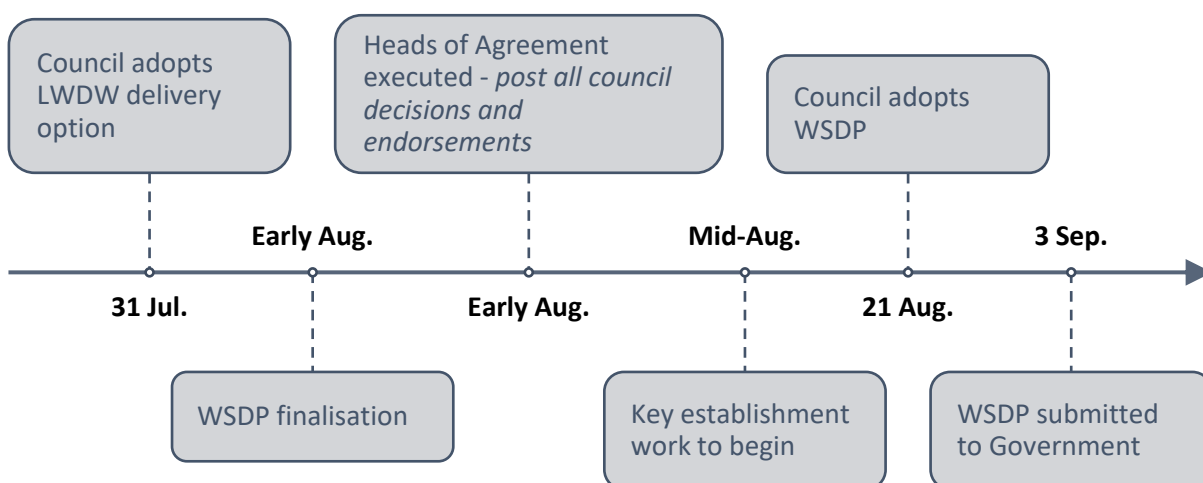
Summary of key next steps – contingent on participating councils' decisions, include:

WSDP

- 6.1 A WSDP will be developed based on Council's decision on the delivery model, as required by the Act. On the basis that all Hawke's Bay councils agree to the recommended delivery model, this will be a joint regional WSDP between participating Hawke's Bay territorial authorities. The key focus in the next two weeks will be to develop and complete the implementation plan and remaining narrative, as a result of all councils' decisions.
- 6.2 A draft WSDP document will be brought to Council workshop on 7 August to work through key inputs of the document, and brief councillors on DIA feedback and implications of any assessment commentary or updates.
- 6.3 A final WSDP document will be presented to Council on 21 August for adoption and approval, prior to submission to DIA. The objectives and key principles of the implementation plan will be included in this report.
- 6.4 The Chief Executive will then be required to certify the WSDP prior to lodgement to the Secretary for Local Government for approval on or by 3 September 2025. The Secretary for Local Government can only accept a WSDP if it complies with the Act. Once the WSDP is submitted to the DIA for approval, amendments to the WSDP may be required should the Department propose changes to ensure the WSDP aligns with the Act.

Heads of Agreement

- 6.5 Following endorsement by all Shareholder Councils, the Heads of Agreement will need to be signed and the establishment work can begin immediately. This includes forming the TGG, PSG and the Project Team, with each then undertaking their responsibilities as set out in the Heads of Agreement.
- 6.6 Summary of milestones:



- 6.7 If Council's decision at this meeting is to proceed with the regional WSCCO model, it is recommended that Council authorise the Chief Executive to sign the Heads of Agreement attached as **Attachment 1**. Noting that schedules 4 and 5 are to be reviewed and endorsed separately in the public excluded paper to follow.
- 6.8 Council will have a number of opportunities during the establishment of the new entity to influence and approve important establishment arrangements including the constitution, shareholders agreement and other transfer arrangements. The timing of these decisions will be dependent on the creation of the Establishment Board and Interim Governance Group. There may be some opportunity to approve some of these foundation documents prior to the election, however it is expected that it will be the new elected Council that will be approving most of the next steps.

Attachments:

- | | | |
|---|---|---------------|
| 1 | Hawkes Bay WSCCO - Heads of Agreement - excluding Schedules 4 and 5 | CG-17-1-01713 |
| 2 | Appendix 2 - Modelling and Criteria Assessment | CG-17-1-01531 |

Summary of Considerations - *He Whakarāpopoto Whakaarohanga*

Fit with purpose of Local Government - *E noho hāngai pū ai ki te Rangatōpū-ā-Rohe*

The Council is required to give effect to the purpose of local government as set out in section 10 of the Local Government Act 2002. That purpose is to enable democratic local decision-making and action by (and on behalf of) communities, and to promote the social, economic, environmental, and cultural wellbeing of communities in the present and for the future.

[Link to the Council's Community Outcomes – Ngā Hononga ki Ngā Putanga ā-Hapori](#)

This proposal promotes the all of the wellbeings of communities in the present and for the future.

Māori Impact Statement - *Te Tauākī Kaupapa Māori*

The report details the initial mana whenua involvement and notes that this will need to continue and increase when the option is decided and the design and transition stages progress for the option adopted.

Sustainability - *Te Toitūtanga*

All options need to consider the resources and focus required to operate and manage the 3 waters services in a way that minimises the effect on the environment and makes efficient usage of finite resources.

Financial considerations - *Ngā Whakaarohanga Ahumoni*

The report considers in some detail the key financial considerations for the preferred delivery option.

Significance and Engagement - *Te Hiranga me te Tūhonotanga*

This decision/report has been assessed under the Council's Significance and Engagement Policy as being of high significance.

Consultation – internal and/or external - *Whakawhiti Whakaaro-ā-roto / ā-waho*

This report and recommendation is the culmination of an extensive consultation process with the outcomes of that consultation process reflected in the report.

Risks

The establishment of a new regional WSCCO does come with some risk. There is a lot to do to establish a new entity and all endeavours must be taken to ensure the entity is established to achieve the best outcomes. During any transition period it is important that all risk mitigation measures are implemented to maintain the delivery of these critical services.

Rural Community Board – *Te Poari Tuawhenua-ā-Hapori*

There are a few rural water schemes and one rural wastewater scheme that exist in the areas covered by the Rural Community Board. The funding of the rural water schemes is via an overall drinking water targeted rate. The requirement to assess the small community water supplies exists for all options, with the WSCCO being best placed to facilitate future investment / extension of supply should this be found necessary.

REGIONAL WSCCO HEADS OF AGREEMENT

CENTRAL HAWKES BAY DISTRICT COUNCIL

HASTINGS DISTRICT COUNCIL

NAPIER CITY COUNCIL

WAIROA DISTRICT COUNCIL

SIMPS
GRIERS 

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AGREEMENT DATED

2025

PARTIES

1. CENTRAL HAWKES BAY DISTRICT COUNCIL
2. HASTINGS DISTRICT COUNCIL
3. NAPIER CITY COUNCIL
4. WAIROA DISTRICT COUNCIL

(together, the **Councils**).

BACKGROUND

- A. The Councils wish to proceed with the planning for a joint operating model that will be responsible for the delivery of water services in their respective districts.
- B. As part of progressing the joint operating model, the Councils are required to submit a joint Water Services Delivery Plan (**WSDP**) to the Secretary for Local Government (Department of Internal Affairs) by 3 September 2025 which describes how water services will be delivered, as required under the Local Governance (Water Services Preliminary Arrangements) Act 2024.
- C. The Councils commit to working together to:
 - (a) develop a joint operating model for the delivery of water services for each Council's district/city, to inform the development of the joint WSDP;
 - (b) agree the shareholding and governance arrangements for the WSCCO; and
 - (c) establish a regional WSCCO for the joint operating model in accordance with the accepted WSDP.
- D. Each Council agrees to undertake the activities and responsibilities allocated to it in this agreement to achieve the Objectives.
- E. The Councils have entered into this agreement to record the terms of their commitment to developing the joint operating model, achieving the Objectives and establishing the regional WSCCO.

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SIGNATURES

SIGNED for and on behalf of
CENTRAL HAWKES BAY DISTRICT COUNCIL
by:

Signature of Authorised Signatory

Signature of Authorised Signatory

Name of Authorised Signatory

Name of Authorised Signatory

Date

Date

SIGNED for and on behalf of
HASTINGS DISTRICT COUNCIL by:

Signature of Authorised Signatory

Signature of Authorised Signatory

Name of Authorised Signatory

Name of Authorised Signatory

Date

Date

SIGNED for and on behalf of
NAPIER CITY COUNCIL by:

Signature of Authorised Signatory

Signature of Authorised Signatory

Name of Authorised Signatory

Name of Authorised Signatory

Date

Date

SIGNED for and on behalf of
WAIROA DISTRICT COUNCIL by:

Signature of Authorised Signatory

Signature of Authorised Signatory

Name of Authorised Signatory

Name of Authorised Signatory

Date

Date

SCHEDULE 1

AGREEMENT DETAILS

Commencement Date (Clause 6.1, Schedule 2)	The date on which this agreement has been signed by all parties.
Expiry Date (Clause 6.1, Schedule 2)	<p>This agreement expires on the earlier of:</p> <p>(a) The date on which the parties agree to terminate this agreement under clause 6.2; and</p> <p>(b) The date on which the WSCCO has been established, as provided for by the LG(WS) Bill when it comes into force.</p>
Transitional Governance Group ("TGG") (Clause 4, Schedule 2)	<p>Members: The members of the Transitional Governance Group will be:</p> <ul style="list-style-type: none"> • The Mayor of Central Hawkes Bay District Council, and one other member (either elected member or appointee); • The Mayor of Hastings District Council, and one other member (either elected member or appointee); • The Mayor of Napier City Council, and one other member (either elected member or appointee); • The Mayor of Wairoa District Council, and one other member (either elected member or appointee); • An independent chair, who will be appointed (and removed or replaced) by the other members of the TGG by unanimous agreement. <p>Meetings: The Transitional Governance Group will meet monthly, or at such other times or frequency as they determine.</p> <p>Decision-making: see clause 4.2 of Schedule 2.</p>
Project Steering Group ("PSG") (Clause 4, Schedule 2)	<p>Members: The members of the Project Steering Group will be:</p> <ul style="list-style-type: none"> • The Chief Executive of Central Hawkes Bay District Council (or nominee) • The Chief Executive of Hastings District Council (or nominee) • The Chief Executive of Napier City Council (or nominee) • The Chief Executive of Wairoa District Council (or nominee)

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	<p>Meetings: The Project Steering Group will meet [fortnightly/monthly] or at such other times or frequency as they determine. The PSG will remain in place until the TGG and Interim Establishment Board, once appointed, decide that it is no longer required, at which time it shall be dissolved.</p>	
Establishment Board and Establishment Chief Executive (clause 4)	<p>An Establishment Board will be appointed by the TGG and will be responsible for appointing an Establishment Chief Executive.</p> <p>The Establishment Chief Executive shall work closely with the Project Team and PSG, as required.</p>	
Project Team (clause 4 and 5.3, Schedule 2)	<p>Members: The members of the Project Team will be one named officer or external appointee from all shareholding Councils as follows:</p> <ul style="list-style-type: none"> • Central Hawkes Bay District Council: [Insert name] • Hastings District Council: [Insert name] • Napier City Council: [Insert name] • Wairoa District Council: [Insert name] <p>The Project Team will appoint one of their members as the Project Team Lead, who will be responsible for leading all engagement with the TGG, PSG and Establishment Board and Establishment Chief Executive (as required, and unless otherwise agreed).</p> <p>Meetings: The Project Team will meet [weekly/fortnightly] or at such other times or frequency as they determine.</p> <p>Establishment Chief Executive involvement: Once appointed by the Establishment Board, the Establishment Chief Executive will work closely with the Project Team to ensure alignment of workstreams by the Project Team and WSCCO.</p>	
Address for notices (clause 10, Schedule 2)	Wairoa District Council	Hastings District Council
	97 Queen Street Wairoa Hawkes Bay 4108	207 Lyndon Road East Hastings 4122
	Email: [Insert details]	Email: [Insert details]
	Attention: [Insert details]	Attention: [Insert details]

	Napier City Council	Central Hawkes Bay District Council
	215 Hastings Street Napier South Napier 4110 Email: [Insert details] Attention: [Insert details]	28/32 Ruataniwha Street Waipawa 4210 Email: [Insert details] Attention: [Insert details]

SCHEDULE 2

AGREEMENT TERMS AND CONDITIONS

1. DEFINITIONS AND INTERPRETATION

1.1 Definitions: In this agreement the following definitions apply:

Agreement Details means Schedule 1 of this agreement;

Business Day means any day other than a Saturday, Sunday or a statutory public holiday in Hawkes Bay, New Zealand;

Commencement Date has the meaning given to that term in Schedule 1: Agreement Details;

Confidential Information means any of the following (whenever it was obtained):

- (a) all information of a confidential nature (reasonably determined) obtained by one Council from another Council under or in connection with this agreement;
- (b) all information relating to the operations and affairs of another Council; and
- (c) all information obtained by a Council in respect of all activities or information undertaken, produced or discussed under the umbrella of the Project;

Councils means the councils who are named as counterparties to this agreement and who continue to be a participant of this agreement;

Existing Material means, in respect of any Council, all documentation and other materials used or provided by the Council under or in connection with this agreement that are:

- (a) owned by, or licensed to, that Council prior to the date of this agreement; or
- (b) developed independently from this agreement by that Council, and that are not developed, commissioned or created under or in connection with this agreement;

Expiry Date has the meaning given to that term in the Agreement Details;

Intellectual Property Rights means, in respect of any person, all intellectual and industrial property rights and interests (including common law rights and interests) owned or held by that person, or lawfully used by that person, including:

- (a) patents, trade marks, service marks, copyright, registered designs, trade names, symbols and logos;
- (b) patent applications and applications to register trade marks, service marks and designs; and

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- (c) formulae, methods, plans, data, drawings, specifications, characteristics, equipment, designs, inventions, discoveries, improvements, know-how, experience, software products, trade secrets, price lists, costings, brochures and other information used by that person;

LGOIMA means the Local Government Official Information and Meetings Act 1987;

LG(WS) Bill means the Local Government (Water Services) Bill;

LG(WSPA) Act means the Local Governance (Water Services Preliminary Arrangements) Act 2024;

Objectives has the meaning given to that term in clause 2.1;

Project means giving effect to the Objectives in the manner contemplated by this agreement;

Project Plan has the meaning given to that term in clause 4.7(a);

Project Budget has the meaning given to that term in clause 5.2;

WSCCO means the Water Services Council Controlled Organisation that is proposed to be owned jointly by the Councils, that will be a water organisation once established under the Local Government (Water Services Bill), once it is in force; and

WSDP has the meaning given to that term in paragraph B of the Introduction section of this agreement.

1.2 Interpretation: In this agreement unless the context otherwise requires:

- (a) headings are for convenience only and do not affect interpretation;
- (b) the singular includes the plural and vice versa, and a gender includes other genders;
- (c) another grammatical form of a defined word or expression has a corresponding meaning;
- (d) reference to a party, person or entity includes:
- (i) an individual, firm, company, trust, partnership, joint venture, association, corporation, body corporate, estate, state, government or any agency thereof, municipal or local authority and any other entity, whether incorporated or not (in each case whether or not having a separate legal personality); and
 - (ii) an employee, agent, successor, permitted assign, executor, administrator or other representative of such party, person or entity.
- (e) a reference to dollars or \$ is to New Zealand currency and excludes every tax and duty;

- (f) a reference to a clause or schedule is to a clause or schedule of this agreement;
- (g) a reference to a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them;
- (h) references to the word 'include' or 'including' are to be construed without limitation;
- (i) references to any form of law is to New Zealand law, including as amended or re-enacted;
- (j) a reference to a document or instrument includes reference to that document or instrument as novated, altered, supplemented, or replaced from time to time;
- (k) "written" and "in writing" include any means of reproducing words, figures or symbols in a tangible and visible form;
- (l) any obligation falling due for performance on or by a day other than a Business Day shall be performed on or by the Business Day immediately following that day; and
- (m) an obligation not to do something includes an obligation not to allow or cause that thing to be done.

2. PROJECT OVERVIEW

2.1 Objectives: The key objectives of this agreement ("Objectives") are:

- (a) for the Councils to continue to work closely, collaboratively and successfully to:
 - (i) progress a proposed joint operating model for the future delivery of water services in the Hawke's Bay region; and
 - (ii) develop, adopt and submit a joint WSDP that meets each Council's needs and objectives for their respective communities, and which satisfies the requirements of the LG(WSPA) Act;
- (b) to agree the process (including key terms, governance and administrative support, allocation of responsibilities, timing and budget) for the establishment of the proposed joint operating model in accordance with the accepted WSDP;
- (c) to facilitate decision-making by each Council in a timely manner to ensure that all relevant statutory requirements can be satisfied, and the proposed joint operating model can be established in a manner that reflects the accepted WSDP implementation plan; and

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- (d) to enable the Councils to consider and reach agreement as to how they will operate together in a way that facilitates an effective and efficient use of the Councils' resources, and provide optimum benefit to the parties' ratepayers, as part of transitioning to the proposed joint operating model.

2.2 Key Documents and Outcomes: The key documents to be developed under or in alignment with this agreement are as follows:

- (a) the Project Plan, which will be prepared by the Project Team and approved by the PSG;
- (b) the Project Budget, which will be developed and maintained by the Project Team for each phase of the Project (as set out in the Project Plan) and approved by the PSG;
- (c) the joint WSDP, which will be developed jointly by the Project Team, and approved by each Council individually; and
- (d) the structure, governance and transfer arrangements, in relation to the joint WSCCO, which will be developed by the Project Team based on the key terms set out in Schedule 4 and the strategic priorities and intentions set out in Schedule 5, and approved by the PSG, with a final approval step of the TGG.

2.3 Relationship principles: The Councils will:

- (a) work together collaboratively and in good faith;
- (b) ensure communication between them is open, proactive, transparent and inclusive, to avoid any surprises;
- (c) make every effort to understand the other Councils needs and objectives for the joint operating model, and make all reasonable endeavours to ensure the joint operating model meets such needs and objectives;
- (d) raise any issues that arise in connection with this agreement at the earliest opportunity, for joint resolution;
- (e) resolve disagreements between them promptly and amicably; and
- (f) as a courtesy and in the interest of clear and consistent communication, consult with the other Councils before commenting publicly on the joint operating model or this agreement.

3. KEY ACTIVITIES

3.1 Council responsibilities: Each Council will:

- (a) work with the other Councils to:
 - (i) develop and document the Council's technical, operational, legal and other requirements for the joint operating model

("Requirements") and to agree reasonable and realistic timeframes for delivery of the joint operating model; and

- (ii) plan and design the joint operating model to meet the Requirements, including at such time(s) required by the other Councils;
 - (b) make decisions in relation to matters for the Project, within the indicative timeframes listed in the Project Plan;
 - (c) provide subject matter experts where relevant to assist with the preparation of a joint WSDCP and development and design of the joint operating model;
 - (d) provide a dedicated single point of contact for that Council for the management of the project delivery (ideally a project manager, who will also be the person authorised to make decisions (for example, approvals of proposed public comments on the Project) on behalf of that Council);
 - (e) provide a dedicated and senior level 'sponsor' for the Project;
 - (f) attend those meetings agreed by the Councils as appropriate or necessary to facilitate any required decision-making required by the Project Plan, and provide effective governance for and/or the delivery of the joint operating model;
 - (g) where there are any changes in Government policy or direction, which affects the purposes and activities of this agreement, inform the other Councils of those changes at the earliest possible opportunity thereafter, and the Councils agree to renegotiate, where necessary, any aspects of this agreement that has been or will be affected by this policy change;
 - (h) fund and provide resources to undertake the Project under this agreement; and
 - (i) be responsible for complying with any requirements to undertake consultation or reporting in respect of its own council and local government processes.
- 3.2 Council individual responsibilities not affected:** Each Council acknowledges that the Councils' commitment to the obligations under this agreement does not limit or pre-empt each Council's own obligations as local authorities at law, including in respect of decision-making responsibility and public consultation obligations.
- 3.3 Project administration:**
- (a) The Councils agree that Hastings District Council will have responsibility for the following:
 - (i) managing Project expenditure and tracking against the Project Budget (once agreed), including managing the recovery of contributions from shareholder Councils;

- (ii) preparing, with the Establishment Board and Establishment Chief Executive, all necessary budgets for the Establishment phase;
 - (iii) preparing agendas and scheduling governance meetings for the Project; and
 - (iv) preparing reporting for governance meetings for the Project, including reporting on expenditure and forecasting for future costs.
- (b) The Councils may agree that one of the other Councils will take the role set out in clause 3.3(a), after which time that replacement Council will assume those responsibilities under this agreement.

3.4 Development expectations and timelines:

- (a) Each Council acknowledges that the other Councils will be providing funding and resources to develop and design the joint operating model, and has an interest in ensuring a consistency of approach in the development and design of the joint operating model.
- (b) Accordingly, any Council may submit a request to the TGG for consideration and agreement to:
- (i) adjust expected timelines and/or reprioritise resources allocated to the development and design of the joint operating model as necessary to manage resource and funding constraints, subject to not compromising the achievement of the Objectives; and/or
 - (ii) change the Requirements that are not reasonably viable in order for a Council to meet its own needs, and the Councils will work together to agree and implement any agreed change to the joint operating model or Project Plan, including any consequential changes to the Requirements for that joint operating model.

3.5 Project communications: The Councils agree that media releases, public announcements and public disclosures by any Council relating to this agreement or its subject matter (including informational or promotional, but not including any announcement intended solely for internal distribution or any disclosure required by legal, accounting or regulatory requirements beyond the reasonable control of such Council) shall be co-ordinated with, and approved by, the TGG, provided that this does not apply to any media release, public announcement or public disclosure made by a Council (the "**Announcing Council**");

- (a) which does not identify any other Council to this agreement; or
- (b) about the Announcing Council's business and operations or the Announcing Council's Confidential Information, excluding anything about or in connection with this agreement.

3.6 Government communications: The Councils agree that no Council may communicate directly with the Department of Internal Affairs in relation to the content of the joint WSDP without the prior written consent of the TGG.

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4. PROJECT GOVERNANCE

4.1 Governance structure: The governance model for the Project comprises the following:

- (a) Transitional Governance Group ("TGG");
- (b) Project Steering Group ("PSG");
- (c) Establishment Board and Establishment Chief Executive; and
- (d) Project Team.

4.2 Decisions made by the governance groups: The parties record their intention that:

- (a) Other than the substantive decisions on the proposed joint operating model, and adoption of the joint WSDP (which will remain decisions for the Councils separately), all other decisions relating to the Project Plan will be made by the TGG.
- (b) The TGG will provide direction to the PSG and (as required) the Establishment Board / Establishment Chief Executive, which will then direct the Project Team as relevant.
- (c) The TGG, PSG, and Project Team will make decisions on a consensus basis. Where consensus is not possible, decisions will be made by majority, or alternatively escalated to the next governance level, with final decisions to be made by the members of the TGG (which decisions must be unanimous in order to bind each Council in respect of the Project).

4.3 Meeting administration: Each of the governance meetings will be scheduled by the Council appointed under clause 3.3, who will circulate agenda items and decisions to be discussed ahead of the meeting date, and will circulate minutes for approval following each such meeting.

4.4 Transitional Governance Group: The TGG shall be responsible for:

- (a) overseeing the direction of the Project, and providing directions to the PSG in relation to the Project Plan;
- (b) addressing issues that have been escalated to it by the PSG;
- (c) keeping informed on the Project by information provided from the PSG (which includes reporting provided to the PSG by the Project Team); and
- (d) Appointing an Establishment Board for the WSCCO, and then advising on the appointment of an Establishment Chief Executive (who is to be appointed by the Establishment Board).

4.5 Project Steering Group: The PSG shall be responsible for:

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- (a) giving effect to any directions and decisions on the Project provided by the TGG in relation to the requirements of the shareholder Councils;
- (b) appointing members to the Project Team;
- (c) addressing any issues that have been escalated to it by the Project Team;
- (d) approving the Project Plan;
- (e) reviewing and approving any proposed changes to the direction of the Project or Project Plan, unless any change is considered material or to prejudice one of the shareholder Council, in which case such direction will need to be provided by the TGG;
- (f) ensuring the strategic direction of the Project continues to align with the Objectives and each Council's obligations under this agreement; and
- (g) approving the Project Budget and any changes to the Project Budget.

4.6 Establishment Board and Establishment Chief Executive: The Establishment Board shall be responsible for appointing the Establishment Chief Executive, who will work in tandem with the Project Team and report to the Establishment Board at regular intervals. When required, the Establishment Chief Executive will attend meetings of the PSG, to ensure alignment between the Project Team and WSCCO establishment activities.

4.7 Project Team: The Project Team shall be responsible for:

- (a) preparing a detailed scope of work and project plan (including timeline and project milestones) to deliver on the Objectives ("Project Plan"), based on the initial outline set out in Schedule 3. The Project Plan and progress against the Project Plan will be reported to the PSG and TGG on a monthly basis;
- (b) developing and maintaining the Project Budget (including any recommendations to the PSG to increase the Project Budget), and reporting monthly to the PSG (and, as required, the Establishment Chief Executive) on expenditure against the Project Budget;
- (c) developing such term sheets, guidance notes and documents as are required in order to formalise the way in which the joint operating model is proposed to be established, governed and operated, consistent with the Commercial Terms Sheet set out in Schedule 4 and the initial strategic priorities set out in Schedule 5, for review and approval by the PSG (and with oversight from the Establishment Board and Establishment Chief Executive);
- (d) engaging external expertise as required;
- (e) preparing a stakeholder/engagement framework that ensures that all appropriate parties are included on an ongoing basis;

- (f) preparing and attending workshops with the Councils' elected members as required to achieve the project and Objectives;
- (g) preparing consultation packs in collaboration with individual Councils to support any consultation that may be required by the Council's;
- (h) running and/or supporting consultation processes as required;
- (i) developing a joint WSDP in accordance with the applicable requirements of the LG(WSPA) Act;
- (j) approving payments from the Project Budget up to a level set by the PSG (and, as required, the Establishment Chief Executive); and
- (k) any of the matters required under a terms of reference agreed for the Project Team.

5. COST SHARING

- 5.1 Cost sharing principles:** The Councils agree to fund the costs of the Project as contemplated by the Project Budget (as updated and approved from time to time as set out in this agreement) in the following proportions:
- (a) Central Hawkes Bay District Council: 10%
 - (b) Hastings District Council: 40%
 - (c) Napier City Council: 40%
 - (d) Wairoa District Council: 10%
- 5.2 Project funding:** The Project Team will prepare a project funding budget for approval by the PSG (and, as required, the Establishment Chief Executive), that covers:
- (a) the contribution by the Councils for the costs of the Project, including the project management and administration costs that will be incurred by the Council carrying out the responsibilities set out in clause 3.3(a); and
 - (b) costs for any internal and external consultants (preapproved by the PSG (and, where necessary, the Establishment Chief Executive) in each instance),
- (together, the “**Project Budget**”). The Project Budget will be prepared and updated for each stage of the Project Plan.
- 5.3 Project Team delegation:** The Project Team will have delegated authority to spend up to the approved Project Budget, subject to any limits set (as contemplated by clause 4.7(j)). Costs that exceed the approved Project Budget will require approval by the PSG.
- 5.4 Council Exit:** If a Council exits this agreement, that Council remains responsible for their share of all costs incurred up to that date, including any committed costs which cannot be mitigated by the remaining participating Councils.

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6. TERM

6.1 Term: This agreement commences on the Commencement Date and continues until the Expiry Date, unless terminated earlier by all Councils in accordance with clause 6.2.

6.2 Termination by agreement: This agreement may be terminated at any time with immediate effect by agreement of all current Councils to this agreement for any reason, including if there is a material change of law or policy direction that affects the Councils' obligations under the LG(WSPA) Act and LG(WS) Bill (once enacted).

6.3 Council withdrawal:

(a) Subject to clauses 5 and 6.3(b), any Council may withdraw its participation in this agreement at any time immediately by giving written notice to the other Councils.

(b) Before a Council exercises its withdrawal right under subclause (a), that Council must use reasonable endeavours to:

(i) provide as early as possible notification to the other Councils that the Council is considering, or intending to withdraw from the Project, including to provide the other Councils with sufficient time to respond to and agree on any public releases in accordance with clause 3.5; and

(ii) provide the other Councils an explanation for the withdrawing Council's reason(s) for the withdrawal.

(c) Where any Council breaches a material obligation, or persistently does not perform its obligations, under this agreement, then the other Councils may request that such Council withdraws its participation from this agreement, in which case the parties will promptly discuss the next steps following such request.

6.4 Effect of termination: In addition to any other rights, powers or remedies a Council may have under this agreement or at law:

(a) if this agreement ends or is terminated, the following will apply:

(i) each Council is released from its obligations under this agreement, except clauses 5, 6, 7, 8 and 9 that shall survive expiry or termination of this agreement;

(ii) each Council retains the rights and obligations it has accrued under this agreement as at the date of expiry or termination; and

(iii) each Council must return any Confidential Information of another Council in its possession to that other Council or, if requested by the other Council, destroy the Confidential Information, except to the extent that it is required to retain the Confidential Information in order to meet its legal, contractual and governance obligations.

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- (b) if a Council withdraws its participation in this agreement or otherwise exits this agreement:
 - (i) clause 6.4(a) will apply only in respect of that Council;
 - (ii) that Council will not have any rights to any new Intellectual property Rights as contemplated by clause 9.2; and
 - (iii) this agreement continues in force as between the remaining Councils.

7. DISPUTE RESOLUTION

7.1 Notice in writing: If a Council claims that a dispute has arisen, that Council must give written notice to the other Councils. The written notice must specify the nature of the dispute.

7.2 Negotiation:

- (a) On receipt of a notice delivered in accordance with clause 7.1 and before any Council may refer a dispute to mediation, the Representatives must, in good faith and acting reasonably, do their best to resolve the dispute quickly and efficiently through negotiation.
- (b) If any Representative considers that the dispute is not being resolved in a timely manner, such Representative may serve written notice on the other parties Representatives to escalate the dispute to the Chief Executives or equivalent (where the Representatives are not the Chief Executive or equivalent) of the applicable Councils for resolution.
- (c) If the dispute has not been resolved within 20 Business Days (or within such other period as agreed by the Councils) of the date of the notice referred to in clause 7.2, any Council may submit the dispute to mediation.

7.3 Mediation:

- (a) If the Councils do not resolve the dispute by negotiation, the Councils must, in good faith and acting reasonably, do their best to resolve the dispute by participating in mediation with an independent mediator.
- (b) If the Councils do not agree on a mediator, then the mediator will be appointed by the New Zealand Dispute Resolution Centre.
- (c) The Councils must mediate the dispute in accordance with principles agreed between them or, if no agreement can be reached, the New Zealand Dispute Resolution Centre Mediation Rules.
- (d) Unless the Councils agree otherwise, the mediator's fee and any other costs of the mediation itself (such as for venue hire or refreshments) will be shared equally between the parties, but the parties will each pay their own costs of

preparing for and participating in the mediation (such as for travel and legal representation).

7.4 Arbitration:

- (a) If the dispute has not been resolved within 40 Business Days (or within such other period as agreed by the parties) of the dispute being referred to mediation, any Council (the "**Initiating Council**") may refer such dispute to binding arbitration by issuing a written notice ("**Arbitration Notice**") to the other Councils (together with the Initiating Council, the "**Disputing Councils**") for final resolution in accordance with the provisions of this clause 7.4 and in accordance with the provisions of the Rules of Arbitration of the New Zealand Dispute Resolution Centre, as amended or modified from time to time ("**NZDRC Rules**").
- (b) The arbitral panel shall consist of one arbitrator. The arbitrator will be appointed by the agreement of the Disputing Councils or, failing agreement within 10 Business Days of the date of the Arbitration Notice, in accordance with the NZDRC Rules.
- (c) The seat of arbitration shall be Hastings, New Zealand and the arbitration shall be conducted in the English language.
- (d) The award of the arbitration shall be in writing and must include reasons for the decision.
- (e) The award of the arbitration shall be final and binding on the Councils. No Council may appeal to the High Court under Clause 5 of the Second Schedule of the Arbitration Act 1996 on any question of law arising out of an award.
- (f) The award shall allocate or apportion the costs of the arbitration as the arbitrator deems fair.
- (g) Neither the existence of any dispute nor the fact that any arbitration is pending hereunder shall relieve any of the Councils of their respective obligations under this agreement.

7.5 Implementation of agreement: The Councils must do whatever is reasonably necessary to put into effect any negotiated or mediated agreement, arbitral award or other resolution. This includes exercising voting rights and other powers as required.

7.6 Rights and obligations during a dispute: During a dispute, each Council must continue to perform its obligations under this agreement.

7.7 Interlocutory relief and right to terminate: This clause does not restrict or limit the right of a Council to obtain interlocutory relief, or to immediately terminate this agreement where this agreement provides such a right.

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8. CONFIDENTIALITY AND INFORMATION DISCLOSURE

8.1 Confidentiality: Each Council will keep confidential and secure all Confidential Information, and no Council shall disclose the other Councils' Confidential information to any person, or use the other Councils' Confidential Information, other than:

- (a) to the extent that use or disclosure is necessary for the purposes of giving effect to or exercising the rights and benefits of this agreement (which for the purpose of each Council, may involve disclosure to that Council's elected members and staff);
- (b) if the discloser of the information has obtained the prior written approval of the providing Council to the use or disclosure;
- (c) if the use or disclosure is required by law including under the Local Government Official Information and Meetings Act 1987 ("LGOIMA"), or the Local Government Act 2002, provided that prior to that Council making a disclosure, that Council will use reasonable endeavours to promptly consult in good faith with the other Councils:
 - (i) regarding the requirement under which that Council is required to disclose the Confidential Information; and
 - (ii) so that the other Councils are informed to arrive at a view on whether those Councils would also be required to make such disclosure if a request is made of them; or
- (d) in relation to disclosure, if the information has already become public, other than through a breach of the obligation of confidentiality by one of the Councils.

8.2 LGOIMA: Each Council acknowledges that the other Councils are subject to the LGOIMA. Accordingly, notwithstanding anything else in this agreement, each Council agrees to cooperate fully in providing the other Councils with any documents or other information that the other Council is required to provide pursuant to a request made under the LGOIMA.

9. INTELLECTUAL PROPERTY RIGHTS

9.1 Existing Intellectual Property Rights: Notwithstanding any of the provisions of this agreement, each Council or its licensors retain ownership of all Intellectual Property Rights, including in Existing Material belonging to that Council or its licensors at the Commencement Date ("Existing Intellectual Property Rights").

9.2 New Intellectual Property Rights: Any new Intellectual Property Rights which are created as a result of, or in connection with, the provision of the Services or Deliverables, or otherwise in connection with this agreement, shall be jointly owned by the Councils, unless otherwise agreed by the parties.

9.3 Licence: If any Council's Existing Intellectual Property Rights is included in any new Intellectual Property Rights, then that Council grants to the other Councils and the

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other Councils accept, a worldwide, perpetual, non-exclusive, transferable, sub-licensable licence during the term of this agreement to use the Council's Existing Material for the purposes relating to giving effect to and performing its obligations under this agreement. That licence will expire immediately on expiry or termination of this agreement.

10. NOTICES

10.1 Giving notices: Any notice or communication given to a Council under this agreement is only given if it is in writing and sent in one of the following ways:

- (a) delivered to that Council at its address and marked for the attention of the relevant department or officer (if any) set out in Schedule 1;
- (b) emailed to that Council at its email address and marked for the attention of the representative set out in Schedule 1.

10.2 Change of details: If a Council gives the other Councils three Business Days' notice of a change of its physical address or email address, any notice or communication is only given by the other Councils if it is delivered or emailed to the latest physical address or email address.

10.3 Time notice is given: Any notice or communication is to be treated as given at the following time:

- (a) If it is delivered, when it is left at the relevant address.
- (b) If it is sent by email, when it is received in readable form addressed in the manner specified above.

However, if any notice or communication is given, on a day that is not a Business Day or after 5pm on a Business Day, in the place of the Council to whom it is sent it is to be treated as having been given at the beginning of the next Business Day.

11. GENERAL

11.1 No partnership, joint venture: Nothing in this agreement shall create or evidence any partnership, joint venture, agency, trust or employer/employee relationship between any of the Councils, and a Council may not make, or allow to be made, any representation that any such relationship exists between any of the Councils. A Council shall not have authority to act for, or to incur any obligation on behalf of, any other Shareholder, except as expressly provided for in this agreement.

11.2 No privity: Other than as expressly provided for in this agreement, this agreement is not intended to confer a benefit on any person or class of persons who is not a party to it.

11.3 Counterparts: This agreement is deemed to be signed by a Council if that Council has signed or attached that Council's signature to any of the following formats of this agreement:

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- (a) an original;
- (b) a photocopy; or
- (c) an electronic copy,

and if every Council has signed or attached that Council's signature to any such format and delivered it to the other Councils, the executed formats shall together constitute a single binding agreement between the Councils.

- 11.4 Entire agreement:** This agreement contains everything the parties have agreed in relation to the subject matter it deals with. No Council can rely on an earlier written agreement or anything said or done by or on behalf of another Council before this agreement was executed.
- 11.5 Severance:** If any provision of this agreement is, or becomes unenforceable, illegal or invalid for any reason it shall be deemed to be severed from this agreement without affecting the validity of the remainder of this agreement and shall not affect the enforceability, legality, validity or application of any other provision of this agreement.
- 11.6 Further assurance:** Each Council shall make all applications, execute all documents and do or procure all other acts and things reasonably required to implement and to carry out its obligations under, and the intention of, this agreement.
- 11.7 Variation:** No variation of this agreement will be of any force or effect unless it is in writing and signed by each Council to this agreement.
- 11.8 Assignments and transfer:** A Council must not assign or transfer any of its rights or obligations under this agreement without the prior written consent of the other Councils.
- 11.9 Costs:** Except as otherwise set out in this agreement, each Council must pay its own costs and expenses, including legal costs and expenses, in relation to preparing, negotiating, executing and completing this agreement and any document related to this agreement.
- 11.10 Waivers:**
- (a) A waiver of any right, power or remedy under this agreement must be in writing signed by the Council granting it. A waiver only affects the particular right, obligation or breach for which it is given. It is not an implied waiver of any other right, obligation or breach or an implied waiver of that right, obligation or breach on any other occasion.
 - (b) The fact that a Council fails to do, or delays in doing, something the Council is entitled to do under this agreement does not amount to a waiver.
- 11.11 Governing law:** This agreement is governed by the laws of New Zealand and the Councils submit to the non-exclusive jurisdiction of the courts of New Zealand in respect of any dispute or proceeding arising out of this agreement.

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SCHEDULE 3

PROJECT PLAN

Activities and Decisions		Timeframes
Design phase		
(1)	Agree project approach and enter into Commitment Agreement	By mid-July 2025
(2)	Each Council undertakes public consultation including Hearings, and shares analysis of submissions to inform each others Deliberations reports	Ongoing to mid-July 2025
(3)	Consideration of submissions, deliberations and determination of whether to proceed with joint WSCCO	Mid-July 2025
(4)	<p>Prepare and adopt joint WSDP including:</p> <ul style="list-style-type: none"> Finalising approach to financial arrangements, debt transfer etc – which must demonstrate that financial sustainability (which involves revenue sufficiency, investment sufficiency and financing sufficiency) will be achieved. In doing so, a key consideration for the Councils will be ensuring affordability of water charges for consumers. Identifying all relevant water related assets either owned by the Councils, or by third parties or other local authorities, that will require consideration for potential transfer to ensure that the WSCCO is responsible for all required infrastructure Develop Implementation Plan Stormwater arrangements <p>CE certification /assurance process before submitting joint WSDP to Secretary for Local Government.</p>	Refer (6)
(5)	<p>Plan arrangements for the WSCCO, including:</p> <ul style="list-style-type: none"> develop and document each Council's technical, operational, legal and other requirements for the joint operating model and agree reasonable and realistic timeframes for delivery of the joint operating model via the establishment and operationalisation of the WSCCO (to be set out in the Implementation Plan); and draft and agree the form of the foundational agreements including Constitution, Shareholders' Agreement, Transfer Agreement(s) and other agreements required. 	Ongoing
(6)	Adoption of joint WSDP	By no later than 1 September, due to due date of 3 September 2025
Implementation		

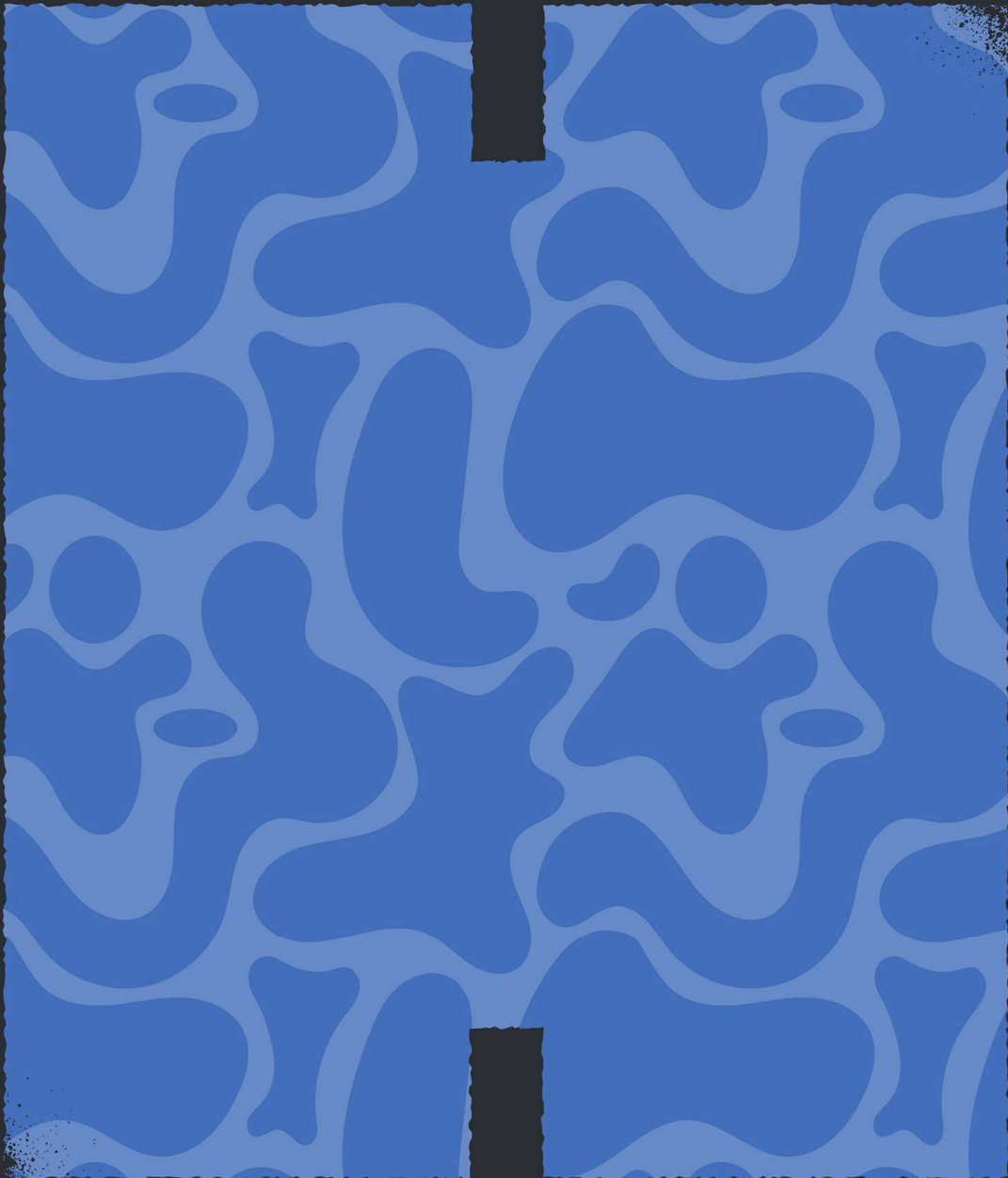
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Activities and Decisions	Timeframes
<p><u>Establishment phase</u></p> <p>Led by Councils initially, and then led by WSCCO Establishment Board and Establishment Chief Executive</p> <p>Actions and timing as per the Implementation Plan in the adopted WSDP, but expected to include:</p> <ul style="list-style-type: none"> • Agree and execute the documents required to establish the WSCCO • Establish the WSCCO • Appoint WSCCO Establishment Board, which will be responsible for transition and establishment of WSCCO, including in particular: <ul style="list-style-type: none"> • Setting up operational arrangements for the WSCCO • Establishing financial arrangements for the WSCCO • WSCCO Establishment Board to appoint Establishment Chief Executive, who will be responsible for advising the Establishment Board and Councils on all establishment actions, and will work with Project Team. • Developing Transfer Agreement(s), Service Agreements and Shared Services Agreements, with involvement from both Councils and WSCCO Establishment Board 	<p>[Formal establishment can only proceed after acceptance of the WSDP]</p>
<p><u>Transition Phase – led by WSCCO Establishment Board / supported by Shareholders Representative Forum</u></p> <p>Led by WSCCO; High level actions and timing as per the Implementation Plan in the adopted WSDP, but detail to be developed by TGG and WSCCO Establishment Board.</p> <p>Individual Councils to establish internal project teams and resourcing to ensure they are able to be ready to complete their individual water service business transfers as per the Implementation Plan.</p> <p>The target commencement date for the WSCCO to commence operations as a water organisation will be 1 July 2026</p>	<p>Intention to aim for establishment by 1 July 2026 (subject to officer confidence and further developed Project Plan)</p>



MODELLING AND CRITERIA ASSESSMENT
WHO SHOULD MANAGE OUR WATER SERVICES?

Bringing Government’s Local Water Done Well programme to life



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Background

This document provides an overview of the financial modelling and analysis of non-financial criteria undertaken as a part of the work in Hawke's Bay to assess delivery models for implementing the Local Water Done Well requirements.

Local Water Done Well

The Government's Local Water Done Well has several new requirements for water service providers, including:

- **water services delivery system changes**, including new delivery models and structural arrangements, financial principles and financing options, and reporting and planning requirements
- a **new economic regulation and consumer protection regime** for water services, with tools available to the Commerce Commission as the regulator, including information disclosure, revenue thresholds, quality regulation and financial ring-fencing
- **changes to the water quality regulatory framework** including arrangements for stormwater, drinking water quality regulation, and wastewater and stormwater environmental performance standards

These requirements mean significant changes to the way that water services are delivered, regardless of delivery model. As a first step, councils (or groupings of councils) are required to submit Water Services Delivery Plans to central Government by 3 September 2025.

These plans are a way for councils to demonstrate their approach and commitment to providing water services that meet new regulatory requirements, support growth and urban development, and are financially sustainable.

Through the development of the plans, councils need to provide an assessment of their water infrastructure, how much they need to invest, and how they plan to finance and deliver it. To do this, councils need to understand what that will look like under the different delivery models available.

From the long list of options provided by central Government, the work in Hawke's Bay has focused on analysing the pros and cons of three delivery models:

Shortlisted options - delivery models
Internal business unit or division (enhanced council delivered services)
Single council-owned water organisation
Multi-council owned water organisation

Further information on these delivery model options is outlined in Tables 1, 2 and 3.

Two further models - consumer trust and mixed council/consumer trust - were discounted at this time as they create significant additional financial complexity, particularly because they are currently unable to access Local Government Funding Agency (LGFA) financing and would have to source alternative finance, requiring an operational track record.

Modelling

Hawke's Bay councils have undertaken scenario modelling and analysis to understand the implications of the new requirements and what these would mean for the different delivery models.

Initial indicative modelling was undertaken over the second half of 2024 to understand the financial sustainability of each council's water services under different LWDW delivery options. This assessed whether each water service delivery option could be financially sustainable, where water services revenue and costs are 'ring-fenced' and meet the financial sustainability criteria of the new Local Water Done Well requirements. A number of financial outcomes were modelled across a 10-year period and assessed, including indicative costs for delivering water to a property connected to all three waters under the delivery models allowed for under Local Water Done Well. Resulting Council debt and financial positions were also modelled and assessed to determine how they might be affected by the characteristics of different delivery models.

The modelling presented in this report and the consultation document has been updated from the initial indicative modelling. It has utilised further guidance from the Department of Internal Affairs (DIA), the LGFA - where most New Zealand Councils source their borrowing from - and the legislative requirements under Local Water Done Well to determine a set of inputs and assumptions for the modelling. The latest Long-Term Plan or updated Annual Plan data of each council was inputted to create a set of central scenarios for each delivery option, for each council.

The data includes financial information from each Hawke's Bay council - like asset valuation, depreciation, funding approach and financing costs - as well as their key statistics like their population size, number of connected and non-connected properties, and the length and age of the reticulated network.

This provides for a clear, standardised and comparable assessment of what each delivery model would look like for each council across key metrics like debt and cost per connection for a property with all three waters. It builds off modelling carried out for the region previously from 2018-2023.

These inputs and assumptions are detailed further in the Financial Modelling section of this report.

Financial modelling can only provide indicative projections at a point in time but provides a useful guide for the direction for costs and Council debt under the different delivery models being analysed. The analysis is based on several assumptions about how the new economic regulation regime will be applied by the Commerce Commission, as well as final financial assessments by entities including the LGFA and credit rating agencies. Establishment and ongoing costs have been estimated using previous analysis and benchmarking.

Given this, it does not consider detailed implementation arrangements, such as organisational design (e.g. which particular staff from each council shift to a joint entity) or commercial agreements (e.g. whether contracts will be entered into with different construction firms). If councils agree to progress the development of a regional CCO, then further work would be undertaken on detailed operational design, including shareholding splits between the parent councils. The modelling assumes no one Council holds a majority stake in a Regional CCO.

Financial Sustainability

The Act requires that water services be delivered in a financially sustainable manner by 30 June 2028. DIA guidance is that financial sustainability means water services revenue is sufficient to meet the costs of delivering water services.

The costs of delivering water services includes meeting all regulatory standards, and long-term investment requirements in water services.

There are three key factors to how financial sustainability will be assessed:

1. Revenue sufficiency – is there sufficient revenue to cover the costs (including servicing debt) of water services delivery?
2. Investment sufficiency – is the projected level of investment sufficient to meet levels of service, regulatory requirements and provide for growth?
3. Financing sufficiency – are funding and finance arrangements sufficient to meet investment requirements?

The process to develop a one-off, transitional Water Services Delivery Plan (WSDP) for submission to DIA in September 2025 is designed to get Councils to demonstrate how financially sustainable water services provision will be achieved from 30 June 2028 at the latest.

Under Local Water Done Well, the LGFA has committed to Water CCOs being able to utilise debt from the LGFA, if they are financially supported (through a guarantee) by their parent council or councils.

The LGFA is the lowest cost provider of financing to local government and is already utilised by Council. While the LWDW model opens-up borrowing capacity, Council is still concerned over affordability issues for our ratepayer base.

Water organisations will be able to assess, set and collect water services charges from consumers and will be able to use the development contributions regime in the Local Government Act 2002 to charge developers where additional demand or growth is created.

The LWDW legislation does not specifically embed price harmonisation, e.g. where every water user within a regional CCO would move to paying the same cost-per-connection at a point in the future.

The intention of providing a specific lending facility is to better enable councils via a WSCCO to address water investment needs and enable 'balance sheet separation' with the advantage of reducing ex-water Council debt, potentially freeing-up debt 'headroom' for other Council activities if desired, or keeping pressure off other Council rates.

Under the CCO model (single or joint), LGFA will not 'consolidate' a water services CCO's debt back to its view of the overall Council's debt position. However, LGFA guidance is that credit rating agencies, which influence the cost of borrowing for Councils from LGFA through the issuance of credit ratings, will treat the debt of a water CCO which is more than 50 percent owned by a single Council back to that Council's balance sheet when it reviews the Council's credit-worthiness. This means the parent Council under a Single CCO option may be provided a lower credit rating (and higher resulting finance costs), than under a multi-council CCO option (see below).

For a multi-council, or Regional CCO where no council owns a majority of the organisation, both LGFA and S&P will treat the debt of the water CCO separately to the parent Council. Credit

rating agencies are expected to recognise the water CCO as a contingent liability for the shareholding Councils.

If a council decides to maintain In-House delivery of water services through a new business unit, their existing water debt will remain on the council's balance sheet, despite the ring-fencing provisions in the LWDW legislation. This will mean considerably less debt headroom for Councils against their LGFA limits from both an LGFA and rating agency perspective.

LGFA has issued guidance on how it will assess its lending to Water CCOs. This will not be controlled by a specific net debt/revenue limit (which is currently applied to generic LGFA lending to Councils). Rather, a combination of cashflow covenants will apply:

- A Funds from Operation (FFO) to Gross Debt ratio of between 8% and 12%
- A Funds from Operation (FFO) to Cash Interest Coverage of between 1.5 times and 2.0 times.
- Water CCOs will have up to five years to comply with the covenants
- Water CCOs will be able to recognise a percentage of development contributions as operational revenue for the purposes of determining the above covenants.

LGFA stresses that the covenants it has published are just for guidance; negotiations will still be held with Councils. However, Hawke's Bay Councils have received confirmation from LGFA that an 8% FFO/Gross Debt ratio would apply to a Regional CCO.

Ahead of the LGFA releasing these covenants, previous guidance was that it would lend up to an 'equivalent' of 500% net debt/revenue to water CCOs. In the absence of more specific guidance before an LGFA announcement on 20 December 2024, this ratio was being applied in modelling (for Hawke's Bay Councils and others across the country) as a 'control' on debt from 2028, which in turn required pricing to be lifted in the model to keep debt positions down. Removing a net debt/revenue limit from the CCO pricing models has allowed for smoother price increases in the initial years of new water services delivery models, compared to earlier analysis.

Further detail - short-listed delivery model options:

The delivery models are designed to ensure communities receive enhanced water services without placing undue financial pressure on ratepayers and are intended to give flexibility to choose a model that is financially independent or can become financially independent from the council's credit rating over time.

Based on the options available, Hawke's Bay shortlisted three for further consideration:

- Internal business unit (in-house/enhanced council delivered services)
- Single CCO
- Regional CCO

The Department of Internal Affairs describes the shortlisted delivery models as follows:

Table 1: Key features – Internal business unit (in-house/council delivered services)

Internal business unit	
Overall	<ul style="list-style-type: none"> • Subject to all the new requirements that apply to water service providers - including meeting statutory objectives and financial principles (ring-fencing and financial sustainability requirements), separate planning and reporting requirements for water services, and being subject to new economic regulation regime
Ownership	<ul style="list-style-type: none"> • 100% council owned as a business unit or division within the organisation • No new organisation is established
Governance	<ul style="list-style-type: none"> • Internal business unit or division responsible to the elected council members, with other usual council governance oversight
Strategy	<ul style="list-style-type: none"> • Councils will need to prepare a water services strategy
Accountability	<ul style="list-style-type: none"> • Water division reports to council per established internal processes • Water services delivery will be accountable to the public through usual democracy practices • Water services annual report - including new financial statements on water supply, wastewater and stormwater - will be completed to enhance current requirements
Borrowing	<ul style="list-style-type: none"> • Borrowing undertaken by council with water activity groups meeting their share of financing costs (on internal and any external borrowing)

Table 2: Key features – Single council-owned water organisation

Single council-owned water organisation (Single CCO)	
Overall	<ul style="list-style-type: none"> • Subject to all the new requirements that apply to water service providers - including meeting statutory objectives and financial principles (ring-fencing and financial sustainability requirements), separate planning and reporting requirements for water services, and being subject to new economic regulation regime
Ownership	<ul style="list-style-type: none"> • Limited liability company, 100% owned by the council • Ownership rights spelled out in a constitution, subject to compliance with the legislation • Council can transfer or retain ownership of assets, subject to transfer of asset use rights
Governance	<ul style="list-style-type: none"> • Council has flexibility to design governance and appointment arrangements • Appointments made directly or via an Appointments and Accountability Committee (or similar body) • Board comprised of independent, professional directors • Current council staff and elected members cannot be appointed to boards
Strategy	<ul style="list-style-type: none"> • Shareholding council issues statement of expectations • Water organisation board prepares a water services strategy and consults the shareholding council
Accountability	<ul style="list-style-type: none"> • Water organisation board is accountable to council shareholders and reports regularly on performance (shareholders are accountable to community) • Water organisation required to give effect to statement of expectations and meet statutory requirements • Water organisation prepares annual report, including financial statements, and information on performance and other matters outlined in water services strategy
Borrowing	<ul style="list-style-type: none"> • Borrowing via council or from Local Government Funding Agency directly supported by council guarantee or uncalled capital

Table 3: Key features – Multi-council-owned water organisation

Multi-council-owned water organisation (Regional CCO)	
Overall	<ul style="list-style-type: none"> • Two or more councils establish a jointly-owned organisation • Subject to all the new requirements that apply to water service providers - including meeting statutory objectives and financial principles (ringfencing and financial sustainability requirements), separate planning and reporting requirements for water services, and being subject to new economic regulation regime
Ownership	<ul style="list-style-type: none"> • Limited liability company owned by two or more councils • Ownership arrangements and rights set out in a constitution and/or shareholder agreement, within legislative requirements • Each council prepares transfer agreement setting out matters being transferred to water organisation and those retained
Governance	<ul style="list-style-type: none"> • Councils agree how to appoint and remove directors, for example through a shareholder council or similar • Board comprised of independent, professional directors • Current council staff and elected members cannot be appointed to boards
Strategy	<ul style="list-style-type: none"> • Shareholding councils agree the process for issuing a combined statement of expectations • Water organisation board prepares a water services strategy and consults shareholding councils
Accountability	<ul style="list-style-type: none"> • Water organisation board is accountable to council shareholders and reports regularly on performance (shareholders are accountable to community) • Water organisation required to give effect to statement of expectations and meet statutory requirements • Water organisation prepares annual report, including financial statements, and information on performance and other matters outlined in water services strategy
Borrowing	<ul style="list-style-type: none"> • Borrowing arrangements and credit rating implications dependent on whether shareholding councils provide financial support • Water organisation could access LGFA financing, subject to meeting LGFA financial metrics and with shareholding councils providing proportionate guarantees to the CCO • The CCO will be entirely self-funded, without financial support or revenue from shareholding councils

Financial Modelling Analysis

This section analyses the two key financial criteria established to assess and compare the three options for water services delivery models under Local Water Done Well.

The assessment follows the Department of Internal Affairs (DIA) guidance on available water service delivery models under LWDW, potential financing arrangements, and key financial sustainability indicators.

Financial Criteria

The table below outlines the two key financial criteria developed to assess and compare potential water services delivery model options, through the process of financial modelling. The expectation is that all options will meet the financial sustainability requirements set out in the legislation under the LWDW framework, therefore this requirement is excluded from the criteria.

Table 4: Two key financial criteria to assess and compare delivery models

Criteria	Explanation	Evaluation
Cost of delivering water services at FY34	<p>This models the average annual cost per property to deliver water services, for a property connected to all 3-waters at the end of the current forecast period in 2033/34. This is an indicative, nominal cost path for standardised assessment of the attributes of each delivery option, and comparison across TAs. Note, numbers are rounded to the nearest \$100.</p> <p>Analysis includes the difference in cost-per-connected property per delivery option, nominally and proportionately, and cumulative savings under the most affordable option compared to the other two over the 10 years to 2034.</p>	Green shading = Option is the most affordable to the rate payer

<p>Council balance sheet and debt position</p>	<p>This measures a council's debt position through the ten-year period to 2034 against the limits imposed on it by itself or by regulators, including likely treatment by credit ratings agencies.</p>	<p>✓✓ Option allows for modelled three waters investment and contributes to best Council balance sheet and debt position.</p> <p>✓ Option allows for modelled three-waters investment, with resulting Council debt position able to be within covenants, but with caveats, for example meets LGFA covenant but Council debt to be considered higher by rating agency.</p> <p>- As with ✓ but least amount of balance sheet capacity</p> <p>✗ Option does not have sufficient balance sheet capacity at FY34 and exceeds the current LGFA limit, with no option for mitigation (e.g. securing a credit rating).</p>
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Options evaluation: Financial

The following tables present the results of the quantitative assessment of each of the shortlisted options, broken down by council. Numbers are to the nearest \$100.

Hastings District Council

Table 5

	Council delivered services	Single CCO	Regional CCO
Cost of delivering water services at FY34	\$3,500	\$3,500	\$3,100
Council balance sheet and debt position	- Least amount of Council balance sheet capacity of the three options from LGFA point of view.	✓ LGFA to consider water CCO debt separate to Council; Ratings agencies to assess combined debt	✓✓ LGFA to consider water CCO debt separate to Council; Ratings agencies to treat water debt as contingent liability for Council

Current Modelling Assumptions

Table 6

Parameter	Assumption
FFO/Gross Debt	<ul style="list-style-type: none"> Pricing (revenue) is adjusted to ensure that the FFO / Gross Debt ratio remains at a minimum of 11% for the Council Delivered Service and Single CCO options, and 8% for the Regional CCO option, from FY30 to 2034.
Cash interest ratio	<ul style="list-style-type: none"> Single CCO and Regional CCO option: Funds from operation to cash interest coverage of a minimum of 1.5 times from FY30
Debt covenants	<ul style="list-style-type: none"> Five years to meet key LGFA metrics (LGFA finance covenants).
Capex	<ul style="list-style-type: none"> CAPEX delivery factors to be reduced to 80% from current plans, given historical underinvestment, DIA guidance. Subsequent reduction in depreciation, through standardised method across councils.
Debt/revenue covenant	<ul style="list-style-type: none"> Existing Council debt/revenue covenants are used to assess balance sheet capacity. Previous modelling imposed a 500% debt/revenue constraint on 3-waters finances due to previous central Government guidance; this measure does not appear in LGFA's guidance anymore and so has been removed as a control. No changes to Council Delivered Service debt limits: <ul style="list-style-type: none"> Hastings: Current LGFA: 280% Net Debt/Revenue; Internal 250% limit

Parameter	Assumption
Regional CCO efficiencies	<ul style="list-style-type: none"> Conservative modelling assumes the joint CCO capital efficiencies will start at 1% in year 3, growing 1% per annum (5% by FY34). Conservative modelling assumes operating efficiencies of 2% in year 3, growing to 12% by FY34
Establishment costs	<ul style="list-style-type: none"> Regional CCO and Council Delivered Services: The indicative estimated cost is based on the figures provided in the 2020 Morrison Low business case for Hawke's Bay Councils, adjusted for inflation. Single CCO: As above, but costs are adjusted to 50% of the estimates of establishing a Regional CCO.
Ongoing operational costs	<ul style="list-style-type: none"> Regional CCO and Council Delivered Services: The indicative estimated cost is based on the figures provided in the Morrison Low business case, adjusted for inflation. Single CCO: As above, but costs are adjusted to 50% of the Morrison Low estimates.
Stranded costs	<ul style="list-style-type: none"> Councils provided guidance on potential stranded costs (see below).

Establishment and additional Operational/Capex costs as a result of the change

The costs in the following indicative estimate are variable and will depend on the level of activities that can be completed by any new CCO, at their own cost, after establishment. All figures are based on analysis conducted by Morrison Low during the previous reforms.

The costs below are shown indexed to FY25 values from the FY20 values using historical inflation. The forecast has been indexed using NZIER inflation rates through FY28 and 3% thereafter.

Table 7

Establishment Costs (\$000s)	Council Delivered Services	Single CCO	Regional CCO
Operating costs	1,373	1,769	3,538
Capital costs	1,507	2,174	4,347

Stranded Costs

All figures are based on analysis conducted by the councils and reflect the potential costs Council is left to carry if water services are no longer delivered in house.

Table 8

Cost type	Updated modelling (\$000s)
3 Waters personnel*	747
Major Capital projects personnel*	31
Property leases & software	900
Other personnel (i.e. support services – HR, Finance, Rates Collection, IT, Customer Services, Democratic Support)	1,203
Assets (e.g. computers, phones, IT asset systems)	208
Other	42
Total HDC stranded costs	3,131

* While it is expected that a number of direct water personnel would transfer to the new CCO (whether Regional or stand alone), they have been retained in the model to account for the risk that this may not occur

Ongoing operational costs created as a result of the change

Table 9

Ongoing Operational Costs (\$000s)	Council Delivered Services	Single CCO	Regional CCO*
Directors	49	92	183
Tier 1 additional costs	305	214	427
Tier 2 additional costs	0	305	610
ICT - extra operating	61	61	122
Harmonisation of salary	177	89	177
Audit remuneration	18	101	201
Regulatory auditing	18	101	201
Accommodation - office rent	549	275	549
Office overheads	33	24	47
Staff overheads	81	148	295
Additional resources	418	833	1,665

*Costs are shared across multi councils – this is not the cost per Council

Modelling overview

In the charts below, previous council cost and pricing projections have not been included as these projections are not considered viable options, given the new regulations and financial sustainability requirements mandated by the LWDW framework legislation.

The financial modelling covers a ten-year horizon, based on latest LTPs, and in Napier's case new Annual Plan numbers. For modelling purposes, a capex delivery factor of 0.8 and an accompanying depreciation reduction has been applied across Councils, given historical under-delivery of capex plans. This also follows guidance from DIA to Councils that forward-looking plans, while acknowledging the scale of investment required, need to be realistic regarding delivery capacity. The lower capex delivery factor is not a proposal to reduce capex, but rather used to present what might be more realistic debt and cost-per-connection outputs from the modelling to what ratepayers and Councils might face expenditure-wise over the timeframe modelled. A combined regional capex programme of \$1.32 billion is modelled out to FY34.

Modelling of 100% of current capex plans was conducted through this process, although with slightly different assumptions regarding the LGFA covenants which would apply. A high-level observation across this previous modelling and the current modelling outputs is that a Regional CCO may be able to deliver 100% of current capex plans at a similar or lower cost-per-connection than each individual Council would have to charge to deliver 80% of their current capex plans through either In-House or the Single CCO delivery options.

A Hawke's Bay regional CCO will be able to utilise its financial resources to borrow more efficiently and effectively than individual councils. It requires less additional revenue compared to the other options because less stringent financial metrics will be imposed on it by the LGFA than individual Councils.

The regional CCO option considers non-harmonised pricing for each shareholding council, given strong central Government statements against harmonisation and guidance that the economic regulator may not allow for price harmonisation. The purpose of the modelling was to assess the relative benefits of the different delivery models allowed for under Local Water Done Well, assessed across the region's Councils.

More cost-effective service delivery

With increased scale, the region can achieve operational and capital investment savings. The freed-up funds can be reinvested to complete more projects within the same budget. Savings may arise from avoided mobilisation and demobilisation costs, better project sequencing, bulk discounts, and standardised plants.

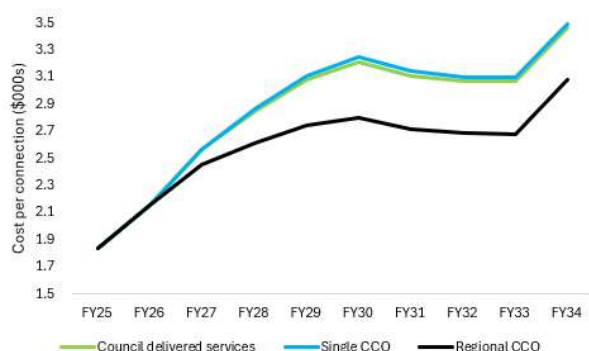
A joint organisational structure can also benefit from sharing operational costs, enabling the councils to optimise overheads and workforce within their operations and balance them effectively. These benefits of the Regional CCO should endure as efficiency gains improve over time and as a focussed workforce grows in terms of capability and capacity to deliver the required water investment across the region.

Hastings Financial Overview

Financial modelling – Hastings affordability - key observations:

- The regional CCO results in a lower cost of water per connected property in FY34 than the other two options.
- Under a regional CCO model, the average ratepayer in Hastings will pay \$412 less in annual water charges in 2034, than under the Single Council CCO option and \$381 less in annual water charges under the CDS option.
- At 2034, cost per connection under the CDS and Single Council CCO options is 13% more expensive than under the Regional CCO cost path.
- Cumulative savings over the 10-year period for the average connected property amount to \$2,646 under the Regional CCO option compared to the Council Delivered Services option, and \$2,856 compared to the Single Council CCO option.

Cost per connection (\$000s)	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34
Council delivered services	1.8	2.2	2.6	2.9	3.1	3.2	3.1	3.1	3.1	3.5
Single CCO	1.8	2.2	2.6	2.9	3.1	3.2	3.1	3.1	3.1	3.5
Regional CCO	1.8	2.2	2.5	2.6	2.7	2.8	2.7	2.7	2.7	3.1



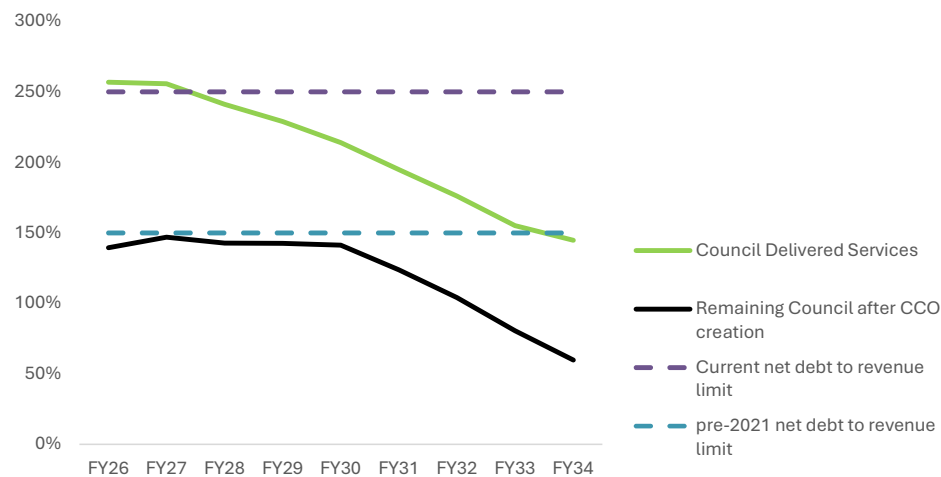
Financial modelling – Hastings balance sheet and Council debt position

For Hastings, all options are within existing debt covenants, indicating capacity to finance the modelled water services investment. The regional CCO results in lower all-of-council debt due to water debt under this option being a contingent liability to council, and not 'on balance sheet'.

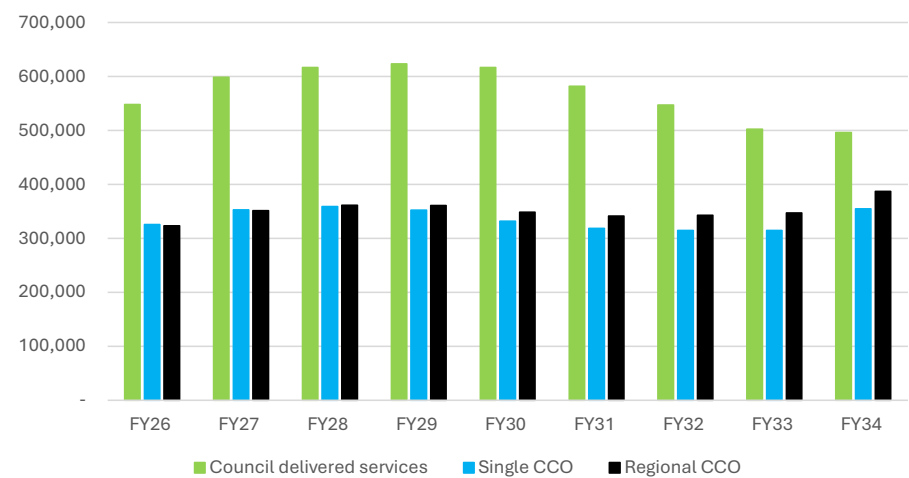
Hastings District Council can borrow up to 280% net debt to revenue under the LGFA foundation covenant but has a current internal council limit of 250% per Council Treasury policy.

Modelling shows that HDC has sufficient balance sheet capacity under all three options to stay within the LGFA covenant. However, under the Council Delivered Services and Single CCO options, combined net debt revenue is above HDC’s internal limit in the early years of operation, limiting the Council’s ability to respond to unexpected shocks or non-water capital investment requirements.

Council Net debt / revenue



Total debt for Council (\$'000s)



Under the Council Delivered Services option

- 3-waters net debt held by HDC is modelled to increase from \$324.3 million in FY26 to \$353.1 million in 2034, representing 71% of total Council net debt at FY34. Ringfenced 3-waters net debt/revenue will fall over that time from 641% to 381%.
- **Combined, Council net debt is modelled to rise from \$548.1 million in FY26 to \$623.1 million in FY29, before falling to \$496.1 million in FY34. Combined council net debt/revenue is modelled to fall from 257% in FY26 to 145% in FY34.**

Under the Single CCO option,

- 3-waters net debt held by the CCO is modelled to increase from \$325.4 million in FY26 to \$358.9 million in FY28 and moderating to \$354.4 million at FY34. Three-waters net debt/revenue will fall over that time from 643% in FY26 to 379% in FY34. The increase in 3-waters net debt compared to Council Delivered Services is a reflection of funding capitalised establishment costs through debt.
- Council net debt excluding three waters is modelled to rise from \$226.9 million in FY26 to \$293.1 million in FY30, before falling to \$149.4 million in FY34. **Council (ex 3-waters) net debt/revenue will rise from 139% in FY26 to 147% in FY27, before falling to 60% in FY34 (LGFA focus).**

Under the Regional CCO option,

- Combined three-waters debt across the four Councils under a Regional CCO is modelled to increase from \$489.2 million in FY26 to \$912.7 million in FY34. The Regional CCO's (Three-waters) net debt-revenue will rise from 473% in FY26 to 490% in FY28, before falling to 451% in FY34. Note there is no '500% limit' on this metric, based on guidance from LGFA. **HDC's contribution to the combined three-waters debt of a regional entity will rise from \$323.2 million in FY26 to \$387.0 million in FY34.**
- HDC's Council debt (excluding three-waters) under a Regional CCO option is modelled to rise and fall in the same way as under the Single CCO option. **With Council net debt/revenue falling to 60% by FY34.**

Non-financial analysis

Alongside the financial criteria, a set of non-financial criteria were developed to assess the different delivery models.

These criteria were developed with the legislative requirements in mind, as well as to align with the shared principles the region has agreed on to guide the decisions on water service delivery.

The shared principles were first developed for the Morrison Low work. These were re-tested with councils, mana whenua and other stakeholders in Hawke's Bay in September 2024, where they were updated to reflect the current circumstances.

The updated principles are:

- To deliver water services in a way that is affordable, effective and allows for equitable access
- To deliver water services that are safe, resilient and balance cost-effectiveness with high standard
- To deliver water services through a model that enables a meaningful role for Māori through governance and outcome-setting
- To deliver water services through a model that has the value and water at the centre in addressing both current and future needs
- To deliver water services in a way that supports out urban and rural communities ensuring targeted solutions that develop local capabilities for effective support and service delivery
- To deliver water services that builds enduring capability and capacity
- To deliver water services informed by meaningful community engagement and collaboration

Non-financial criteria

Table 10

Criteria	Explanation and Measures
Service provision	<ul style="list-style-type: none"> The extent to which a delivery model would be able to provide and maintain levels of service across water networks, including supporting equitable access to water services, and ensuring safe and environmentally sustainable outcomes. The ability to identify and manage risks in alignment with industry best practices.
Resilience	<ul style="list-style-type: none"> The extent to which a delivery model would support resilience, from both a financial and operational perspective, including the ability to support and respond to climate adaptation and emergencies. The ability to respond to increasing demand and managing that demand effectively.
Capital delivery and asset management	<ul style="list-style-type: none"> Ability to deliver the capital programme and improve asset management maturity.
Capability and capacity	<ul style="list-style-type: none"> Ability to build sustainable regional capability in three water development and operations. Ability to build a long-term stable pipeline of work at scale and build regional supplier capacity and capability.
Scale and opportunities for efficiency	<ul style="list-style-type: none"> Ability to lower unit cost of infrastructure through standardisation and modular approach to infrastructure development and operations.
Mana whenua involvement	<ul style="list-style-type: none"> The extent to which each option is designed to reflect the priorities of, and agreed outcomes for, mana whenua.
Community influence and engagement	<ul style="list-style-type: none"> The extent to which each option enables the ability for communities to engage with water decision-making.

High-level option evaluation - Non-financial criteria:

The table below provides a high-level overview of the results of the option evaluation results against the non-financial criteria. For further commentary on each of these criteria, please see the following pages.

Table 11

Criteria	Council delivered Service	Council CCO	Regional CCO
Service Provision	✓ Levels of service will need to meet new government requirements, regional variation remains	✓ Levels of service will need to meet new government requirements, regional variation remains	✓✓ Equity of service levels, combining networks / infrastructure, lowering the cost to serve
Scale and Efficiencies	- No efficiency gains (noting councils could opt to work together via agreements)	✓ Potential to achieve some efficiency gains through new competency-based board appointment and key performance indicators	✓✓ Maximum efficiency gains due to scale and potential to standardised / share resources
Resilience	✓ Some resilience improvements, although limited by the lack of scale / geographic diversification	✓ Some resilience improvements, although limited by the lack of scale / geographic diversification	✓✓ Greatest resilience improvements due to scale and diversification revenues
Capability and capacity	- No improvements beyond existing arrangements	✓ Potentially some improvements due to focus on water services. Potential to offer clear career pathways	✓✓ Can scale, offering clear career pathways and specialisation in water services

Capital delivery and asset management	✓ New requirements drive potential to improve capital delivery but limited by scale	✓ Water focus drives potential to improve capital delivery but limited by scale	✓✓ Potential for broader network considerations and efficient capital works planning
Mana whenua involvement	✓ Mana whenua engaged by councils directly through current arrangements	✓ Opportunity for dedicated mana whenua governance role, regional variation remains	✓✓ Opportunity for dedicated mana whenua governance role, regional consistency more likely
Community Engagement	✓✓ Direct community engagement and accountability to council	✓ CCO responsible to one community, engagement via LTP process and consumer panels	✓ CCO responsible to multiple communities, engagement via LTP process and consumer panels

Detailed option evaluation - Non-financial criteria:

SERVICE PROVISION

The extent to which a delivery model would be able to meet and maintain levels of service across water networks, including supporting equitable access to water services, and ensuring safe and environmentally sustainable outcomes.

Council Delivered Service ✓	<ul style="list-style-type: none"> Levels of service are set by the council but must be consistent with all legislative and regulatory requirements. Council will need to fund and prioritise recovering the full cost of services to meet financial sustainability requirements, with regulation driving investment decisions. Councils may struggle to standardise service levels or implement region-wide transformation.
Single CCO ✓	<ul style="list-style-type: none"> Council staff can remain local and continue delivering existing service levels. The council will hold the CCO accountable for the delivered service levels via a Statement of Expectations (SoE). However, service levels and standards will ultimately be set by the CCO and regulators. The board will have the flexibility to determine the necessary pricing and allocation of funding to meet the required service levels, driven by compliance with economic, service and consumer regulation. Limited ability to provide equitable service levels across the region over time.
Regional CCO ✓✓	<ul style="list-style-type: none"> Shareholding councils will influence district service levels through a joint SoE. The boards will have the flexibility to determine pricing and allocate funding to meet these service levels, driven by economic, service and consumer regulation. Centralising investment planning, service delivery, and customer engagement may lead to efficiencies and improved customer service. The CCO can work towards standardising service levels across districts over time. Greater flexibility to align with upcoming regulatory standards and strategic planning.

COMMUNITY INFLUENCE AND ENGAGEMENT

This criterion measures how effectively a delivery model enables communities and councils across Hawke's Bay to engage with the delivery of water services and influence outcomes through that engagement. Mana whenua are also included within this criterion in their role as community members.

Council Delivered Service ✓✓	<ul style="list-style-type: none"> Councils will continue to regularly consult communities on water services delivery planning and infrastructure development through processes such as the LTP which determine council's strategic direction as well as how it sets budgets and prioritises projects. Economic regulation and consumer protection will require providers to increase level of engagement to confirm levels of service and evidence that investments are being made. Communities will still be able to express their views on decisions related to future water services, but councils will be subject to economic regulation, which will set prices and minimum investment levels, driving prioritisation decisions.
Single CCO ✓	<ul style="list-style-type: none"> Each CCO can establish and maintain a direct relationship with its respective community and will be solely accountable to its independent board. The council will engage with the CCO to understand and align financial impacts on ratepayers and influence in the governance of the CCO via the SoE and the LTP requirements. Provisions are likely to need to be put in place to ensure that consumers' voices are heard through a consumer panel and/or advocacy council, a disputes resolution process, and through public consultation requirements. Mana whenua will engage with the CCO as well as the council as per pre-existing arrangements.
Regional CCO ✓	<ul style="list-style-type: none"> The CCO can establish and maintain a direct relationship with customers and will be accountable to its independent board and to all communities within Hawke's Bay. Shareholding councils will engage with the CCO to understand and align financial impacts on ratepayers and influence the governance of the CCO via the SoE and the LTP requirements.

RESILIENCE

The extent to which a delivery model would support resilience, from both a financial and operational perspective, including the ability to support and respond to climate adaptation and emergencies.

Council Delivered Service ✓	<ul style="list-style-type: none"> Operating within a single district on a smaller scale reduces geographic diversification, limiting the ability to share costs and resources across districts. Each council will apply resilience differently, with less collective emphasis on funding resilient options across the region. Opportunities to build financial and operational resilience against economic or environmental shocks are limited. Funding will come from the entire council's balance sheet, requiring decision-making to balance community needs across various activities competing for limited resources and funding.
Single CCO ✓	<ul style="list-style-type: none"> Similar to Council Delivered Services, operating within a single district and on a smaller scale results in less geographic diversification, limiting the ability to share costs and resources across districts. The CCO model is expected to have greater autonomy for efficient decision-making, e.g. to better respond to severe weather events.
Regional CCO ✓✓	<ul style="list-style-type: none"> Joint service delivery across district boundaries has the potential to improve climate resilience, providing greater geographic diversification. A regional entity has the scale and potentially greater financial capacity to manage severe weather events. It also has the flexibility to divert operational resources providing additional operational resilience. Developing a shared workforce among neighbouring councils would provide more workforce resilience, and potentially enable operational efficiencies. Provides a stronger platform for long-term strategic planning and risk management

CAPABILITY AND CAPACITY

The ability to build sustainable and enduring capability in the development and operations of three waters services across the region.

Council Delivered Service -	<ul style="list-style-type: none"> Water services are delivered by council teams focused on operations and maintenance across their individual water networks. Employees / staff will need to be shared with non-water services, with workforce capability and capacity currently constrained within all councils. Operating within a single employment market can limit recruitment of new staff and capability.
Single- Council CCO ✓	<ul style="list-style-type: none"> Similar to Council Delivered Service, the entity's scale may limit the ability to attract talent and develop enduring capability due to competition among districts for staff. However, a competency-based board may enable greater focus on recruitment and retention of high-quality staff who might not typically join a local authority. May lead to greater capability and specialisation among operational and maintenance staff (compared to a council delivered service model, where teams may have wider functions).
Regional CCO ✓✓	<ul style="list-style-type: none"> Increased scale creates opportunities for more specialised roles and builds enduring capability, alongside a larger market of suppliers. Operating as a single employer in Hawke's Bay region attracts a diverse range of skills and reduces competition for staff. Improved capability and capacity provide clear career pathways and opportunities for professional development and specialisation in water services delivery.

CAPITAL DELIVERY AND ASSET MANAGEMENT

This criterion assesses the ability of a delivery model to support the efficient and effective delivery of a council's capital programme and improve their asset management maturity.

Council Delivered Service ✓	<ul style="list-style-type: none"> The council retains control over investment prioritisation in water services, in line with the water services strategy provided that they are consistent with all economic and water regulations. Ring-fencing requirements will mandate a certain level of investment that cannot be avoided by a council. Capital delivery and asset management, including any required trade-offs, continues to be undertaken by councils themselves within existing financial constraints. The council delivers its capital works programme using existing / local suppliers. Potential to collaborate with other districts in joint procurement strategies.
Single CCO ✓	<ul style="list-style-type: none"> The CCO board can focus on investment in water infrastructure, eliminating the need for trade-offs on investment decisions against other non-water related / council activities. The CCO can maintain / share procurement arrangements with the council as well as participate in joint procurement arrangements with other neighbouring districts to improve capital delivery. However, this is not guaranteed.
Regional CCO ✓✓	<ul style="list-style-type: none"> The CCO board will determine the approach to investment prioritisation, with input from shareholding councils on priorities. A dedicated focus on delivering three waters services enables broader regional outcomes and efficient capital works planning across the network. Aligning procurement and project management approaches, along with coordinating large-scale work programmes, can help attract contractors to the regions. The scale of the operations is likely to also lead to procurement and operational efficiencies.

SCALE AND EFFICIENCIES

This criterion assesses the delivery model's ability to lower the unit cost of infrastructure through standardisation, scale in procurement and a modular approach to infrastructure development and operations.

Council Delivered Service -	<ul style="list-style-type: none"> Assumed that this option will not provide efficiencies or resilience benefits above and beyond assumptions in the 2024-34 LTPs. Note that there could be some efficiencies gained if Councils worked collectively on a single water services procurement strategy, single professional services and contractor construction panel arrangements.
Single CCO ✓	<ul style="list-style-type: none"> CCO operates with increased commercial focus, a dedicated board and performance metrics which could provide some minor efficiency improvements and potentially operating cost reductions associated with CCO establishment.
Regional CCO ✓✓	<ul style="list-style-type: none"> The entity can focus on optimising operations and processes to reduce overall costs. Savings may arise from avoided mobilisation and demobilisation costs, better project sequencing, bulk discounts, and standardised plants. A joint organisational structure can also benefit from sharing operational costs, enabling the councils to optimise overheads and labour within their operations and balance them effectively.

MANA WHENUA INVOLVEMENT

For the purpose of this document, the term 'mana whenua' refers to the Post-Settlement Governance Entities (PSGE) and Taiwhenua. This criterion measures how well a delivery model ensures that existing partnership arrangements (which may include Treaty settlement commitments) and commitments to mana whenua are maintained and enhanced by ensuring that they have a meaningful role in water services decision-making and outcome setting into the future.

It is important to emphasise that mana whenua hold dual roles across and are entitled to all the rights and privileges afforded to the wider community. Therefore, in addition to the 'community influence and engagement' criteria outlined earlier, the subsequent criteria are also pertinent to mana whenua.

Council Delivered Service ✓	<ul style="list-style-type: none"> • Council engagement with Māori on water is guided by the Local Government Act and existing Treaty settlement commitments. • Governance of water services remains within existing council and regional structures, preserving any pre-existing governance arrangements with mana whenua and other Māori partnership groups. • Non-governance arrangements between councils and mana whenua also remain unchanged. The role of mana whenua may differ across the region
Single CCO ✓	<ul style="list-style-type: none"> • The single-council CCO model could enable new and innovative approaches to collaborating with mana whenua, providing new opportunities for representation and input. • The CCO model may offer opportunities for the inclusion of mana whenua at a governance level that are not as deliverable under Council Delivered Service, though this would depend on organisational design. • The role of mana whenua will likely continue in the same manner as with Council Delivered Services.
Regional CCO ✓✓	<ul style="list-style-type: none"> • The new entity offers the opportunity to leverage innovation through the CCO model while also ensuring to engage with mana whenua in a consistent manner across the region. This prevents engagement and influence differing across multiple different councils, resulting in different outcomes across the region. • There is an opportunity for councils and mana whenua to have a role in governance and outcome setting. This may involve jointly appointing a competency-based board and management team. • The final details of any such arrangements will need to be determined following the decision to establish a regional CCO in consultation with mana whenua and other stakeholders.

HASTINGS DISTRICT COUNCIL

COUNCIL MEETING

THURSDAY, 31 JULY 2025

Item 8

RECOMMENDATION TO EXCLUDE THE PUBLIC

SECTION 48, LOCAL GOVERNMENT OFFICIAL INFORMATION AND MEETINGS ACT 1987

THAT the public now be excluded from the following part of the meeting, namely:

- 9 Local Water Done Well - Heads of Agreement Schedules 4 and 5
- 10 Kerbside Recycling Collection and Drop Off Centre Operations Management
(Supplementary Agenda)

The general subject of the matter to be considered while the public is excluded, the reason for passing this Resolution in relation to the matter and the specific grounds under Section 48 (1) of the Local Government Official Information and Meetings Act 1987 for the passing of this Resolution is as follows:

GENERAL SUBJECT OF EACH MATTER TO BE CONSIDERED	REASON FOR PASSING THIS RESOLUTION IN RELATION TO EACH MATTER, AND PARTICULAR INTERESTS PROTECTED	GROUND(S) UNDER SECTION 48(1) FOR THE PASSING OF EACH RESOLUTION
9 Local Water Done Well - Heads of Agreement Schedules 4 and 5	Section 7 (2) (h) The withholding of the information is necessary to enable the local authority to carry out, without prejudice or disadvantage, commercial activities. Matters outlined in the attachments to this paper are subject to commercial negotiations and should be reviewed separately.	Section 48(1)(a)(i) Where the Local Authority is named or specified in the First Schedule to this Act under Section 6 or 7 (except Section 7(2)(f)(i)) of this Act.
10 Kerbside Recycling Collection and Drop Off Centre Operations Management	Section 7 (2) (i) - The withholding of the information is necessary to enable the local authority to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations). Contract negotiations.	Section 48(1)(a)(i) Where the Local Authority is named or specified in the First Schedule to this Act under Section 6 or 7 (except Section 7(2)(f)(i)) of this Act.