



AGENDA

City Future Committee Workshop meeting Tuesday, 24 June 2025

**I hereby give notice that a City Future Committee Workshop meeting
will be held on:**

Date: Tuesday, 24 June 2025

Time: 1:00 PM

**Location: Tauranga City Council Chambers
L1 90 Devonport Road
Tauranga**

*Please note that this meeting will be livestreamed and the recording will be publicly available on
Tauranga City Council's website: www.tauranga.govt.nz.*

**Marty Grenfell
Chief Executive**

Order of Business

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1 BUSINESS

1.1 Tauranga City Council Workshop - Local Waters Done Well - 24 June 2025

File Number: A18487361

Author: Caroline Irvin, Governance Advisor

Authoriser: Clare Sullivan, Team Leader: Governance Services

Presenter(s): Jeremy Boase, Manager: Strategy & Corporate Planning
Kathryn Sharplin, Manager: Finance

Workshop information













Purpose of workshop

1. The purpose of this workshop is to review the Local Water Done Well financial model and cover other elements of the workstream.

Executive summary

2. The following documents are attached:
 - Presentation Financial summary
 - LWDW Presentation Dashboard 1
 - LWDW Presentation Dashboard 2
 - Water Organisation Term Sheet
 - Shareholder Voting – Simple Think Piece
 - Next Steps

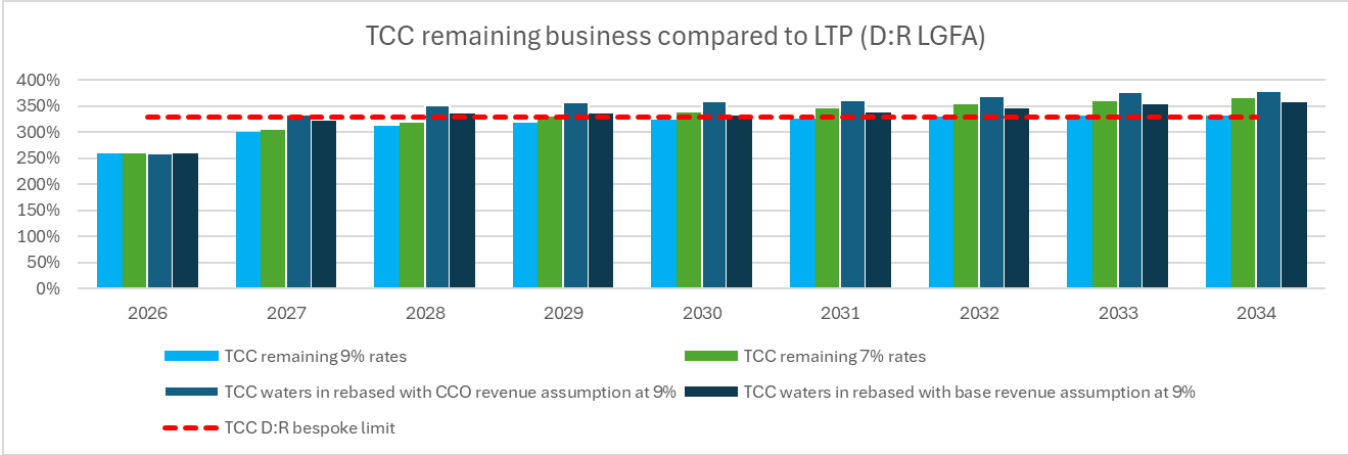
Attachments

1. **Presentation Financial Summary - A18487298**  
2. **LWDW Presentation Dashboard 1 - A18487189**  
3. **LWDW Presentation Dashboard 2 - A18398358**  
4. **Water Organisation Term Sheet - A18487207**  
5. **Shareholder Voting - Simple Think Piece - A18487231**  
6. **Next Steps - A18487205**  









	Modelling total over 10 years- comparision(Inflated)						
Data Dates	Mar/ Apr 24	Dec24/ Jan 25	Mar-25	Mar-25			
Key metrics	<i>November Business Case(\$m)</i>	<i>Consultation (MJ Model)</i>	<i>TCC Inhouse</i>	<i>TCC model- Multi CCO With Revenue adjustment</i>	<i>MJ Vs TCC</i>	<i>TCC inhouse Vs TCC CCO</i>	Comments
Rates revenue	1,991	1,913	2,046	1,866	47 -	180	Efficiency savings & less debt retirement under TCC CCO gives choice of lower cost to consumer
Operating Exp	1,829	1,945	1,951	1,956	- 11	5	Similar efficiencies all CCO's but TCC CCO higher interest cost without debt retirement
Debt	1,465	1,571	1,363	1,481	90	118	TCC CCO model, less debt retirement \$180m
Capex	2,130	2,076	2,138	2,060	16 -	78	Same output, more efficiencies
FFO	NA	10%	12.30%	9.40%	0.6%	-3%	CCO option allows a choice of reduced cost to consumer but higher debt
Cash interest coverage ratio	NA	NA	2.3	1.66	-	0.64	Lower cash interest coverage ratio on avg through 10 years
Avg charges per connection(nominal)	4,234	4,403	4,812	4,453	- 50	359	
Avg charges per connection(Real)	3,308	3,440	3,767	3,486	- 46	281	

	Modelling total FY 34- comparision(inflated)						
Data Dates	Mar/ Apr 24	Dec24/ Jan 25	Mar-25	Mar-25			
Key metrics(FY34)	November Business Case(\$m)	Consultation(MJ Model)	TCC Inhouse	TCC model- Multi CCO With Revenue adjustment	MJ Vs TCC	TCC inhouse Vs TCC CCO	Comments
Rates revenue	298	282	309	286	- 4	- 23	revenue adjustment in TCC model is to remove \$180m of higher waters revenue included in LTP to retire debt not needed to same extent in CCO
Operating Exp	232	248	262	259	- 11	- 3	expenditure lower due to savings offset by higher interest
Debt	1,465	1,571	1,363	1,481	90	118	Higher debt because reduced revenue offset by capex savings
Capex	318	353	349	323	30	- 26	savings from efficiency
FFO	NA	10%	11.70%	9.30%	0.7%	-2%	
Cash interest coverage ratio	NA	NA	2.1	1.55		- 0.55	
Avg Connection cost(Real)	4,234	4,403	4,812	4,453	- 50	- 359	

TCC Remaining



Rates	9%	9% increases from 2027 onwards which is reflective of the LTP average					
Capex	280	average of draft LTP excluding waters					
Debt mvmt	140	Cash from depreciation and grants offset capital driven new debt					
Other opex							
rev	3%	CPI increase assumptions					

Dashboard- 1														
		Previous 10 Years (actual real \$)				Next 10 Years- (Base case - inflated)				Next 10 Years- in 2024 \$(uninflated)- Base case				Narrative
		2015	2024	Cumulative	Avg.	2025	2034	Cumulative	Avg.	2025	2034	Cumulative	Avg.	
Population		127,200	163,040	N/A		164,549	184,504			164,549	184,504			Tauranga in last 10 years(FY 15-24), has grown at an average of 2.72% p.a, this is slightly more if we look at average growth since FY 2000, which is 2.44%; as opposed to National average(excl Akl) of 1.5%. This is the biggest driver of Capex investment, which in turn drives the upward pressure on Debt and Revenues
			24 Vs 15	28%		34 Vs 25	12%			34 Vs 25	12%			
Connections		52,868	62,314			62,311	69,723			62,311	69,723			
				18%			12%				12%			
Capex (\$m)		44	84	774	77	118	349	2,138	214	115	273	1,827	183	There is a relationship between Capex investment and rates requirement which is estimated at between 6 and 10% of capex spend flowing through to rates increase (depreciation, interest and operating costs).
			92%				195%	25- 34 Avg vs 15- 24 Avg	176%		138%	25- 34 Avg vs 15- 24 Avg	-15%	
Net Debt (\$m)		204	449	NA		480	1,363			466	1,067			
			120%				184%				129%			
Rates Revenues (\$m)		57	114	792	79	121	309	2,046	205	117	242	1,752	175	
			100%				156%		158%		106%		-14%	
Opex Exp (\$m)		58	144	876	88	145	262	1,951	195	141	205	1,683	168	
			150%				81%		123%		46%		-14%	
Depreciation+ Finance costs		26	75	454	45	74	163	1,100	110	71	128	945	94	
increase from base year to year 10			192%				122%		142%		79%		-14%	
Depreciation+ Finance costs %		45%	52%	52%	52%	51%	62%	56%	56%	51%	62%	56%	56%	
Mean household income		80,653	123,502			130,289	191,366			126,494	149,789			Mean household income forecast for 2025 to 2034 is based on average growth rate of 4%. The last 24 years actual data(FY 2000-24) shows avg growth rate of 5%.
			53%				47%				18%			
Avg Rates per connection(incl GST)		1,245	2,122		1,560	2,103	4,812	33,394	3,339	2,042	3,767	28,664	2,866	If we compare the average rates revenue increase for 2015-24 sitting at 8% and compare it to 2025-34 average rates revenue increase sitting at 10% against the capex investment for previous 10 years, sitting at \$775mill vs 25-24 proposed capex investment of \$2.138B, all this against the TCC organizational covenant of Debt to Revenue ratio mainly limited to 280%
			71%				129%		114%		84%		-14%	
Avg Residential Rates per connection(incl GST)		898	1,544	11,314	1,131	1,630	3,719	25,865	2,586	1,567	2,886	22,018	2,202	The residential rates and commercial rates per connection is based on FY 23 & 24 transaction analysis, the reason for a higher residential avg rates inc for 25-24 vs 15-24 vs commercial is to do with pricing strategy, drinking water mainly on volumetric, wherein commercial customers consume 35% of water, whereas Wastewater on UAGC, where in the commercial customers pay 29% rates revenue and Storwater on Gen rates basis, where in the commercial customers pay 33% rates revenue. From a residential affordability perspective optimisng the pricing stratetgy would be an obvious choice going forward for governance
			72%				128%		129%		84%		-15%	
Avg Commercial Rates per connection(incl GST)		6,652	10,339	78,199	7,820	10,901	24,929	173,440	17,344	9,258	17,054	130,102	13,010	
			55%				129%		122%		84%		-25%	

Dashboard 2: Summary of TCC model in house, multi council options, and residual council

		Inflated numbers													
Scenario	KPI's	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Cumulative/ Avg	NPV from 2025	Diff S2 Vs Base	
Base inhouse													5%		
Base inhouse	FFO(\$m)	50	54	69	84	103	122	120	123	142	160	1,029	757		
Base inhouse	FFO %	10.4%	10.6%	11.5%	12.1%	13.4%	14.9%	13.5%	12.4%	12.0%	11.7%	12.3%			
Base inhouse	Cash interest coverage ratio	2.0	1.9	2.2	2.3	2.5	2.7	2.4	2.2	2.2	2.1	2.3			
Base inhouse	Debt(\$m)	480	510	602	695	773	821	893	993	1,186	1,363				
Base inhouse	Debt: Revenue Ratio	364%	358%	379%	394%	377%	353%	364%	382%	401%	412%				
Base inhouse	Water charges Revenue(\$m)	121	133	150	167	195	221	231	243	276	309	2,046	1,517		
Base inhouse	Operating Revenue(\$m)	132	142	159	176	205	233	245	260	295	331	2,178	1,615		
Base inhouse	Avg charges per connection(\$)	2,103	2,293	2,549	2,802	3,232	3,619	3,736	3,888	4,360	4,812	33,394	24,874		
Base inhouse	Residential rates per connection(\$)	1,630	1,779	1,974	2,172	2,507	2,807	2,894	3,011	3,373	3,719	25,865	19,268		
Base inhouse	Commercial rates per connection(\$)	10,901	11,895	13,259	14,591	16,849	18,825	19,414	20,170	22,606	24,929	173,440	129,204		
Base inhouse	Residential Customer Affordability ratio	1.3%	1.3%	1.4%	1.4%	1.6%	1.7%	1.7%	1.7%	1.8%	1.9%	1.6%			

Scenario	KPI's	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Cumulative/ Avg	NPV from 2025	Diff S2 Vs Base	
S2- multi CCO(inf)	Revenue adjustment(\$m)	-	-	-	15	-	20	-	25	-	31	-	23	-	180.00
S2- multi CCO(inf)	Revised FFO(\$m)	50	54	53	62	76	88	94	100	118	138	833	614	-	195.83
S2- multi CCO(inf)	Revised FFO %	10.4%	10.6%	8.6%	8.5%	9.1%	9.7%	9.4%	9.0%	9.0%	9.3%	9.4%			
S2- multi CCO(inf)	Revised Cash interest coverage ratio	2.04	1.93	1.61	1.57	1.62	1.64	1.59	1.50	1.54	1.55	1.66			
S2- multi CCO(inf)	Revised Debt(\$m)	480	510	618	731	834	911	1,001	1,111	1,308	1,483			119.27	
S2- multi CCO(inf)	Revised Debt: Revenue Ratio	364%	358%	430%	468%	462%	450%	450%	465%	480%	481%				
S2- multi CCO(inf)	Revised Water charges Revenue(\$m)	121	133	135	147	170	190	208	222	253	286	1,866	1,386	-	180
S2- multi CCO(inf)	Revised Operating Revenue(\$m)	132	142	144	156	181	202	222	239	272	308	1,998	1,484	-	180
S2- multi CCO(inf)	Revised Avg Charges per connection(\$)- incl efficiencies and revenue reduction	2,103	2,293	2,294	2,466	2,826	3,119	3,364	3,553	3,997	4,453	30,468	22,741	-	2,926
S2- multi CCO(inf)	Revised Residential Rates per connection(\$) incl efficiencies and revenue reductior	1,614	1,761	1,764	1,898	2,177	2,399	2,585	2,727	3,065	3,413	23,402	17,468	-	2,463
S2- multi CCO(inf)	Revised Commercial Rates per connection(\$) incl efficiencies and revenue reductic	10,966	11,967	11,983	12,897	14,792	16,304	17,564	18,526	20,829	23,189	159,019	118,702	-	14,421
S2- multi CCO(inf)	Net Opex Efficiencies(\$m)	-	-	-	1	-	0	3	4	7	10	22	14		
S2- multi CCO(inf)	Capex Efficiencies(\$m)	-	-	1	2	3	5	8	12	21	25	78	52		
S2- multi CCO(inf)	Stranded overheads(\$m)	-	-	3	1	1	-	-	-	-	-	5	4		
S2- multi CCO(inf)	Stranded overheads avg rates per connection(\$)	-	-	49	19	9	-	-	-	-	-	77	65		
S2- multi CCO(inf)	Residential Customer Affordability ratio	1.24%	1.28%	1.23%	1.26%	1.38%	1.46%	1.51%	1.53%	1.66%	1.78%	1.43%			

Residual Council		2025 (LTP)	2026 (AP)	2027 (rebased LTP)	2028 (rebased LTP)	2029 (rebased LTP)	2030 (rebased LTP)	2031 (rebased LTP)	2032 (rebased LTP)	2033 (rebased LTP)	2034 (rebased LTP)	Cumulative/ Avg	NPV from 2025
LTP rebased for 2026 AP (9% YoY)	Avg rates per rating unit (excluding waters)	4,074	4,427	4,428	4,295	4,491	4,700	4,920	5,149	5,390	5,641	47,514	36,198
LTP rebased for 2026 AP (9% YoY)	Cost per waters connection (base)	2,103	2,293	2,549	2,802	3,232	3,619	3,736	3,888	4,360	4,812	33,394	24,874
LTP rebased for 2026 AP (9% YoY)	Total cost to ratepayer	6,176	6,720	6,977	7,097	7,723	8,319	8,656	9,037	9,750	10,453	80,908	61,072
LTP rebased for 2026 AP (9% YoY)	waters as % of total cost	34%	34%	37%	39%	42%	43%	43%	43%	45%	46%	40.65%	
LTP rebased for 2026 AP (9% YoY)	Debt: Revenue Ratio			302%	312%	319%	323%	326%	330%	331%	331%	322%	
LTP rebased for 2026 AP (7% YoY)	Avg rates per rating unit (excluding waters)	4,074	4,427	4,346	4,139	4,248	4,365	4,485	4,608	4,734	4,864	44,290	33,984
LTP rebased for 2026 AP (7% YoY)	Cost per waters connection (base)	2,103	2,293	2,549	2,802	3,232	3,619	3,736	3,888	4,360	4,812	33,394	24,874
LTP rebased for 2026 AP (7% YoY)	Total cost to ratepayer	6,176	6,720	6,895	6,941	7,480	7,983	8,221	8,496	9,095	9,676	77,684	58,858
LTP rebased for 2026 AP (7% YoY)	waters as % of total cost	34%	34%	37%	40%	43%	45%	45%	46%	48%	50%	42.29%	
LTP rebased for 2026 AP (7% YoY)	Debt: Revenue Ratio			305%	319%	330%	339%	345%	354%	360%	365%	340%	
	LTP (total cost to ratepayer - waters & remainder) (note 26 is AP)	6,176	6,720	7,501	8,123	8,803	9,737	10,246	10,939	11,573	12,312	92,129	69,007
	Cost per waters connection (base)	2,103	2,293	2,549	2,802	3,232	3,619	3,736	3,888	4,360	4,812		
	waters as % of total cost	34%	34%	34%	34%	37%	37%	36%	36%	38%	39%		

Comparator to MJ numbers		
Consultation	Avg charges per connection(TCC+WBOP)	4,403
Consultation	Avg charges per connection(TCC+WBOP+two other councils)	4,326



Water organisation term sheet

Generalised guidance for councils

March 2025

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Purpose and overview



- DIA has provided a [toolkit of templates and guidance materials](#) to support councils that are considering the establishment of a new water organisation to delivery water services (such as a single or multi-council owned council-controlled organisation or consumer trust).
- NIFF Co has been requested to provide guidance on material commercial matters for consideration in the formation of (mainly multi) council owned water organisations.
- NIFF Co encourages councils to resolve matters collaboratively on a best for region or sub-region basis. The following guidance is intended to support this process but has been drafted generically and is not intended to supersede locally negotiated outcomes.
- We have selected the ten key terms on the following page as these have come up in various engagements nationwide. If councils would appreciate similar guidance for other matters this can be provided – please get in contact with NIFF Co.



Terms covered in this document

We have provided options and recommendations for the following key terms. Further terms can be incorporated as requested by councils

- **A:** Shareholding allocation – page 3
- **B:** Shareholding voting mechanism – page 4
- **C:** Shareholder decisions – page 5
- **D:** Dividends – page 6
- **E:** Asset valuation – page 7
- **F:** Opening debt methodology – page 8
- **G:** Source of debt capital – page 9
- **H:** Debt transfer – page 10
- **I:** Harmonisation – page 11
- **J:** LGFA guarantee / uncalled capital – page 12



A: Shareholding allocation

Shareholding largely drives public perception (and dividends if payable) as we recommend voting mechanism provisions which ensure no single council has positive or negative control

Options	Description	Pros	Cons	NIFF
Split based on connections	Updated periodically to reflect connections by council jurisdiction	<ul style="list-style-type: none"> ✓ Simple measure to apply ✓ Impartial ✓ Broadly consistent with two waters 	<ul style="list-style-type: none"> ✗ Not reflective of asset condition or historical investment ✗ Penalises under-connected councils 	
Split based on population	Updated periodically to reflect population by council jurisdiction	<ul style="list-style-type: none"> ✓ Simple measure to apply ✓ Impartial 	<ul style="list-style-type: none"> ✗ Not reflective of asset condition or historical investment ✗ Less reflective of business 	
Split based on recurring revenues	Updated periodically to reflect recurring revenue by council jurisdiction	<ul style="list-style-type: none"> ✓ Directly reflects revenue derived ✓ Relatively simple (need to track revenues by council jurisdiction) ✓ Reliable information 	<ul style="list-style-type: none"> ✗ Not reflective of asset condition or historical investment ✗ Pricing differentials / decisions impact allocation 	
Split based on free cash flow (FCF)	Updated periodically to reflect free cashflow by council jurisdiction	<ul style="list-style-type: none"> ✓ Cashflow based and broadly consistent with M&A practice ✓ Broadly consistent with fair share of dividends 	<ul style="list-style-type: none"> ✗ Dependent on tracking FCF by council jurisdiction (complex and not regional) ✗ Could change significantly over time ✗ Complex and opaque 	
Split based on asset value	Updated periodically to reflect asset value (or net asset value) by council jurisdiction	<ul style="list-style-type: none"> ✓ Valuation based and broadly consistent with M&A practice ✓ May be considered equitable / fair ✓ Consistent methodology can be agreed 	<ul style="list-style-type: none"> ✗ Dependent on tracking assets by council jurisdiction (complex and not regional) ✗ Complex and opaque – different asset valuation practices 	
Split equally	If there are four councils, each receives 25%	<ul style="list-style-type: none"> ✓ Simple with no periodic update required ✓ Smaller council's maintain voice 	<ul style="list-style-type: none"> ✗ Perceived to be unfair and not proportional ✗ Any dividends would be disproportionately shared 	



B: Shareholding voting mechanism

Shareholder decisions should be roughly proportional while not being captive to a single council (through positive or negative control) to ensure decision making is in the best interest of the region

Options	Description	Pros	Cons	NIFF
Vote in accordance with shareholding	Shareholders have one vote per share, with majority decision making	<ul style="list-style-type: none"> ✓ Simple ✓ Relatively representative of community interests 	<ul style="list-style-type: none"> ✗ Large councils may have outright control ✗ Small councils have less voice ✗ Negative/positive control issues 	
One vote per council	Updated periodically to reflect recurring revenue by council jurisdiction, with majority decision making	<ul style="list-style-type: none"> ✓ Simple ✓ Promotes collective decision making 	<ul style="list-style-type: none"> ✗ Under representation of large council may create perverse incentives 	
Vote in accordance with shareholding but no positive control	Shareholders have one vote per share, subject to no single council having outright control ¹	<ul style="list-style-type: none"> ✓ Avoids single council controlling decisions ✓ Ensures small councils are somewhat relevant in decision making 	<ul style="list-style-type: none"> ✗ Large council could still block decisions ("negative control") ✗ Greater risk of impasse / deadlock 	
Vote in accordance with shareholding but no negative control	Shareholders have one vote per share, subject to no single council having negative control ¹ (ie resolutions can be made if all councils other than the largest agree)	<ul style="list-style-type: none"> ✓ Promotes collective decision making ✓ Avoids single council having positive or negative control ✓ Ensures small councils are relevant in decision making 	<ul style="list-style-type: none"> ✗ Where a single council warrants a super majority, under representation may create perverse incentives 	

Notes: 1. Can be achieved by a combination of voting thresholds and voting right reductions for councils with large shareholding

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C: Shareholder decisions

Legislation permits shareholders to approve the Water Services Strategy and Annual Budgets. We believe councils should prohibit this in the constitution to limit shareholder decisions to strategic issues with operational / financial decision making left to the Board (with economic regulation oversight)

Options	Description	Pros	Cons	NIFF
Strategic	Shareholder decisions should be strategic ¹ leaving operational and financial decisions to the Board (with economic regulation oversight)	<ul style="list-style-type: none"> ✓ Councils can continue to influence strategic direction (albeit collectively) ✓ Board has clear accountability ✓ Typical structure for economically regulated utilities with diverse shareholders ✓ May have improved credit rating implications (and more consistent with LGFA guidance) 	<ul style="list-style-type: none"> ✗ Dependent on Board (not directly democratically elected) to make decisions in best interest of customers and community 	●
Operational or financial	Shareholder decisions include strategic but also enable operational and/or financial decision making. For example approval or ability to require changes to Water Services Strategy and/or Water Services Annual Budget	<ul style="list-style-type: none"> ✓ Councils can continue to control (albeit collectively) operational and/or financial decisions ✓ Councils being democratically elected may better represent customer and community perspectives 	<ul style="list-style-type: none"> ✗ Reduces line of accountability and could lead to Board and shareholders blaming each other for outcomes ✗ Reduces impact of expert Board making decisions ✗ Complicates relationship with economic regulation (and priority of decision making) ✗ May have S&P credit rating if shareholders exert significant control 	◐

Notes: 1. This would include appointing and removing directors, issuing the statement of expectations, major transactions and other decisions of a similar nature (ie winding up the water organisation). This would not include approving the Water Services Strategy and Water Services Annual Budget

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D: Dividends

Water organisations should either be prohibited from paying dividends or only be permitted to pay dividends once any infrastructure deficit is resolved

Options	Description	Pros	Cons	NIFF
No dividend model	No dividends payable, with any surplus either reinvested or returned to lower water charges	<ul style="list-style-type: none"> ✓ Incentivises reversing infrastructure deficit as fast as possible with efficient prices ✓ Alleviates customer / community concerns regarding price gouging ✓ Consistent with council current practice 	<ul style="list-style-type: none"> ✗ International evidence less clear regarding incentives for effective economic regulation and efficiencies 	
Dividends payable	Surpluses (permitted by economic regulator) distributed as dividends with shareholding	<ul style="list-style-type: none"> ✓ Creates additional incentives for effective governance and efficiencies ✓ May improve effectiveness of economic regulation ✓ Councils can reinvest dividends into other services or community needs 	<ul style="list-style-type: none"> ✗ Worsens water affordability ✗ Delays necessary investment ultimately meaning worse health, environmental or growth impacts ✗ May have tax ramifications ✗ Can lead to high debt levels 	
Dividends payable after infrastructure deficit resolved	Same as dividends payable above, however dividends are not permitted while there is an infrastructure deficit ¹	<ul style="list-style-type: none"> ✓ Creates additional incentives for effective governance and efficiencies ✓ May improve effectiveness of economic regulation ✓ Councils can reinvest dividends into other services or community needs ✓ May incentivise council's joining multi-council organisations over time 	<ul style="list-style-type: none"> ✗ Customers may be concerned about monopoly pricing gouging (despite economic regulation) ✗ Communities may be concerned that this incentivises deferring investment (even if infrastructure deficit is defined appropriately) ✗ May have tax ramifications 	

Notes: 1. Infrastructure deficit would need to be defined but could be tied to "investment sufficiency" (ie water infrastructure consistent with regulatory requirements, growth, economic regulation and expected level of service).

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E: Asset valuation

Asset values and revaluations do not impact LGFA position or credit ratings. We understand legislative prohibitions on privatisation combined with a no dividend model being pursued may mean council's equity in water organisations is equal to zero

Options	Description	Pros	Cons	NIFF
Latest annual report	Valuation from financial statements immediately preceding transfer	<ul style="list-style-type: none"> ✓ Low cost ✓ No additional work ✓ Appropriate given the lack of importance of asset valuations ✓ Can wait for economic regulation guidance regarding their required asset valuation 	<ul style="list-style-type: none"> ✗ Inconsistent starting approach until consistent valuations undertaken ✗ May be considered inappropriate if drives initial shareholdings ✗ May not reflect all assets which are transferred ✗ Revaluations may not reflect asset condition 	
Consistent revaluation	Revaluation undertaken using consistent methodology for all councils in entity	<ul style="list-style-type: none"> ✓ Consistent methodology and valuation date ✓ Ensures valuations are up to date 	<ul style="list-style-type: none"> ✗ Additional cost and work for no benefit ✗ May focus public on asset valuation which is not relevant to transfer ✗ May not reflect all assets which are transferred 	
Consistent revaluation plus investigation	Same as "consistent revaluation" however further investigations undertaken to identify any additional assets that will transfer that are not captured by valuation	<ul style="list-style-type: none"> ✓ Consistent methodology and valuation date ✓ Ensures valuations are up to date ✓ Most accurate network information ✓ May discover unknown assets / improve asset registers for transfer 	<ul style="list-style-type: none"> ✗ Significant additional cost and work ✗ Distraction to transfer ✗ May focus public on asset valuation which is not relevant to transfer ✗ Despite best efforts, there are likely to be unknown assets that need to be transferred 	
Historical Cost	Assets and liabilities are recorded at their original purchase price – and values remains unchanged regardless of subsequent market fluctuations	<ul style="list-style-type: none"> ✓ Reflects true cost of assets ✓ Removes distortions through inconsistent revaluation approaches ✓ Will reflect asset age ✓ Consistent with LGFA & credit rating agencies approaches 	<ul style="list-style-type: none"> ✗ May require further work to validate ✗ Implications for council reserves 	

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F: Opening debt methodology

Financial information limitations mean identifying opening debt requires substantiation. We consider two methods as most appropriate in different situations

Options	Description	Pros	Cons	NIFF
Activity statements	Utilise historical actual two/three water activity statements / ringfencing to determine debt outstanding	<ul style="list-style-type: none"> ✓ Appropriate where council has treated as distinct business units and there is a logical and appropriate approach to setting rates revenue by activity ✓ Council may have ring fenced information accurately recorded 	<ul style="list-style-type: none"> ✗ Activity statements have known issues ✗ For some council's revenue allocation is notional rather than scientific 	
Simple cashflow	Utilise historical whole of council debt funding approach and apply to three waters capital expenditure	<ul style="list-style-type: none"> ✓ Appropriate where council has managed its affairs at a whole of council level rather than by activity ✓ Simple calculation using whole of council audited financial statements 	<ul style="list-style-type: none"> ✗ May not correctly reflect water revenues (operating or capital) ✗ May differ to council expectations of water debt quantum 	
Detailed cashflow	Undertake the following calculation using historical actuals for waters: Capex less capital revenues less funded depreciation ¹	<ul style="list-style-type: none"> ✓ Appropriate where council has managed its affairs at a whole of council level rather than by activity ✓ More accurate if water activity capital revenues are readily identifiable 	<ul style="list-style-type: none"> ✗ May not correctly reflect operating water revenues (where they have been ringfenced historically) ✗ May differ to council expectations of water debt quantum 	
Detailed methodology	Undertake independent financial diligence with consistent methodology to identify water debt	<ul style="list-style-type: none"> ✓ Provides all council's confidence in the starting debt levels being appropriate ✓ Consistent methodology 	<ul style="list-style-type: none"> ✗ Significant cost ✗ Time and resource intensive ✗ Information limitations will mean this only improves accuracy somewhat 	

Notes: 1, Funded depreciation would be calculated by multiplying actual waters depreciation by the percentage represented by whole of council funded depreciation divided by whole of council depreciation.

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G: Source of debt capital

LGFA debt will be cost effective and should be maximised. IFF and subordinated council debt should be considered where LGFA covenants (and affordability) constrain necessary investment

Options	Description	Pros	Cons	NIFF
LGFA	Water organisations borrows from LGFA	<ul style="list-style-type: none"> ✓ Cost effective benefiting from council and Crown support and LGFA diversification ✓ Simple 	<ul style="list-style-type: none"> ✗ LGFA covenants may still constrain necessary water investment at affordable water charges 	
IFF	Water organisation utilises IFF transaction for off balance sheet debt spread over 30+ years with water levies	<ul style="list-style-type: none"> ✓ IFF enables investment to be spread over a longer time horizon than is enabled by LGFA covenants ✓ IFF could progress economically positive unfunded investment and replace uncertain DC revenue on water organisation balance sheets ✓ This should enable accelerated investment for lower water charges ✓ The cost of IFF is only slightly higher than LGFA while providing the above benefits 	<ul style="list-style-type: none"> ✗ Slightly higher cost of capital than LGFA ✗ Additional costs to implement IFF transaction ✗ Legislation change required to enable IFF to be included on water organisation invoice – but this is currently under consideration ✗ Some focus on additional interest costs rather than understanding intergenerational equity / the benefits of spreading the cost of infrastructure over its useful life (with interest being the necessary cost of doing so) 	
Subordinated council debt	Council on-lends subordinated debt to the water organisation. The debt terms would mean until repaid, debt would be included in council financial metrics but excluded from water organisation covenants	<ul style="list-style-type: none"> ✓ Where councils non-water activities have debt headroom can support additional investment for lower water charges ✓ Subordinated council debt would still be ringfenced and consistent with LWDW 	<ul style="list-style-type: none"> ✗ Reduces council debt headroom for non-water activities ✗ Complexity ✗ Some may be unfamiliar with subordinated debt ✗ Subject to LGFA agreement 	
Private capital markets (including banks)	Water organisation borrows directly from private capital markets (bank or bond)	<ul style="list-style-type: none"> ✓ Could remove the need for council support and thereby the water organisation becomes fully off balance sheet for councils 	<ul style="list-style-type: none"> ✗ Higher cost of capital (doesn't benefit from council/Crown support or LGFA diversification) ✗ Private markets are still expected to require similar covenants to LGFA 	

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H: Debt transfer

Ideally shortly following entity establishment, contemporaneously councils repay LGFA and LGFA lend to water organisations such that break costs are minimised. This is subject to LGFA agreement

Options	Description	Pros	Cons	NIFF
Novation	Novate LGFA loans from council to water organisation	✓ Simple	✗ LGFA cannot novate existing loans from a council to a water organisation	○
Quasi novation	Council repays LGFA and contemporaneously water organisation borrows from LGFA on same terms. Any council water-related hedging is not broken and water organisation pay fixed rate to council in return for floating for hedging duration	✓ Reflects actual debt position for council and water organisation ✓ Limited ongoing administration cost ✓ Water organisation pays fair share of fixed cost of debt ✓ Avoids break costs on hedge or fixed rate LGFA debt	✗ Subject to LGFA agreement	●
Debt transfer agreement	Water organisation commits to repay council debt over up to 5 year period (obligations will be met through LGFA borrowing over time). During 5 year period, LGFA and credit rating agencies 'look through' council debt that will be ultimately repaid by the water organisation. Council lending to water organisation on same effective terms	✓ Water organisation pays fair share of fixed cost of debt ✓ Avoids break costs ✓ May be a necessary work around if there are LGFA or other constraints that rule out quasi novation	✗ Complexity ✗ Doesn't reflect actual debt position for council (unless 'asset' of water organisation obligations considered at same time) ✗ Similar credit rating treatment applied in case of Auckland Council/Watercare however this could be different depending on council and water organisation specifics ✗ LGFA to confirm treatment of water debt in 5 year period	◐



I: Price Harmonisation

The benefits of scaled multi-council CCOs can be delivered irrespective of where the organisation sits on the spectrum from full cost to serve pricing to full price harmonisation. We consider commencing with local council pricing and establishing a review point is the most pragmatic starting point

Options	Description	Pros	Cons	NIFF
Ring fencing by council jurisdiction	Water organisation established with requirement for ring fencing by council jurisdiction and principles for sharing costs and balance sheet capacity	<ul style="list-style-type: none"> ✓ Avoids cross subsidisation concerns of communities and councils ✓ All customers will benefit from efficiencies and debt headroom ✓ Local decisions regarding growth funding, allocation by water activity and differentials between residential, rural and commercial can easily be accommodated ✓ Consistent with some EDB's practice 	<ul style="list-style-type: none"> ✗ More complexity / administration for the water organisation to manage ✗ Lack of flexibility for entity to evolve ✗ May lose some benefits of regional approach 	
Ring fencing with review point	Water organisation established with temporary ring fencing (as per above) but with clear 'review point' (for example [5] years post 'go live') and associated process documented	<ul style="list-style-type: none"> ✓ Benefits from above for establishment and initial operating period of Water organisation ✓ Enables entity to focus on operations and delivery of efficiencies and capex ✓ Framework for moving away from full ring fencing and local pricing is clearly agreed with decision point for councils ✓ May enable potential net benefits of harmonisation to become clear 	<ul style="list-style-type: none"> ✗ Councils, customers and communities do not have certainty on future regime ✗ Clear milestones will be needed prior to 'review point' to ensure effective decisions (including developing proposed harmonisation and transition plan) 	
Harmonisation	Water organisation established without any requirement for ring fencing or restrictions on harmonisation ¹	<ul style="list-style-type: none"> ✓ Harmonisation and transition decisions benefit from Board experience ✓ Less complexity / administration for the water organisation to manage ✓ Potentially greater regional benefits ✓ Greater flexibility for the entity to evolve 	<ul style="list-style-type: none"> ✗ Potential for significant cross subsidisation may be a deal breaker for some councils ✗ Significant work for water organisation to develop harmonisation and transition strategy alongside a seamless 'go live' ✗ More likely to incentivise regional pricing differentials not reflective of local circumstance 	

Notes: 1. The extent of harmonisation and the transition to harmonisation are Board decisions (within constraints of any shareholder statement of expectations and economic regulation).

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J: LGFA guarantee / uncalled capital

We consider that each councils share of any guarantee or uncalled capital should reflect ringfenced debt while this is tracked by council jurisdiction - level to accommodate projected debt growth. The harmonisation 'review point' would also trigger determining the most appropriate allocation basis moving forward

Options	Description	Pros	Cons	NIFF
Shareholding	Council's share of support is based on shareholding	<ul style="list-style-type: none"> ✓ Readily available ✓ Broadly consistent with private market practice 	<ul style="list-style-type: none"> ✗ Does not relate to actual debt / investment ✗ May not reflect council ability to meet potential liability 	
Ringfenced debt	Council's share of support is based on actual debt outstanding for their council jurisdiction. Requires water organisation to ringfence by council jurisdiction	<ul style="list-style-type: none"> ✓ Councils are each supporting fair share of water organisation's debt ✓ Avoids cross subsidisation concerns ✓ Encourages appropriate trade-offs between investment, debt and revenue at both water organisation and council level 	<ul style="list-style-type: none"> ✗ Complexity for water organisation to track financials by council jurisdiction ✗ May not reflect council ability to meet potential liability 	
Connections	Council's share of support is based on their relative share of connections within the entity	<ul style="list-style-type: none"> ✓ Simple measure to apply ✓ Broadly consistent with two waters business 	<ul style="list-style-type: none"> ✗ Does not relate to actual debt / investment ✗ Additional administration ✗ May not reflect council ability to meet potential liability 	
Water revenues	Council's share of support is based on their relative share of water operating revenues	<ul style="list-style-type: none"> ✓ Relatively simple (need to track revenues by council jurisdiction) ✓ Reliable information ✓ Broadly reflects debt if consistent financial strategy applied across entity 	<ul style="list-style-type: none"> ✗ Does not relate to actual debt / investment ✗ Additional administration ✗ May not reflect council ability to meet potential liability 	
Council revenues	Council's share of support is based on their relative share of council operating revenues	<ul style="list-style-type: none"> ✓ Somewhat reflects ability for council to meet potential liability ✓ Readily available information 	<ul style="list-style-type: none"> ✗ Reflects non-water council activities and therefore may be considered unfair and unreasonable 	

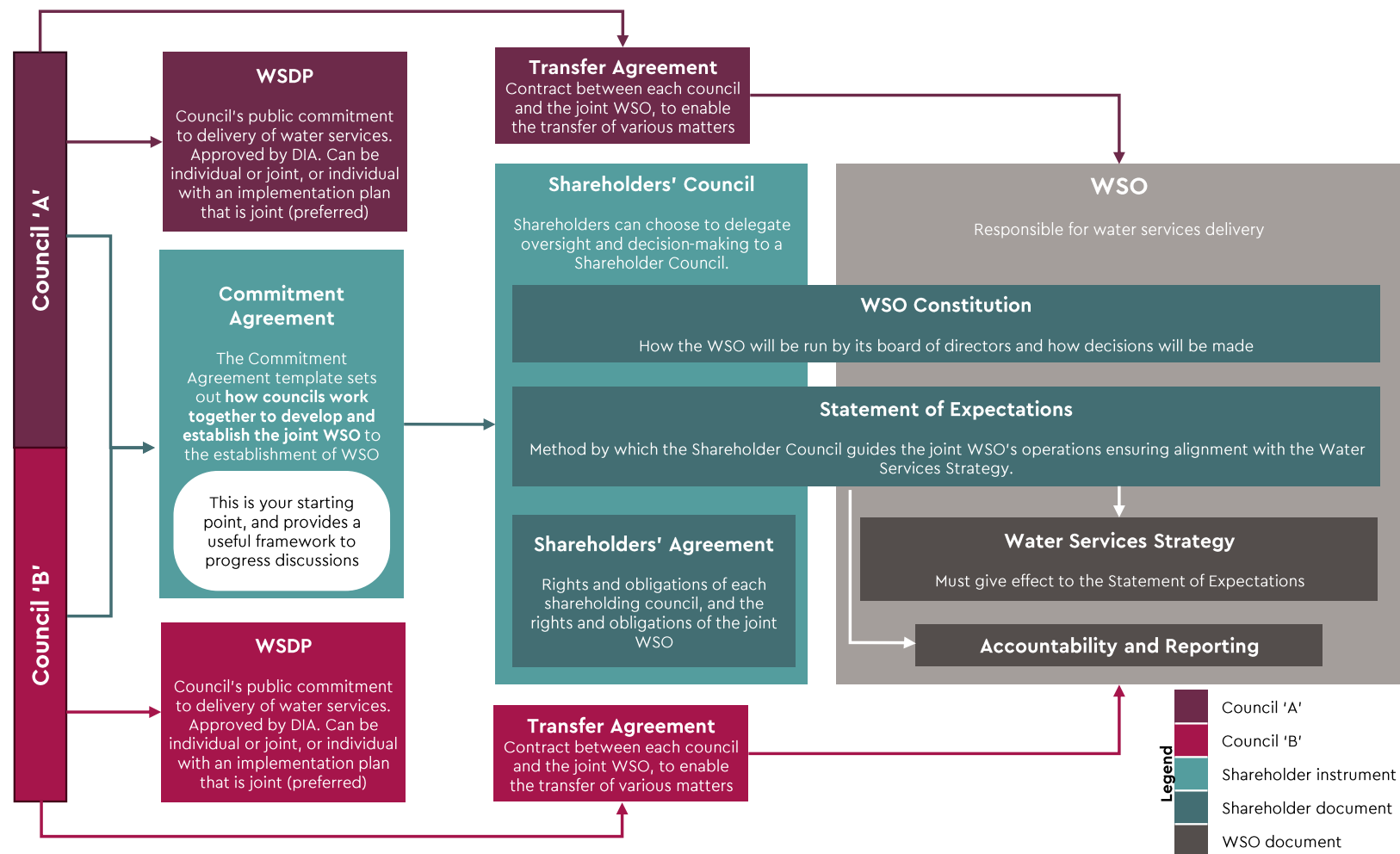
Shareholder voting options – simplified think piece

Framing:

- Assume three shareholders from day one
- Through all options considered to date, TCC has a majority of shareholding
- Agreed principle that shareholding allocation should be ‘proportional and fair’; principles are silent on shareholder voting
- Intent of all partners (at staff level) is not to create an automatic voting majority for the largest shareholder (TCC)
- Aim is to design an allocation that is future-proofed, contemplating new members (or, feasibly, members withdrawing)
- NIFFCo document (Water organisation term sheet – Generalised guidance for councils – March 2025) used as a basis and adapted
- Options explored below are representative only, they are not exhaustive
- Future-proofing options assume that same rules apply to new members (in particular that there is no ‘voting premium’ for founder members)
- Positive control means one council has the ability to make a decision regardless of the views of others
- Negative control means one council has the ability to block a decision that the others agree on

Voting option	Majority shareholder (TCC)		Minority shareholders		Future-proofing implications
	Advantages	Disadvantages	Advantages	Disadvantages	
1:1:1	<ul style="list-style-type: none"> • Simple • Promotes collective decision-making 	<ul style="list-style-type: none"> • TCC can be out-voted despite majority shareholding • May be a difficult sell politically to Tauranga community 	<ul style="list-style-type: none"> • Simple • Promotes collective decision-making • Smaller councils have greater voice • No positive or negative control by TCC 	<ul style="list-style-type: none"> • 	<ul style="list-style-type: none"> • 1:1:1:1 etc • Simple • Enduring (because of its simplicity) • Attractive to new members
2:1:1 (no ‘casting vote’ – decisions require 3 votes)	<ul style="list-style-type: none"> • Simple • Promotes collective decision-making • Reflective of shareholding percentage – easier political sell • TCC cannot be out-voted 	<ul style="list-style-type: none"> • Risk of stalled decision-making due to even number of total votes 	<ul style="list-style-type: none"> • Promotes collective decision-making • No positive control by TCC 	<ul style="list-style-type: none"> • TCC has negative control • Risk of stalled decision-making due to even number of total votes 	<ul style="list-style-type: none"> • Uncertain: future voting potentially dependent on scale of new members • Could be 2:1:1:1 etc if smaller councils join • Could be 2:1:1:2 if a bigger council joined • Likely to lead to re-negotiation
3:2:2	<ul style="list-style-type: none"> • Promotes collective decision-making • Recognises additional scale of TCC shareholding (though less proportional than 2:1:1) 	<ul style="list-style-type: none"> • Less simple • TCC can be out-voted despite majority shareholding 	<ul style="list-style-type: none"> • Promotes collective decision-making • No positive or negative control by TCC 	<ul style="list-style-type: none"> • Less simple 	<ul style="list-style-type: none"> • Uncertain (as for 2:1:1 above)

Work required post decision on a joint delivery model



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