AGENDA

Tabled Documents

Ordinary Council meeting

Monday, 24 March 2025

Date:	**Monday, 24 March 2025**
Time:	**9.30am**
Location:	**Bay of Plenty Regional Council Chambers Regional House 1 Elizabeth Street 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

11 Business 4

11.7 Council Meeting 24 March 2025 - Tabled Documents 4

11 BUSINESS

11.7 Council Meeting 24 March 2025 - Tabled Documents

ATTACHMENTS

1. **Operating Expenditure by Activity - A17764639** ⇩
2. **Annual Plan Consulting Document - A17764641** ⇩
3. **Separate Attachment to Item 11.3: Local Water Done Well - Adoption of Consultation Document and Update on Progress - Joint Water Services Organisation - A17877360** ⇩

Operating Expenditure by Activity 2026 AP ($000)

Activity	Employee Related Costs	Depreciation	Finance Costs	Other Operating Costs	Consultants	Administration Costs	Grants, Contributions and Sponsorship Expense	Other Operating Expense including recoveries	Repairs & Maintenance	Utilities & Occupancy Expenses	Allocations	Total Operating Costs	Internal Eliminations to balance to P&L
10 FINANCE	5,826	54	196	**1,218**	801	420	-	-551	546	2	-	**7,294**	
101 CORPORATE TREASURY	210	-	67,692	**1,042**	-	85	-	958	-	-	-	**68,944**	-96,432
102 HEAD OFFICE - TCC	-	-	3,480	**37**	-	-	-	-	-	37	-	**3,517**	
104 STRATEGIC PROPERTIES - TE TUMU	-	-	2,549	**121**	-	-	-	-	-	121	-	**2,670**	
11 HUMAN RESOURCES	4,705	85	22	**803**	183	69	-	550	-	-	-	**5,614**	
12 EXECUTIVE OFFICER	5,663	-	-	**-5,663**	207	114	-	-5,984	-	-	-	**0**	
13 DIGITAL SERVICES	9,499	6,380	3,657	**28,488**	10,778	13,280	-	4,288	82	61	-	**48,024**	
15 CIVIC COMPLEX	828	3,292	1,962	**7,468**	-	183	-	6,691	51	543	-	**13,549**	
16 DEMOCRACY SERVICES	2,625	11	2	**628**	128	313	40	148	-	-	-	**3,266**	
18 STRATEGY & CORPORATE PLANNING	1,957	-	0	**148**	140	119	-	-111	-	-	-	**2,105**	
19 INSURANCE	-	-	-	**712**	11	-	-	702	-	-	-	**712**	
20 COMMUNICATIONS & ENGAGEMENT	3,320	4	2	**-65**	22	80	-	-167	-	-	-	**3,261**	
21 STRATEGIC MAORI ENGAGEMENT	869	-	-	**1,117**	51	7	1,040	18	-	-	-	**1,986**	
26 STORMWATER	930	10,180	8,291	**11,160**	1,406	8	-	4,864	4,677	204	3,477	**34,037**	
27 WASTEWATER	1,689	19,958	11,038	**22,220**	3,062	76	-	10,670	3,984	4,427	8,092	**62,997**	
29 WATER SUPPLY	2,901	15,736	13,078	**20,501**	1,583	134	-	11,190	5,145	2,450	6,001	**58,217**	
30 CITY WATERS SUPPORT SERVICES	3,961	1,531	342	**3,285**	4,224	4,891	-	-5,863	26	8	-	**9,119**	
31 CITY OPERATIONS	12,800	1,299	370	**1,608**	1,403	53	-	-476	379	249	2,553	**18,630**	
32 SUSTAINABILITY & WASTE	2,179	1,434	126	**15,508**	342	260	-	13,068	105	1,733	3,848	**23,094**	
38 TRANSPORTATION	7,521	42,267	10,786	**85,045**	4,344	313	60,761	6,752	10,724	2,151	22,988	**168,607**	
40 CITY CENTRE	-	0	-	**-**	-	-	-	-	-	-	-	**0**	
43 REGULATORY SERVICES	1,365	-	-	**236**	-	12	-	224	-	-	-	**1,601**	
44 EMERGENCY MANAGEMENT & CIVIL DEFENCE	624	5	83	**534**	207	10	32	280	4	-	331	**1,576**	
46 ENVIRONMENTAL PLANNING	5,748	1	0	**1,391**	1,023	59	-	309	-	-	2,610	**9,751**	
47 PERFORMANCE MONITORING & ASSURANCE	2,235	144	39	**-1,393**	102	1,063	-	-2,563	4	-	-	**1,025**	
48 ENVIRONMENTAL HEALTH & LICENSING	1,358	-	-	**368**	97	31	-	240	1	-	760	**2,487**	
50 ANIMAL SERVICES	890	49	42	**486**	34	18	-	389	14	31	854	**2,321**	
51 CITY & INFRASTRUCTURE PLANNING	4,764	-	391	**3,784**	3,502	92	-	190	-	-	2,049	**10,989**	
52 BUILDING SERVICES	9,928	5	660	**2,448**	1,158	61	-	1,209	20	0	4,702	**17,743**	
54 CITY EVENTS	1,981	-	-23	**2,423**	270	262	-	1,891	-	-	906	**5,287**	
55 LEGAL	820	-	0	**3,044**	128	142	-	2,774	-	-	-	**3,865**	
56 COMMUNITY DEVELOPMENT	1,440	-	18	**5,200**	71	79	3,900	1,150	-	-	741	**7,400**	
57 MARINE PRECINCT	-	9	2,048	**1,498**	750	-	-	182	277	289	-98	**3,456**	
58 BAY VENUES LTD & CCO's	-	507	3,873	**16,705**	99	32	16,054	30	133	356	-	**21,085**	
59 SPACES & PLACES	4,172	11,554	11,001	**14,650**	1,183	66	3,011	3,528	5,691	1,170	7,329	**48,705**	
61 CITY CTRE DEVELOPMNT & PARTNER	1,450	10	830	**2,667**	756	296	-	1,616	-10	8	2,132	**7,088**	
64 BAYCOURT COMMUNITY & ARTS CENTRE	1,435	679	105	**1,383**	282	193	-	621	88	197	680	**4,283**	
65 ARTS & CULTURE	1,391	421	806	**2,528**	98	122	1,528	659	42	78	862	**6,009**	
67 MARINE FACILITIES	193	1,946	1,085	**1,282**	108	1	-	565	488	121	654	**5,160**	
68 BEACHSIDE	471	356	250	**1,305**	-	25	-	250	154	876	368	**2,749**	
69 ASSET SERVICES	3,139	32	9	**-2,041**	481	1	-	-2,549	25	-	-	**1,139**	
72 SMARTGROWTH IMPLEMENTATION	160	-	-	**943**	829	99	-	15	-	-	-	**1,103**	
74 REGULATION MONITORING	1,741	-	1	**-1,707**	10	97	-	-1,813	-	-	896	**931**	
75 CUSTOMER SERVICES	-	63	124	**2,692**	-	-	-	2,692	-	-	-	**2,879**	
76 ECONOMIC DEVELOPMENT	-	-	4	**5,131**	-	-	4,779	352	-	-	-	**5,136**	
77 LIBRARIES & COMMUNITY HUBS	9,497	1,719	3,019	**711**	52	600	-	-644	78	625	4,156	**19,101**	
81 AIRPORT	322	4,082	1,055	**4,908**	67	30	-	2,432	1,107	1,272	672	**11,039**	
83 FLEET MANAGEMENT	6	-	-	**-6**	-	-	-	-9	3	-	-	**-0**	
84 CEMETERIES	532	328	412	**537**	-	0	-	215	167	155	298	**2,107**	
85 PARKING MANAGEMENT	124	1,304	2,523	**5,378**	256	-	-	3,583	705	835	701	**10,031**	
90 PROPERTY MANAGEMENT	1,417	228	433	**3,998**	129	66	-	1,564	1,316	923	-	**6,076**	
92 HISTORIC VILLAGE	432	914	906	**1,845**	65	208	-	482	715	376	426	**4,524**	
94 ELDER HOUSING	-	-	-575	**28**	-	-	-	-	-	28	-	**-548**	
95 COMMERCIAL ADVISORY GROUP	2,450	-	667	**-1,436**	227	55	-	-1,719	-	1	872	**2,553**	
Total TCC	**127,568**	**126,588**	**153,380**	**276,902**	**40,669**	**24,126**	**91,148**	**64,891**	**36,742**	**19,326**	**79,859**	**764,297**	**598,920**

Operating Revenue by Activity ($000)

Activity	Rates Funding	User Fees	Grants & Subsidies	Finance Revenue	Overheads (Allocations Recovery)	Total Operating Revenue	Internal Eliminations to balance to P&L
10 FINANCE	10	140	-	-38	7,145	7,256	
101 CORPORATE TREASURY	-15,557	53	-	84,448	-	68,944	-96,432
102 HEAD OFFICE - TCC	3,000	-	-	-	-	3,000	
104 STRATEGIC PROPERTIES - TE TUMU	-	-	-	-	-	-	
11 HUMAN RESOURCES	-	-	80	-26	5,534	5,588	
12 EXECUTIVE OFFICER	0	-	-	2	-	2	
13 DIGITAL SERVICES	-	174	-	-214	37,443	37,404	
15 CIVIC COMPLEX	-	135	-	60	13,414	13,609	
16 DEMOCRACY SERVICES	-	36	-	-0	3,230	3,266	
18 STRATEGY & CORPORATE PLANNING	-	-	-	4	2,105	2,109	
19 INSURANCE	-	712	-	-	-	712	
20 COMMUNICATIONS & ENGAGEMENT	-	-	-	2	3,261	3,263	
21 STRATEGIC MAORI ENGAGEMENT	-	-	3	-	983	986	
26 STORMWATER	33,664	4	-	1,393	-	35,061	
27 WASTEWATER	53,258	3,215	-	1,361	-	57,834	
29 WATER SUPPLY	46,359	1,346	-	1,622	-	49,328	
30 CITY WATERS SUPPORT SERVICES	-	1,354	-	87	-	1,441	
31 CITY OPERATIONS	18,630	-	-	63	-	18,693	
32 SUSTAINABILITY & WASTE	23,734	434	1,380	118	-	25,666	
38 TRANSPORTATION	73,820	566	73,429	-68	-	147,747	
40 CITY CENTRE	-	-	-	-	-	-	
43 REGULATORY SERVICES	-185	1,786	-	0	-	1,601	
44 EMERGENCY MANAGEMENT & CIVIL DEFENCE	1,576	-	-	-47	-	1,529	
46 ENVIRONMENTAL PLANNING	3,678	6,073	-	-0	-	9,751	
47 PERFORMANCE MONITORING & ASSURANCE	-	-	-	4	-	4	
48 ENVIRONMENTAL HEALTH & LICENSING	1,627	859	-	-1	-	2,486	
50 ANIMAL SERVICES	394	1,809	-	47	-	2,250	
51 CITY & INFRASTRUCTURE PLANNING	10,668	-	-	6	-	10,674	
52 BUILDING SERVICES	1,318	15,415	-	30	-	16,763	
54 CITY EVENTS	5,288	23	-	0	-	5,311	
55 LEGAL	-	-	-	0	3,865	3,865	
56 COMMUNITY DEVELOPMENT	6,564	-	72	-2	-	6,634	
57 MARINE PRECINCT	-	1,234	-	12	-	1,246	
58 BAY VENUES LTD & CCO's	16,886	382	-	1,205	-	18,473	
59 SPACES & PLACES	48,704	568	3	-160	-	49,115	
61 CITY CTRE DEVELOPMNT & PARTNER	1,588	-	-	1	-	1,589	
64 BAYCOURT COMMUNITY & ARTS CENTRE	3,353	930	-	114	-	4,397	
65 ARTS & CULTURE	5,907	-	102	10	-	6,019	
67 MARINE FACILITIES	2,300	572	-	42	-	2,915	
68 BEACHSIDE	-	3,330	-	-9	-	3,321	
69 ASSET SERVICES	205	934	-	5	-	1,144	
72 SMARTGROWTH IMPLEMENTATION	-	1,043	60	0	-	1,104	
74 REGULATION MONITORING	779	152	-	5	-	936	
75 CUSTOMER SERVICES	-	-	-	-6	2,879	2,872	
76 ECONOMIC DEVELOPMENT	5,138	-	-	0	-	5,138	
77 LIBRARIES & COMMUNITY HUBS	14,634	225	-	-37	-	14,822	
81 AIRPORT	-	19,216	-	759	-	19,975	
83 FLEET MANAGEMENT	-	-	-	134	-	134	
84 CEMETERIES	-	2,183	-	11	-	2,194	
85 PARKING MANAGEMENT	-	11,391	-	94	-	11,485	
90 PROPERTY MANAGEMENT	1,250	4,381	-	284	-	5,915	
92 HISTORIC VILLAGE	3,696	828	-	-90	-	4,434	
94 ELDER HOUSING	-	-	-	523	-	523	
95 COMMERCIAL ADVISORY GROUP	2,553	-	-	-23	-	2,530	
Total TCC	**374,840**	**81,505**	**75,129**	**91,724**	**79,859**	**703,057**	**537,680**

Finding the right *balance*

Draft Annual Plan 2025/26

Consultation Document

Tauranga City

Kōrero mai

Let's talk Tauranga

About this document

The economic outlook for the coming financial year (1 July 2025 – 30 June 2026) remains challenging, and the city faces some important decisions on where to prioritise investment and spending.

At the same time, as the city's recently elected Council, fresh directives have been set to ensure every dollar spent delivers value – aiming to find the most efficient ways to deliver the best outcomes for the community.

Investment direction for Tauranga is currently guided by the 2024-34 Long-term Plan – the 10-year budget – adopted prior to the current Council taking office. The Long-term Plan (LTP) sets out the expected income and expenditure every year for the next decade.

Councils must formally consult with their communities every three years to develop a new LTP. In the years in between, councils develop annual plans and can decide whether to consult with their communities or not.

Due to the proposed budget changes, and to take the opportunity to speak directly with the community to understand what's most important for Tauranga, the Council has decided to publicly consult on the Annual Plan 2025/26.

Events schedule

Tuesday 1 April

7pm-8:30pm
- Matua Bowls Club
- Cr Glen Crowther and Mayor Mahé Drysdale
- Presentation

Wednesday 2 April

5pm-7pm
- Mount Surf Club
- Deputy Mayor Jen Scoular and Mayor Mahé Drysdale
- Presentation

Thursday 3 April

7:30am-9am
- Bosco at The Lakes
- Cr Marten Rozeboom
- Drop-in session

4:30pm-6:30pm
- Welcome Bay Baptist Church Hall
- Cr Hautapu Baker
- Drop-in session

5pm-8:30pm
- Pāpāmoa Pony Club
- Cr Steve Morris
- Drop-in session

Friday 4 April

9am-10am
- Bethlehem Hall
- Cr Kevin Schuler
- Drop-in session

Saturday 5 April

10:30am-12:30pm
- Customer Service Centre - He Puna Manawa, 21 Devonport Road
- Cr Rod Taylor
- Drop-in session

10:30am-12:30pm
- Baywave
- Cr Rick Curach
- Drop-in session

Tuesday 8 April

5pm-7pm
- Mount Golf Club
- Deputy Mayor Jen Scoular
- Presentation

4:30pm-6:30pm
- The Atrium Conference Centre
- Cr Glen Crowther
- Drop-in session

Wednesday 9 April

4:30pm-6:30pm
- Pāpāmoa Surf Club
- Cr Steve Morris and Mayor Mahé Drysdale
- Presentation

4:30pm-6:30pm
- Bethlehem Town Centre, outside Woolworths
- Cr Kevin Schuler
- Drop-in session

Thursday 10 April

4:30pm-6:30pm
- Arataki Community Centre
- Cr Rick Curach
- Presentation

5:30pm-7pm
- Waikato University, L2 Lecture Hall, 101 Durham Street
- Mayor Mahé Drysdale
- Public meeting

Saturday 12 April

10am-2pm
- The Crossing, outside 2 Degrees
- Cr Marten Rozeboom
- Drop-in session

10am-12:30pm
- Queen Elizabeth Youth Centre
- Cr Rod Taylor
- Drop-in session

Wednesday 16 April

11am-2pm
- Pippy's Pantry, Waipuna Park
- Cr Hautapu Baker
- Drop-in session

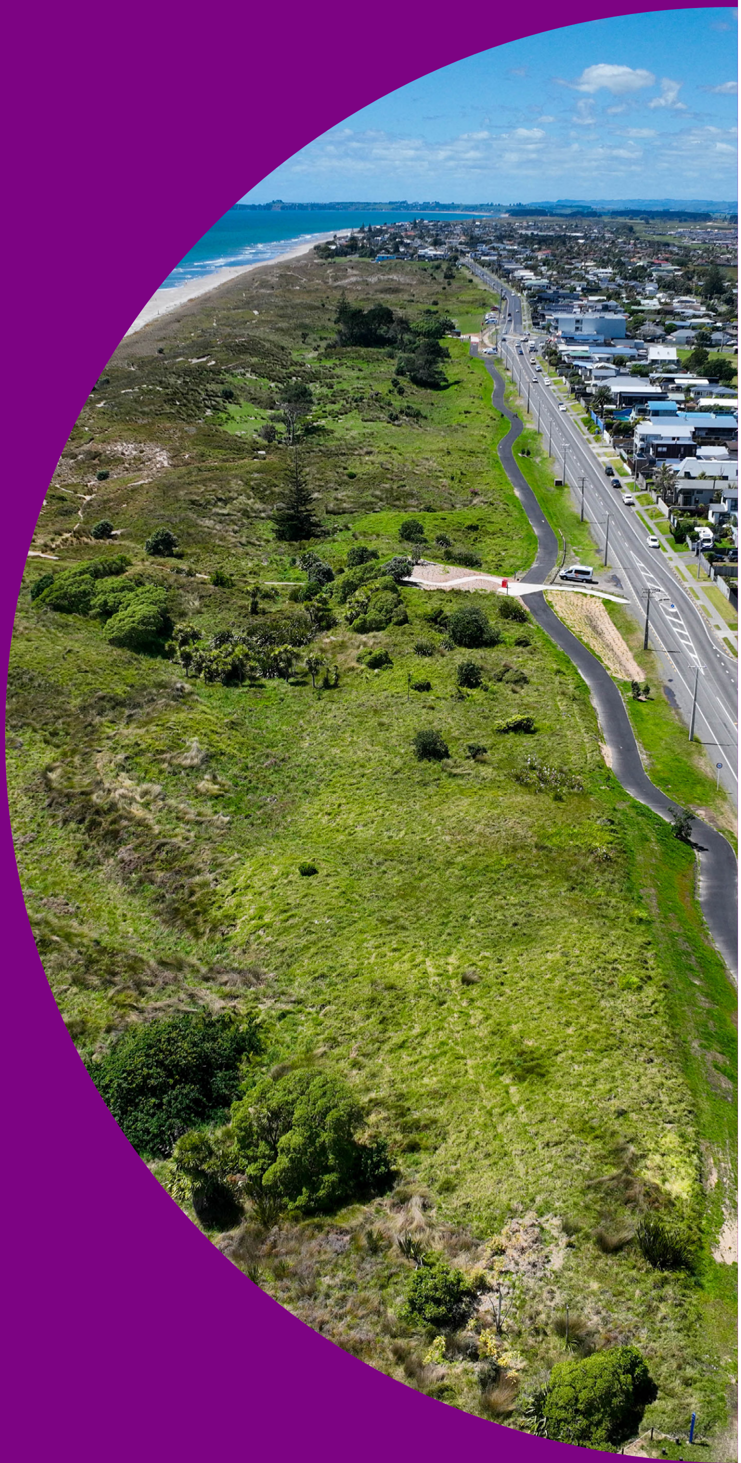
Saturday 26 April

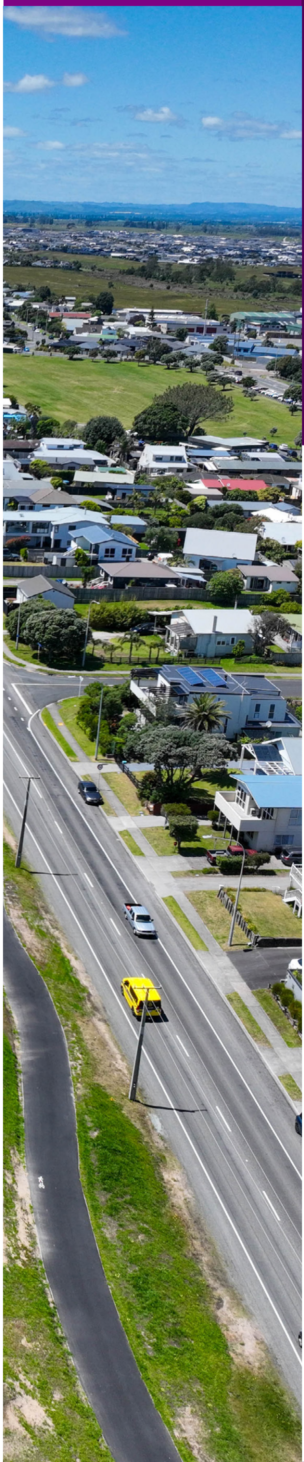
9am-2pm
- Pāpāmoa Pony Club
- Cr Steve Morris
- Drop-in session

3

Key dates

- **Draft Annual Plan adopted**
  11 March
- **Consultation document adopted**
  24 March
- **Feedback opens**
  28 March
- **Community engagement events**
  1 April - 26 April
- **Feedback closes**
  28 April
- **Hearings: This is your chance to talk about your submission**
  13-15 May
- **Deliberations: Council considers all feedback and makes decisions**
  26-29 May and 5 June
- **Adoption of Annual Plan 2025/26**
  26 June





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Part one:

A message from the Mayor

Tēnā koutou katoa.

Welcome to Tauranga City Council's Draft Annual Plan 2025/26 Consultation Document. This is your Council's first opportunity since last year's election to talk to the whole community and gain your feedback on the city's priorities, as well as the draft budget and programme of activities detailed in this document.

In that regard, it's important to note that this is just a draft – community feedback will play an important role in determining what the final plan and budget for 2025/26 looks like, so please make a submission setting out your or your organisation's views.

To help with that process, it may be helpful to talk about the context behind the draft plan. First-up, we do need to acknowledge that these are tough financial times, for Council and for many ratepayers.
Our city has many pressing needs and we are playing catch-up. It's important to continue our infrastructure investment to adequately address Tauranga's housing shortage, allow people to get where they need to go in a timely fashion, and deliver community and sports facilities that are desperately needed.

We recognise that the investments required to deal with these issues can't all happen at once, because that would be unaffordable. We have already signalled that some projects will have to wait, because we need to have a balanced budget where our operational revenue covers our operating expenditure and keep rates and Council debt at prudent levels.

Anything we do invest in needs to provide real value for money, and provide clear economic, social and cultural benefits for our city.

We're also working with staff to get Council operating costs down and a number of options for cost reductions are set-out in the draft annual plan. Further cost reductions will continue as we look to do more for less, while not adversely affecting the quality of the services the Council delivers. In part, that will be achieved by ensuring that 'growth pays for growth' to the greatest possible extent, but we will also be looking closely at industry standards for capital projects and benchmarking our service costs against those of comparable councils and private enterprise, to ensure that we are delivering good value.

Council is moving towards a balanced budget, and is now fully funding depreciation on its assets, except in limited cases[1]. It's important Council funds depreciation to avoid higher debt, higher interest charges and higher rates in the future. But higher costs resulting from increasing asset depreciation charges have made this difficult. This has meant Council faces an additional expense this year of $25 million which, if not offset by savings, would have resulted in a rates increase of over 20%.

As a result of our focus on being more efficient and saving costs, we've managed to get Tauranga's potential average rates increase down to 12%, bearing in mind that the actual cost for residential ratepayers will usually be lower than the average, because our rates differentials mean commercial and industrial ratepayers pay a greater proportion of the total cost.

[1] In limited cases, depreciation funding for replacing assets can come from other sources, such as the New Zealand Transport Agency – Waka Kotahi (NZTA).

Our decision to change how we finance the ratepayer funded portion of Te Manawataki o Te Papa – our new museum, community hub and library – is saving ratepayers $1 - $1.5 million per annum (depending on interest rate locked in at the time). **See page 24 for more.**

We know the proposed rates increase is still higher than ratepayers would like, but to continue much-needed investment in our city, with more than $500 million of capital expenditure planned in 2025/26, this level of increase is needed.

Many submitters will probably want to see that the proposed rates increase is trimmed further and while that will be tough this year, as most projects are inherited and in progress, we would like to hear suggestions for immediate and future opportunities for savings in your feedback. We will have much more influence and an ability to make change in future years.

It's fair to say that there are no simple answers to the problems Tauranga and other growing cities face in Aotearoa New Zealand. We need to find a balanced way forward which applies workable and affordable solutions to those problems, and this is your opportunity to contribute to that process.

We look forward to considering your submissions, and to talking to as many people as possible during our draft annual plan consultation process.

Ngā mihi nui

Mahé Drysdale
Mayor of Tauranga

Part two: Overview

The Annual Plan 2025/26 is about finding the right balance – continuing to move our city forward for future generations, while keeping it fair and as affordable as possible today.

Tauranga is a growing city. We need to commit to a certain level of investment to maintain what we have now and to provide for our future growth. But like all councils in Aotearoa New Zealand, particularly in growth centres like ours, the Council is working under significant funding pressure.

The challenging economic outlook affects all our ratepayers, and we are conscious of the trade-off between investing in our city and what our ratepayers consider an affordable amount of rates to pay.

Since the city's Long-term Plan 2024-34 (LTP) – our 10-year budget – was consulted on and signed off with the community in April last year, there have been significant changes to Council finances that now mean we have to adjust the budget this year and beyond. These include:

- Significant drop in central government funding for roading projects.
- Increase in our rates-funded depreciation costs, driven by the increasing value of our new and existing assets.
- Decision to use Local Government Funding Agency (LGFA) borrowing to finance the ratepayer debt portion of Te Manawataki o Te Papa, our new civic precinct, including library, community centre, and museum, rather than using the Infrastructure Funding and Financing Levy (IFF).
- Changes to the levels of salary savings targets to be incorporated into 2025/26 budgets to reflect updated estimates.[2]
- Tauranga's projected property growth rate for 2025/26 has slowed from 1.5% to 0.5%, meaning the rates funding required to run the city is now spread across fewer ratepayers.

The Council has decided to take a financially prudent approach to the annual plan and balance the budget. This has meant fully funding depreciation, for example, so that we look after what we have. To do this we can either increase rates or spend less on other areas of our operations. Our approach in this annual budget has been to find savings through more efficient council operations to keep rates lower and to prioritise our capital spend to what is most important for the city.

Despite needing to tightly control our spending, we remain committed to moving our city forward by investing in the infrastructure our city needs. We have made the decision to continue with most projects in progress where it delivers better value for money, rather than stopping and starting.

[2] We budget for savings that we might not be able to apportion in detail at the time of setting the LTP. The annual plan finds places to assign those expected savings.

In terms of our spending on the day-to-day running of council operations, we are committed to achieving value for money for every dollar we spend. The organisation has gone through its budgets and delivered significant savings, but we want to continue this. Councillors have resolved to establish a working group to continue to drive savings into this and future years budgets.

Together, we have some important decisions to make around both our capital programme, which influences how much we borrow, and the services we provide, which directly influences our rates. We want to listen to what the community has to say to help us decide what's important to invest in future years.

Guiding principles

We have identified key guiding principles for the development of the Annual Plan 2025/26 and our future direction:

→ **Looking after what we've got**
Maintaining and improving the city's existing assets is often more cost-effective than building new assets and ensures they continue to serve the community effectively.

→ **Everyone pays a fair share**
Ensuring that the costs of services and infrastructure are distributed equitably among all beneficiaries to prevent any single group from bearing an undue financial burden.

→ **Ongoing financial, economic, social, cultural, and environmental sustainability**
Working towards a balanced budget to support the long-term financial sustainability of Council so it can continue to provide essential services without compromising future financial health.

→ **Affordability**
Keeping rates and charges manageable for residents and businesses, ensuring access to essential services without undue financial pressure.

→ **Robust and transparent financial analysis**
Ensuring all of our budget decisions are based on thorough financial analysis to make sure the best outcomes for the community are achieved.

→ **Growth pays for growth**
Promoting sustainable urban development by ensuring that growth-related infrastructure costs are borne by developers and new residents who benefit, minimising the financial impact on current ratepayers.

→ **Value for money**
Deliver the best possible outcomes for the community through efficient, effective, and economical resource use to maximise benefits for the community.

The top priority for this annual budget will be to ensure we deliver a budget that adheres to these principles, while still aiming to deliver the best possible outcomes for our city.

Our budget in brief

Changes to Council's finances in the past few months means we are facing an additional $25 million of costs and a reduction in revenue of $4 million this coming financial year which, if not offset by savings, would result in a rates increase of over 20%.

Through prudent financial management and making sure we get value for money in every dollar of ratepayers' money we spend, we have drafted a budget that limits average rates rises to 12%. We have achieved this by reducing our capital investment to what's needed most and we have worked hard to find greater efficiencies across Council's day-to-day operations to deliver more for less without compromising our delivery of service.

The job doesn't finish there though. Between now and when our annual plan is adopted in June, we have agreed to look for a further $6.7 million in rates savings. We are committed to making Council as efficient and lean as possible, but this will take time.

While we don't have much room to move for this annual plan, we do want to hear from the community to understand what's most important for Tauranga to inform our decision-making throughout the remainder of our term.

Annual Plan 2025/26:

→ **Proposing an overall rates rise of 12% – slightly below what was forecast in the 2024-34 Long-term Plan[3]**

→ **$29 million in rates-funded savings across Council's day-to-day operational spending**

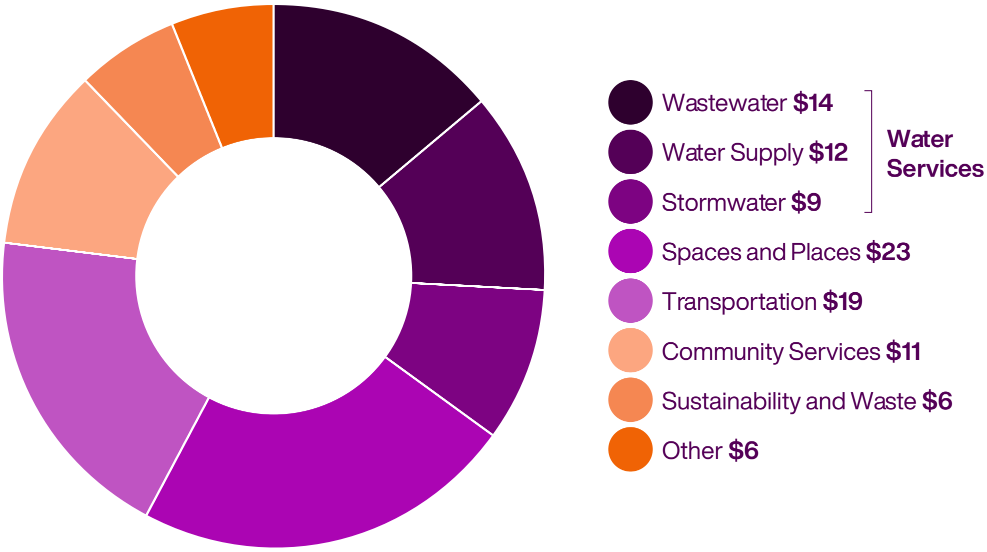
→ **Reducing our capital spend from $544[4] million to $505[5] million**

→ **Seeking community feedback on:**

- Tauranga's investment priorities going forward
- Rates versus user fees – how should we fund council services in the future
- Our budget and the savings we have made for next year
- Options for further savings

[3] In the Long-term Plan it was 10.3% rates plus IFF levy equating to 2.2%.
[4] $544m capital expenditure is made up of $457m capital expenditure and $87m of operational expenditure of a capital nature.
[5] $505m capital expenditure is made up of $430m capital expenditure and $75m of operational expenditure of a capital nature.

What do your rates pay for? (every $100 of rates)



Activity breakdown

→ **Water supply**
Includes water by meter charges, collected as a targeted rate and covers the cost of water treatment and our supply network.

→ **Wastewater**
Includes the reticulation, treatment and disposal of liquid waste from households and businesses.

→ **Stormwater**
Covers rainwater collection, treatment and disposal facilities.

→ **Spaces and Places**
Activities include maintaining our parks, reserves, walkways and community facilities.

→ **Transportation**
Activities include the cost of maintaining and improving our roads and footpaths/cycleways, plus safety initiatives.

→ **Community Services**
Include our libraries and community centres, arts & cultural activities, event facilitation and community development activities.

→ **Sustainability and Waste**
Includes kerbside collections and recycling/transfer station activities, plus climate change planning.

→ **Other**
Activities include **City & Infrastructure Planning** ($2); **Regulatory** (resource and building consents & environmental planning) **and Compliance** (parking, noise control, etc.) activities ($2); **Economic Development** activities ($1); and **Emergency Management** activities (<$1).

Proposed Annual Plan 2025/26 at a glance

Highlighted below are some of the many exciting projects and activities we'll be working on throughout the next financial year, alongside the priorities identified in the Long-term Plan:

Priority	What we are working on in 2025/26:
Community spaces and facilities	→ Enhancing our green spaces and walkways. → Delivering new community centres, providing homes for social services and places for connection at Merivale and Gate Pā. → Rebuilding Oropi Mountain Bike track after harvesting surrounding trees, facilitating sport and recreation. → Increasing sports field capacity, supporting community sport and wellbeing. → Collaboratively designing and delivering upgraded and new playgrounds. → Improving accessibility to our spaces and places, to enable everyone to experience Tauranga Moana. → Proposed Memorial Park Aquatic Centre will be further considered before committing funding to its development in later years.
Growth in existing urban areas	→ Connecting Pāpāmoa East and the new Wairakei Urban Growth Areas to the Tauranga Eastern Link, while also supporting future development through the major Pāpāmoa East Interchange. → Preparing for future population growth by expanding capacity of services and infrastructure, including improvements to the transport network and bus infrastructure, public spaces, safety, and civic amenities.
Revitalising the city centre	→ Continuing construction on the museum and library/community hub, key components of Te Manawataki o Te Papa - the transformative civic precinct in the heart of Tauranga. → Completing the upgrade of the waterfront and celebrating our special connection to Te Awanui Tauranga Harbour. → Continuing to bring people together, and create energy and excitement in the city centre through a wide variety of community events and activations. → Improving access to the city centre with safer and easier connections and encouraging active travel and public transport. → Reopening the upgraded Tauranga Art Gallery to the community.

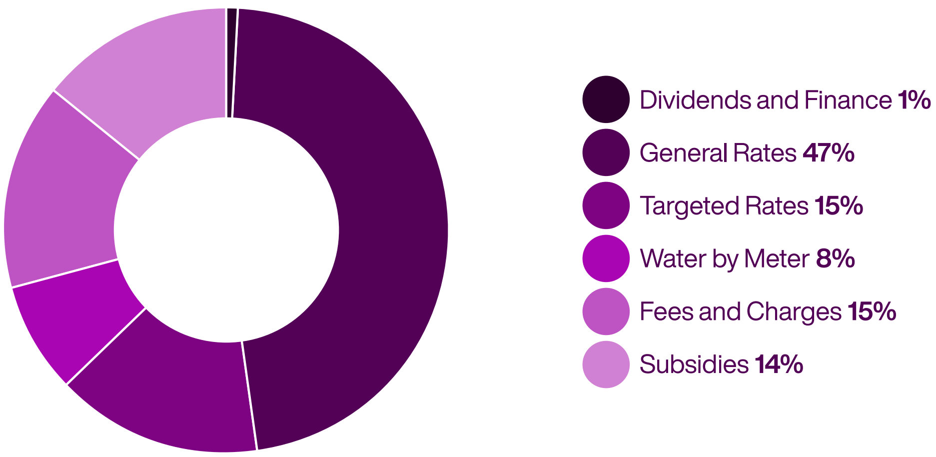
Priority	What we are working on in 2025/26:
Transport network upgrades	→ Planning improvements to reduce congestion for the 25,000+ commuter vehicles using the Fifteenth Avenue to Welcome Bay corridor each day. → Upgrading Taurikura Drive between SH36 and Whiore Avenue to support the growth of the Tauriko area. → Enhancing safety on our roads. → Upgrading and maintaining our shared pathways across the city. → Funding Travel Safe, teaching our children road safety skills. → Resurfacing and chip sealing 28km of roads across 109 locations around the city.
Growth in the West (Tauriko)	→ Supporting regional growth and enabling a new community with up to 4,000 new homes at Tauriko West (with delivery of infrastructure through the on-going Tauriko Enabling Works).
Sustainability and resilience	→ Supporting our city to send less to landfill by providing waste services and facilities, funding waste reduction initiatives, and providing community waste education and programmes. → Doing our part to help reduce our city's emissions in line with national net-zero commitments. → Working to understand our city's unique risks and helping our city prepare for a changing climate. → Increasing biodiversity by planting trees to increase canopy cover. → Increasing resilience of new and existing infrastructure, including Turret Road bridge.
Water Services projects	→ Ensuring water infrastructure meets service demands of current and future generations. → Improving pipe network and treatment plant connectedness for optimal service delivery. → Upgrading wastewater systems and building new pipelines and pump stations for future growth.

Our budget challenge

Investment direction for Tauranga is currently guided by the 2024-34 Long-term Plan (LTP) - our 10-year budget. The LTP sets out our expected income and expenditure every year for the next decade.

Revenue that funds operating expenditure

Operating Revenue $538m 2025/26 Annual Plan



There have been a number of significant changes to Council finances since the LTP's adoption in April 2024

Key changes to our finances:

1. Reduced funding

NZTA grant funding that was expected across the ten years of the LTP has reduced by a potential $230 million. To respond to this, we have prioritised investment in roading projects we still receive funding for (e.g. Turret Road 15th Avenue, continuing with the Pāpāmoa East Interchange) and deferred a number of others. However, we have reduced our overall capital programme for the annual plan from $544[6] LTP to $505[7] million.

2. Upward pressure on expenditure, particularly depreciation

Our large investment in recent years into our roading network and upgrades, including Cameron Road, Maunganui Road, and some cycleways, and higher costs of delivering new assets has meant our depreciation costs, funded each year by rates, have increased significantly. Following the revaluation of our asset base, depreciation costs are higher[8] than in the 2024/25 budget.

3. Debt changes

Last August, Council decided to change the funding mechanism for Te Manawataki o Te Papa – our civic precinct – saving ratepayers $1–1.5 million a year in interest (depending on interest rate locked in at the time). The change means that $151.5 million of required funding will now go onto Council's balance sheet as ratepayer-funded borrowing.

4. Balanced budget requirement

Council is ensuring its ongoing financial sustainability by requiring a balanced budget. This simply means Council will require that revenue covers operating costs. The first change is that the costs to cover depreciation of our assets will be fully covered through rates.[9] In the longer term, achieving a balanced budget lowers our debt levels, helping us to remain financially sustainable.

To ensure we retain debt headroom in the case of unforeseen events and to give Council the ability to consider options for delivering capital investment in the future, we have extended our borrowing covenant with the Local Government Funding Agency. Their support of a higher level of borrowing comes with a requirement that we retain a balanced budget each year and limit our new roading investment to areas supported by NZTA subsidy.

5. Slower growth

Tauranga's rate of overall property growth projected for 2025/26 in the LTP has reduced from 1.5% to 0.5%. In response, we have reconsidered our growth programme and aligned it to updated growth assumptions. This means that the cost of running the city has to be funded by fewer ratepayers, increasing average rates by 1%.

[6] $544 m capital expenditure is made up of $457m capital expenditure and $87m of operational expenditure of a capital nature
[7] $505 capital expenditure is made up of $430m capital expenditure and $75m of operational expenditure of a capital nature
[8] $22m is the year-on-year increase (2025/26 annual plan compared to year one of the LTP 2024/25).
[9] This adds $15.6 million (4-5%) to council's required rates revenue.

Our proposed solution

Together, we need to find the right balance between what's needed to deliver important projects and core services for the city, and what we can afford.

We're very mindful many in our community are struggling and we know it's hard to talk about the investment the city needs when the cost of living is front of everyone's mind.

As a council, we are committed to prudent financial management. This draft budget sets out how we propose to manage our finances to meet our city's needs, while keeping life as fair and as affordable as possible for Tauranga residents. Our approach in this budget has been to find savings across all areas of Council operations for more efficient delivery of council services and we're prioritising our capital spend to what is most important for the city.

→ **These key financial changes meant that a 20% increase in rates would be needed to cover the costs of delivering what was planned in 2025/26. We have found savings in our draft annual plan budget that limits the average rates rise to 12%, slightly below the forecast in the Long-term Plan budget for 2025/26.[10]**

While we have worked hard to bring the rates rise down from 20% to 12%, we know this number is still high, so between now and when this draft budget is adopted in June, we will continue to look for further opportunities to relieve the rating pressures on our residents, and have agreed to look for at least a further $6.7 million in rates -funded savings.

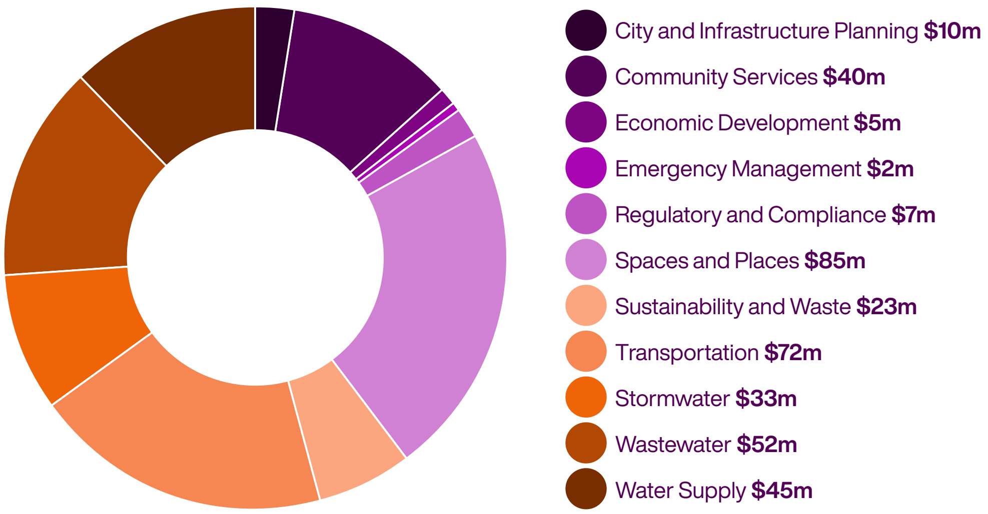
Operating savings:
Delivering council services more efficiently

As part of this annual budget process, all areas of the council organisation were asked to identify opportunities for savings.

First, we are resetting the organisation to be the right size and focus for the future. Some of the resetting and efficiency improvements will take longer than just one year, so we are putting in place a multi-year programme to do things differently to bring costs down where we can.

As a result of a combination of reduced consultancy budgets, deferral of some work, careful consideration of projects, and staffing reductions, we have achieved $29 million of rates-funded savings in our operating budget for the coming financial year.

Rates revenue $375m funding operational expenditure



[10] In the Long-term Plan it was 10.3% rates plus IFF levy equating to 2.2%.

Reduced capital spend: Prioritising our city's investment needs

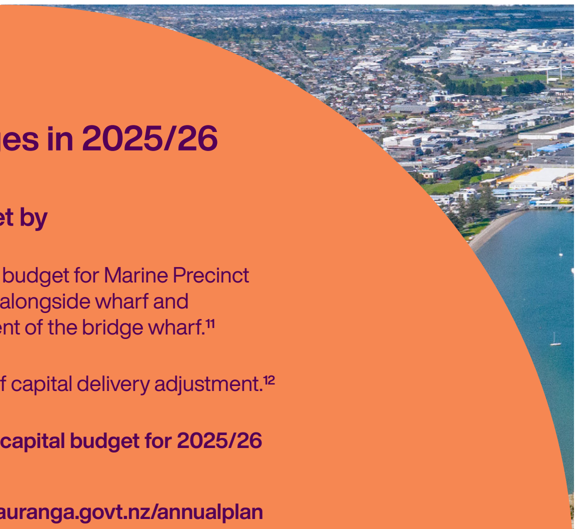
As a growing city, Tauranga requires significant infrastructure investment over the next five to 10 years to complete water supply, stormwater, wastewater and roading projects, and to open up new growth areas for new houses and businesses. For growth projects, we typically use debt to finance growth infrastructure, then we repay that debt mainly through development contributions.

Other capital investment is to improve the facilities we already have, for example, improving our stormwater network to prevent flooding, and upgrading our recreational and community facilities. Most of the borrowing for these projects is paid for through rates and user charges over many years.

→ **As we review the capital programme and associated debt in the 2025/26 annual plan, we also need to take future investment requirements and their effects on rates into consideration.**

As we invest in new capital, the cost of our operations increases to service debt, fund depreciation of the assets involved, and cover operational costs such as maintenance. Over time, our rates and user fee revenue must increase to cover these costs. The expenditure on rates flowing from capital depends on the capital involved, for example, pipes in the ground require a small amount of ongoing rates, mainly to pay interest on borrowing and depreciation or wearing out of the asset, which will eventually need to be renewed. At the other extreme, a community facility like a swimming pool or indoor sports facility will have ongoing operating costs to enable the public to use it. The additional capital expenditure per year adds between 6-10% to our operational costs. Some of the additional cost will be covered by additional ratepayers over time.

The capital programme has been prioritised for 2025/26 from $544 million in the Long-term Plan to $505 million in the draft annual plan, in light of revised borrowing capacity, decisions by NZTA, and decisions by Council. This follows on from the reforecast reduced budget for 2024/25.



Significant capital investment changes in 2025/26

→ Deferral of Cameron Road Stage 2 project due to NZTA funding not being included in the 2024-2027 National Land Transport Programme. The detailed business case is currently being reworked to better align with the Government Policy Statement 2024.

→ Delay of Welcome Bay, Turret Road and 15th Ave Corridor project due to delays in NZTA business case review and approval of funding.

→ Deferral of Memorial Park Aquatic Centre while options are revisited.

Partly offset by

→ Additional budget for Marine Precinct to fund an alongside wharf and replacement of the bridge wharf.[11]

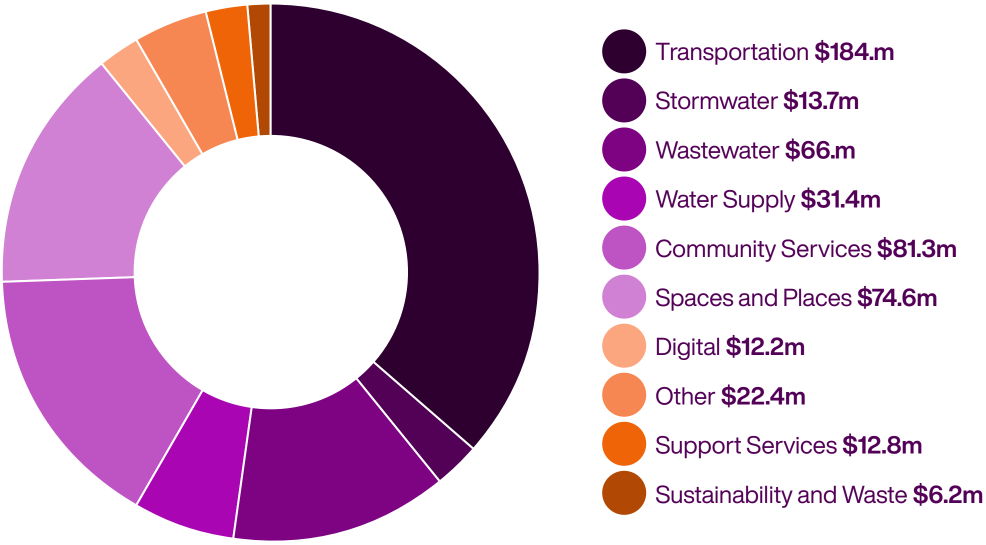
→ Removal of capital delivery adjustment.[12]

The full draft capital budget for 2025/26 is set out at:

letstalk.tauranga.govt.nz/annualplan

[11] Pending outcome of High Court injunction proceedings.
[12] A capital adjustment helps to reflect the reality that some planned expenditures might be delayed or not fully realized as expected. This gives you a more realistic budget that reflects the expected spending within the financial year.

Draft Annual Plan 2025/26 Capital Expenditure $505 million*



*Includes operational projects of a capital nature, excludes vested assets, asset sales and Bay Venues new capital offset

Part three:
Finding the right balance

Section one:
Understanding your priorities

With our city's recent return to a democratically elected council, this annual plan process presents an opportunity for Tauranga's new Mayor and councillors to listen directly to the community to understand what is most important for the city. We have significant decisions to make on how we invest in our city today, and for its future generations.

To help guide our decision making, we would like you to answer three over-arching questions.

The aim of these questions is to give us a strong sense of the areas you want us to prioritise in our future planning. We might not be able to reflect all your thinking in this annual plan, but it will give us information to start planning ahead.

Before you start, it's important to understand capital spending and operating spending:

1. Capital spending

Capital expenditure (capex) is used for building long-lasting assets, like roads, water and community infrastructure. We typically borrow to finance capital expenditure, then we repay that debt through rates and user charges over the life of those assets. When assets are bought or built as capital expenditure, the depreciation of those assets becomes an annual operating expense over the life of the asset.

2. Operating spending

Operating expenditure (opex) is mainly paid for by income from rates (70%) and covers day-to-day running costs, including staff salaries, contractors, consultants, utilities, and insurance, and services such as road maintenance, rubbish, and street lighting. Changes in operating spending are more likely to directly affect your rates bill or the fees and charges you pay for council services.

When you spend money on capital expenditure (capex), it affects operating expenses (opex). For example, if you invest in new transport infrastructure, transport operating costs will go up. This is because after building it, you need to repay the debt, maintain the infrastructure, and account for its depreciation over time, so you can replace it when it wears out.

Priority question one: How do you want to invest in the future of the city? (capex)

To help us plan future spending (both for this year and beyond), we'd like your input on how the city should invest in essential infrastructure our city needs.

We will show you what we plan to spend next year on each of the different areas of infrastructure investment for council (transport, water, community facilities, city centre development, and others), but we'd love to see if you had $100 to divide among the key infrastructure areas, what you would spend it on.

Go to page 38 or visit

letstalk.tauranga.govt.nz/annualplan

Priority question two: What do you want your rates to pay for? (opex)

To help us find the right balance for future spending plans (including and beyond this annual plan), we want to know how you think we should be spending your rates on the services the city needs.

We will show you what we are planning to spend your rates on, but if you had $100 to divide among the key city services, how would you spend it?

Go to page 39 or visit

letstalk.tauranga.govt.nz/annualplan

Should we reduce rates by having more user contributions?

Paying for city services and infrastructure means deciding who covers the costs. The goal is to make sure everyone contributes their fair share.

We're planning to undertake a comprehensive user fees and charges review for the next annual plan and we want your feedback on if you support this review or not. We also want to know if you think there are services where the current balance between user fees and rates funding should change.

Go to page 40 or visit

letstalk.tauranga.govt.nz/annualplan

Section two:
More savings to come

To help manage our budget, we have reduced our operational spend by $29 million, bringing our proposed rates increase down from 20% to 12%. We have had to do this to balance the budget and keep rates rises at a reasonable level.

We know this is still a high rates increase for Tauranga ratepayers and residents and we want to try to reduce rates by a further $6.7 million for this annual plan.

We will look for further ways to save in our day-to-day operations without compromising on the quality of service we deliver for our communities.
So, between now and the annual plan adoption in June, we have asked the council organisation to place value for money at the centre of all decision-making to find more efficient ways of working.

Alongside organisation changes, such as reducing staff and consultancy spend, we are looking at all our activities to see where we can work more efficiently.

Examples of savings we have considered, and would like feedback on include:

→ **City Events**
On New Year's Eve, Council runs 10 fireworks displays and five events across the city which costs around $500k. We want to see if there are sponsorship opportunities or alternative ways of doing things.

→ **Sustainability and Waste**
Removal of public place recycling stations. Due to high contamination, there could be potential savings of $250k if we converted all public place bins to rubbish bins only.

→ **Spaces and Places**
Reduce spending relating to nature and biodiversity which would mean less plantings and a saving of around $200k.

→ **City Centre**
Reduce the City Centre Development Incentive Fund (from $500k to $375k) which enables a wide range of initiatives to support the ongoing growth and development of the city centre. We are also moving this fund to be entirely rates-funded as it is currently funded from debt.

→ **Sustainability and Waste**
Reducing two relatively small budgets (charity waivers and illegal dumping), which would save another $100K.

While these look like relatively small savings in our overall budget, Council is actively looking for many more, that we hope will add up to significant rates revenue savings for the next financial year and beyond. In light of this, we have established a working group to undertake a detailed review of operational costs and service levels across the organisation to identify further cost savings. The working group will report back with recommendations prior to the adoption of the Annual Plan 2025/26.

We want your feedback on if we have the balance right this year and where in the future you would like to see more savings.

Section three: Increased or new fees and charges

Our main source of revenue is through rates. We are keen to hear if you are happy with this or would like us to investigate alternative revenue sources. Essentially, we can continue to fund most expenses through general rates, affecting every household, or we can mitigate this impact by collecting more fees and charges, which would only affect the users of those specific services.

Each year, the council reviews its user fees and charges to ensure they are appropriate, align with cost recovery principles, and reflect changes in service delivery costs.

As mentioned on page 23, we are also seeking your feedback during this consultation on whether you support our intention prior to the next annual plan to do an in-depth review into opportunities for increasing revenue via fees and charges to aid with the reduction of reliance on rates. The review would look at what areas you would like us to focus on when considering more (or fewer) user charges.

Provide your answers at:

letstalk.tauranga.govt.nz/annualplan

Proposed new fees or increases for 2025/26

Most of the changes to fees and charges are small increases in line with inflation (3%).

However, we are proposing new fees or larger increases in the following areas:

- Airport Parking
- Beachside Holiday Park
- Building Services
- Cemeteries
- Development Works
- Food Premises
- Land Information
- Libraries
- Licence To Occupy
- Parking
- McLaren Falls

Details are available in a separate statement of proposal.

This is available at:

letstalk.tauranga.govt.nz/annualplan

Use the annual plan submission form to send us your feedback on user fees and charges.

Part four:
Financials

Changes to your rates

What does the draft annual plan 2025/26 mean for my rates?

The median residential ratepayer (property capital value of $885,000) would pay $394 a year more than they do now. Overall, their proposed annual rates bill would be $3,881.

The median commercial ratepayer (capital value $1,230,000) would pay $1,555 a year more than they do now. Overall, their proposed annual rates would be $10,352.

The median industrial ratepayer (capital value $2,305,000) would pay $2,959 a year more than they do now. Overall, their proposed annual rates would be $20,626.

Change to industrial rating category

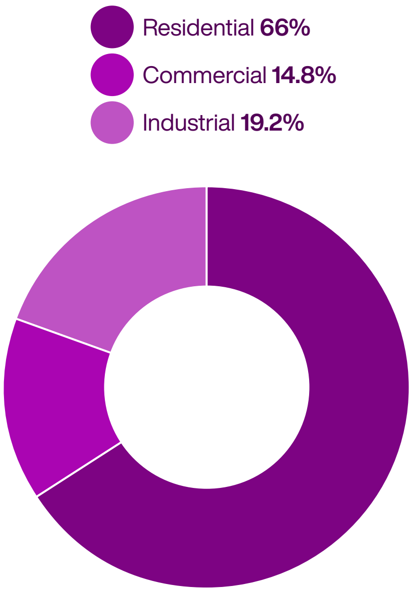
In this annual plan, Council is proposing to change the definition of the industrial rating category to exclude any industrial rating unit with a land area less than 250m2, (or exclusive use area less than 250m2 for cross lease or unit titles), which will be classified in the commercial rating category instead.

If the 682 smaller industrial use rating units (land use group 7), with a land area less than 250m2 (or exclusive use area less than 250m2 for cross lease or unit titles) were included in the commercial rating category, the reduction in rates to these rating units would be $119,000 in total because they would be at a lower rating differential of 2.1 times rather than 2.6 times.

Rating policy changes

This annual plan will see the continuation of the decision from the Long-term Plan to move to a fixed proportion of the general rates for each rating category. With the split eventually becoming 65% residential, 15% commercial and 20% industrial. This will be phased in over the next two rating years to be fully implemented by the 2027/28 rating year.

This means that for the 2025/2026 rating year the allocation of the general rates will be:



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Estimated increases for residentail ratepayers 2025/2026

	$220.70 per year	$338.68 per year	$394.39 per year	$471.40 per year	$1,391.96 per year
CV:	$355k	$715k	$885k	$1.120m	$3.929m
	+10.1%	+11%	+11.3%	+11.6%	+12.6%

Estimated increases for commercial ratepayers 2025/2026

	$954.67 per year	$1,555.62 per year	$3,416.05 per year	$57,493.82 per year
CV:	$695k	$1.230m	$2.886m	$51.029m
	+16.6%	+17.7%	+18.7%	+19.6%

Estimated increases for industrial ratepayers 2025/2026

	$1,865.77 per year	$2,959.39 per year	$5,639.05 per year	$49,511.66 per year
CV:	$1.400m	$2.305m	$4.522m	$40.828m
	+16.3%	+16.8%	+17.1%	+17.5%

For a more accurate indication of how much you are likely to pay, see our rating calculator at:

tauranga.govt.nz/property-search

Key financials for the Annual Plan

The key financials for the draft Annual Plan 2025/26 option shown in the table below are based on achievement of an overall rates increase of 12%.

The table below shows the key financials at 12% compared to the Long-term Plan (LTP) with the rates-funded operational savings of $29 million budgeted in.

Key financials for the Draft Annual Plan revision, inflated

	2025 LTP	2026 LTP	2026 Draft Annual Plan	2026 AP Variance to: LTP 2025	2026 AP Variance to: LTP 2026
Capital Programme ($m)	431	457	430	(2)	(28)
Operational Expenditure of a Capital Nature ($m)	78	87	75	(3)	(12)
Net Debt ($m)	1,450	1,639	1,644	194	5
Debt to revenue ratio (Financial Strategy)	237%	251%	291%	54%	40%
Debt to revenue ratio (LGFA calc)	234%	223%	258%	24%	35%
Financial Limit on Borrowing (debt to revenue ratio - bespoke)	285%	280%	350%	65%	70%
Total Rates ($m)	333	373	375	42	2
Total Rates Increas (net growth and penalties)	13.1%	10.3%	12%	-1.1%	1.7%
IFF levies (approx increase on rates)	2.8%	2.2%	0%	-2.8%	-2.2%
Total Ratepayer increase net growth	15.9%	12.5%	12%	-3.9%	0.5%

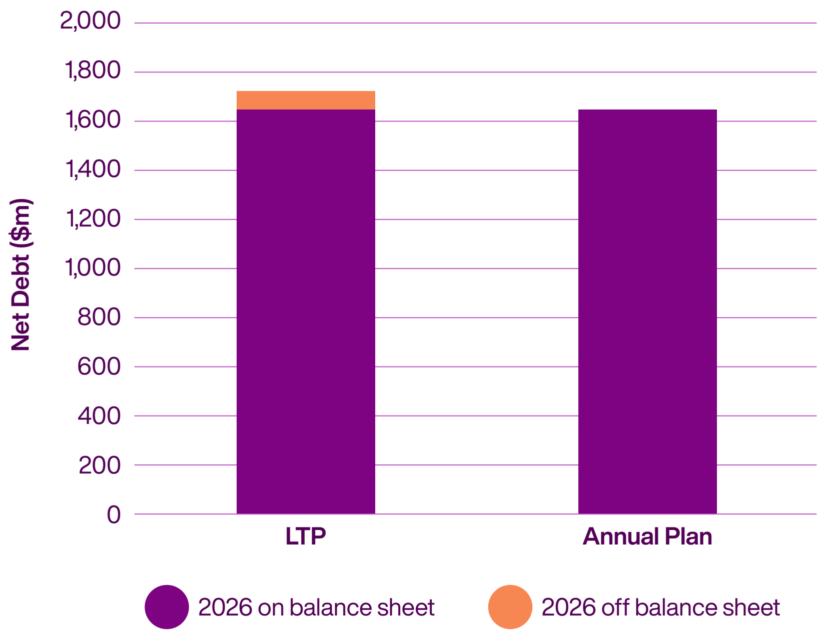
Council debt

Bespoke borrowing for Tauranga

Tauranga City Council has borrowed heavily in the last 20 years to support growth, mainly for infrastructure. The Local Government Funding Agency (LGFA) has agreed to an increase of our borrowing limits, which are now 330%[13] of our revenue (previously 280%). Part of the agreement to increase our borrowing limits includes the requirement to maintain a balanced budget, which ensures that our revenue exceeds expenditure.

The LGFA, which offers low-interest loans, will review our borrowing limits once our water management plans are finalised. Our current borrowing allows us to fund most of the 2024-34 projects, likely with smaller rate increases than planned. Large capital projects will be spread over 10 years to manage costs and disruptions, with detailed planning in future annual plans starting from 2026/27.

Comparison of Net Debt to LTP



The Long-term Plan 2024-34 estimated a total ratepayer debt of $1.725 billion. This included $1.639 billion estimated net debt with an additional $86 million of off-balance sheet debt relating to the Te Manawataki o Te Papa Infrastructure Funding and Financing (IFF) deal.

Following the decision to not proceed with the IFF deal, and subsequent reprioritisation of the capital programme for both 2025 and 2026 financial years, the net debt in the draft Annual Plan is now $1.644 billion, $81 million lower than the LTP with IFF.

[13] 350% max with 20% debt headroom for emergencies.

Part five: Other matters for feedback

Local Water Done Well

Local Water Done Well is the Coalition Government's plan for managing water services delivery and infrastructure following the repeal of Water Services Reform legislation (Three Waters) in February 2024.

In response, Tauranga City Council is creating a plan to keep delivering safe water in the most efficient way while investing in future infrastructure.

Council would like to hear what you think about three possible options:

1. A new organisation, called a council-controlled organisation, that is owned by multiple councils with the option for others to join later. (Our preferred option).
2. Current delivery model with changes to meet new legislation.
3. A standalone council-controlled organisation that focuses on water services just for Tauranga.

Our Local Water Done Well consultation is open until **28 April 2025.** To find out more and make a submission, please visit:

letstalk.tauranga.govt.nz/local-water-done-well

2025/26 Development Contributions Policy

A copy of the draft 2025/26 Development Contributions Policy is available at:

www.tauranga.govt.nz/council/council-documents/development-contributions

The most significant change to the policy compared with the current policy is updates to the capital expenditure budgets and consequentially to the fees that apply to development.

Significant proposed increases are:

- citywide development contributions: +15%
- local development contributions: West Bethlehem +5% for residential development, +6.4% for non-residential development
- three new local development contributions catchments established for: Tauriko Business Estate Stage 4, Tauriko West and Upper Ohauiti.

For more information, see the statement of proposal at the above web address.

The new policy and fees will apply to all consents lodged from **1 July 2025.**

Please use the annual plan submission form to send us any feedback on the draft 2025/26 Development Contributions Policy.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Part six:

Feedback form: tell us what you think

There are a number of ways you can share your views with us on the future priorities of Council and the Annual Plan 2025/26. Please take the time to get involved.

Where to find more information:

You can find everything you need to know at:

letstalk.tauranga.govt.nz/annualplan

including the Supporting Information, an online feedback form, and a schedule for Have Your Say events. The full Supporting Information that supports this consultation document will also be available at our **Library Community Hubs** across the city. If none of the above methods are suitable for you, please call us on **07 577 7000** to discuss alternative options.

How to do a written submission:

Complete the online submission form or download at:

letstalk.tauranga.govt.nz/annualplan

Scan your completed submission form and email it to:

submissions@tauranga.govt.nz

You can also drop off your submission form at our Customer Service Centre **He Puna Manawa – 21 Devonport Road,** or at any of our **Library Community Hubs.**

Place your completed form in an envelope and send it to this address (no stamp required):

Freepost authority number 370
Long Term Plan 2024-2034
Tauranga City Council
Private Bag 12022
Tauranga 3143

Submissions close at **5pm** on **Monday, 28 April.**

If you're making a postal submission, please ensure we receive it by this deadline.

Things to note

- If you wish to speak to Council at the hearings, you must have provided a written submission outlining your main points.
- If you are hand-writing your submission, please use a dark-coloured pen.

Need help?

If you have any questions, or need help with your submission, get in touch and we'll give you a hand:

07 577 7000

submissions@tauranga.govt.nz

Visit our Customer Service Centre
He Puna Manawa, 21 Devonport Road
or any of our Library Community Hubs.

Need more room?

You can attach extra pages – just make sure they're **A4** and that you include your **name** and **contact information** on each page.

Once the Annual Plan 2025/26 is adopted, submitters will be sent a summary of key decisions.

Submission Form

Privacy statement

Written submissions including supporting documentation may contain personal information within the meaning of the Privacy Act 2020. By taking part in this public submission process, submitters agree to any personal information (including names and contact details) in their submission being made available to the public as part of the consultation and decision-making process. Council may choose to redact information from submissions before making them public. Council will use your personal information to contact you regarding your submission such as to arrange a time for you to speak to Council in support of your submission, or to update you on the outcome of your submission. The submission form contains some fields that are mandatory which are marked with an *. If you do not provide us with this information, we may be unable to contact you about your submission. All information collected will be held by Tauranga City Council, He Puna Manawa, 21 Devonport Road, Tauranga, 3143. Submitters have the right to request access to and correction of their personal information. For further information about this and our obligations and your rights under the Privacy Act 2020, including how we may redact submissions before publishing them online and in Council documents, please refer to Council's Privacy Statement on our website: https://www.tauranga.govt.nz/privacy-statement

Are you submitting as an individual or as an organisation?

○ Individual ○ Organisation

***Compulsory field**

First name*:

Last name*:

Postal address:

Email address*:

Daytime phone number*:

Age:	Gender:	Ethnicity:

Where do you live?:

Have you submitted on a Tauranga City Council Annual Plan or Long-term Plan before?

◯ Yes ◯ No

Do you wish to speak to Council in support of your submission between 13–15 May?

◯ Yes ◯ No

If yes, please indicated whether you prefer:

◯ **Tuesday, 13 May, 9am – 5pm,** Tauranga City Council Chambers, Level 1, 90 Devonport Road, Tauranga

◯ **Wednesday 14 May, 1pm – 7pm,** Bay Oval, Meeting Room, Kawaka Street, Mount Maunganui

◯ **Thursday 15 May, 9am – 5pm,** Tauranga City Council Chambers, Level 1, 90 Devonport Road, Tauranga

Each speaker is allocated up to 10 minutes including questions.

Questions

Future priorities of council

The aim of these questions is to give us a strong sense of the areas you want us to prioritise in our future planning. We might not be able to reflect all your thinking in this annual plan, but it will give us useful information to be able to start planning the next one and then the Long-term Plan.

What are your priorities for our future spending?

Before you start, it's important to understand that we split our budget into two categories:

Types of spending

Council spending falls into two main categories:

1. **Capital spending (capex) - Money to build the city**
2. **Operating spending (opex) - Money to run the city**

Capital Spending is used for building long-lasting assets, like infrastructure.

Operating Spending covers daily expenses, such as staff salaries and operating costs to run and maintain council's assets and deliver services to the community.

Capital Spending is typically financed through loans, while operating spending is mainly covered by rates. Therefore, changes in Operating Spending are more likely to affect your rates bill.

When you spend money on capital expenses (capex), it affects your operating expenses (opex). For example, if you invest in new transport infrastructure, your transport operating costs will go up. This is because after building it, you need to repay the debt, maintain the infrastructure, and account for its depreciation over time, so you can replace it when it wears out.

1 How do you want to invest in the future of the city? (capex)

To help us **plan future spending** (both for this year and beyond), we'd like your input on how the city should invest in the essential infrastructure our city needs.

We will make choices in the future and need to prioritise certain projects over others to achieve positive outcomes for our community.

As a new council, we want to test with you that our priorities align with yours.

Below, you'll see how our current budget is allocated for next year against the different areas of infrastructure spend for council.

- → Imagine you have **$100** to invest in the city – how would you divide it? Compare your choices with the city's current spending.
- → Remember, your total must add up to **$100.** We've simplified our budget to reflect $100 so it's easy to breakdown. The $100 is divided in a way that reflects the actual proportions of our budget, helping you share how you would prioritise investment across the city's infrastructure.

Investment area	Current Budget ($)	Your Budget ($)
Transport	$30	
Waters (Stormwater, Wastewater & Water Supply)	$40	
Community Infrastructure (Parks, Reserves and Community Facilities)	$13	
City Centre Development	$12	
Other (Airport, waste infrastructure, digital development, wharfs, and jetties for public and business)	$5	
TOTAL	**$100**	

2 What do you want your rates to pay for (every $100 of rates)? (opex)

To help us **find the right balance** for future spending plans (beyond this annual plan), please give us an indication about how you think we should be spending your rates on the services the city needs. Below shows how your rates are planned to be spent on our city's services along with a brief explanation of what each category includes.

- → Imagine you have **$100** to divide among key city services. **How would you spend it?**
- → Compare your choices with how the city currently spends its budget.
- → Please note that your final total amount must equal **$100.**

Council Service Area	Current Budget ($)	Your Budget ($)
Transportation (Maintaining and improving our roads and footpaths/ cycleways, plus safety initiatives.)	$19	
Water Services (Stormwater, Wastewater, Water Supply.)	$35	
Spaces and Places (Activities include maintaining our parks, reserves, walkways and community facilities.)	$23	
Community Services (Include our libraries and community centres, arts & cultural activities, event facilitation and community development activities.)	$11	
Sustainability and Waste (Kerbside collections and recycling/transfer station activities, plus climate change planning.)	$6	
Other (Activities include City & Infrastructure Planning ($2); Regulatory (resource and building consents & environmental planning) and Compliance (parking, noise control, etc.) activities ($2); Economic Development activities ($1); and Emergency Management activities (<$1).)	$6	
TOTAL	**$100**	

3 Should we have more user contributions funding things going forward?

Paying for the city's services and infrastructure means deciding who covers the costs. The goal is to make sure everyone contributes their share.

While some council services are paid for through rates by all ratepayers, where it can, Council aims to reduce the burden on ratepayers by using a 'user contribution' approach. When a service user can be identified and charged efficiently, they should pay for that service. This approach helps recover more costs (via fees and charges) from the users of the services. This means less is needed from rates.

For the most part, households and business living within Tauranga City pay for the services and infrastructure Council provides. However, we also know non-residents (people, businesses, and government agencies not located in Tauranga City) also benefit from Council's services.

There are ways that Council can charge non-residents, the main one being user fees and charges for services that people use. A portion of some of these are still funded by rates.

For the full list and break down of how things are funded please see Council's Revenue and Financing Policy at:

www.tauranga.govt.nz/rfp

We intend to undertake a comprehensive user fees and charges review for the next annual plan. Through this review, we'll look for opportunities to increase revenue via fees and charges to aid with the reduction of reliance on rates. This would potentially mean moving to a more user pays system which would have a positive effect on reducing rates.

Do you agree that Council should do this comprehensive review?

○ Yes ○ No

Is there any area where you think the current balance between user fees and rates funding should change?

Annual Plan 2025/26 questions

4 Our overall plan

We propose to keep rates at 12% after growth, as per what was in the Long-term Plan. A lot of work has gone into trying to keep the rates increase at this level, including taking out $29 million of our rates-funded operating expenditure and prioritising our capital programme down from $544 million in the LTP to $505 million.

This means for our annual plan:

- Median residential rates rise: 11.3% ($394 per year)
- Median commercial rates rise: 18.7% ($3,416 per year)
- Median industrial rates rise: 16.8% ($2,959 per year)
- New capital expenditure of $505 million
- Net debt of $1.64 billion
- Debt-to-revenue ratio of up to 258%

For more information, read (pages 8-31) of the consultation document.

What is your opinion on our proposed annual plan?

- ◯ Strongly agree
- ◯ Agree
- ◯ Neither agree nor disagree
- ◯ Disagree
- ◯ Strongly disagree
- ◯ Other (specify below)
- ◯ Don't know

Any comments?

5 Changes to capital project budget

As we review the capital programme and associated debt in the 2025/26 annual plan, we also need to take future investment requirements and their effects on rates into consideration.

Our initial budget was too large due to previously deferred projects and what we had planned to accomplish in the Long-term Plan.

The capital programme has been prioritised for 2025/26 from $544 million to $505 million in light of revised borrowing capacity and decisions of Council. This follows on from the reforecast reduced budget for 2024/25.

Our prioritisation process includes deferring, revising down budgets (scope), or removing projects from the LTP timeframe.

Our budget is made up of non-negotiable things we need to do and areas where we have choice in what we spend. The non-negotiable portion includes things like renewals or already committed budget from projects already underway. The remaining is spent and prioritised on the main types of infrastructure that the Council believes the city needs. For more information, read (pages 14-16) of the consultation document.

The full list of projects is available in the supporting financial information on our website at:

letstalk.tauranga.govt.nz/annualplan

What do you think we should do with the proposed list of capital projects for 2025/26?

- ◯ Reduce investment, resulting in lower debt and lower rates in years to come
- ◯ Proceed with the proposal, resulting in similar levels of debt and rates to the Long-term Plan
- ◯ Increase council investment, resulting in higher debt and higher rates in years to come
- ◯ Some other option (specify in “any comments” below)
- ◯ Don’t know

Any comments?

6 Changes to operational budget

Council is committed to achieving value for money for every dollar we spend. Our annual plan proposes to look for efficiencies and make savings where we can.

Some of these efficiencies and savings will be achieved through a combination of reduced consultancy budgets, deferral of some work, careful consideration of projects, and staffing reductions. While some of these will be made immediately in this annual plan ($29 million), some will take longer to achieve.

While we have worked hard to bring the rates rise down from 20% to 12%, we know this number is still high, so between now and when this draft annual plan is adopted in June, we will continue to look for further opportunities to relieve the rating pressures on our residents and have agreed to look for a further $6.7 million in rates-funded savings.

For more information, read (pages 17 and 24) of the consultation document.

We would like your opinion on this.

Which option do you prefer for the overall direction for Council's annual plan and future operational budget cost savings?

- ◯ Reduce council services, lower rates increase
- ◯ Proceed with the proposal
- ◯ Increase council services, with higher rates increase
- ◯ Some other option (specify in "any comments" below)
- ◯ Don't know

Any comments?

Are there any areas within Council where you would like to see more efficiencies in providing better outcomes for the community?

Any comments?

7 Changes to other rates, fees and charges and DC Policy

Making some rating policy changes – **page 27.**

Introducing some new fees and increasing some fees above inflation – **page 26.**

Development Contributions policy changes – **page 35.**

For more information, read the pages identified above next to change in the consultation document.

Any comments?

8 Other feedback

Do you have any comments or feedback on the **Annual Plan 2025/2026?**

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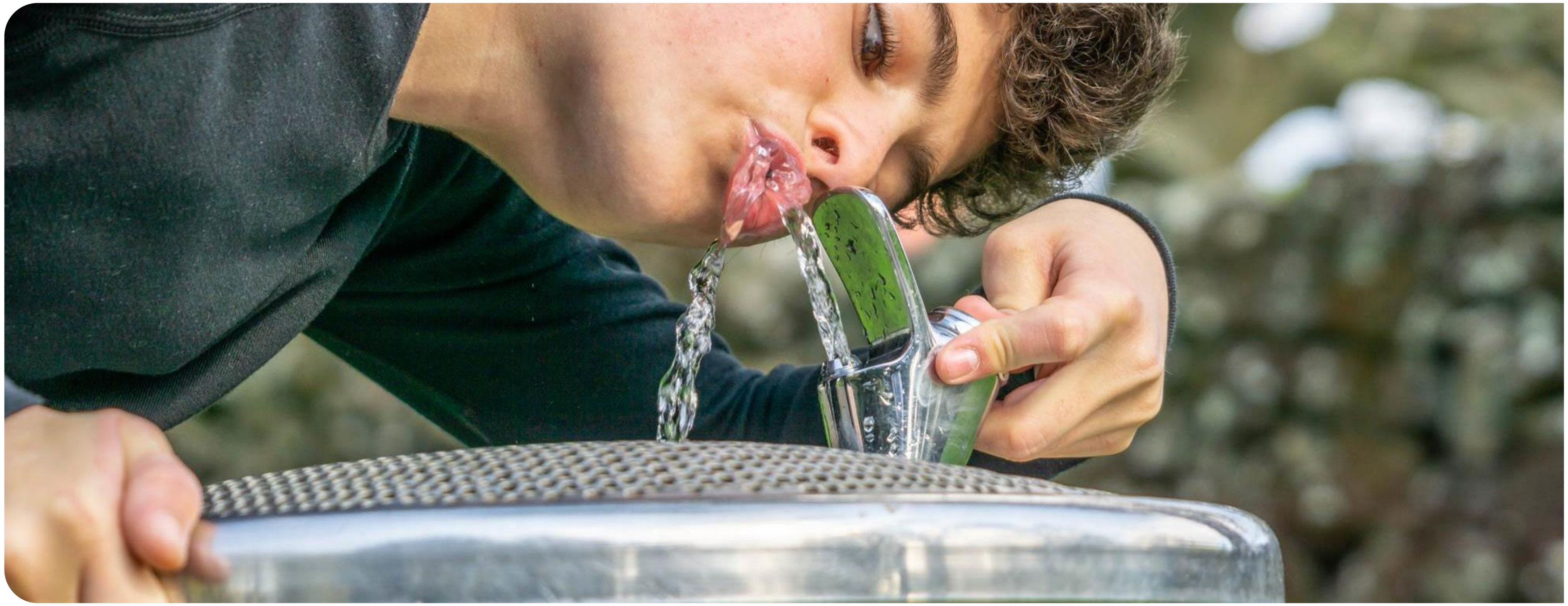
Customer Service Centre
He Puna Manawa,
21 Devonport Road

Tauranga City

Kōrero mai
Let's talk Tauranga



Joint Water Services Organisation

Financial assessment - Bay of Plenty sub-region (including Thames Coromandel District)

Final Report

06 March 2025

Commercial in Confidence

To support Tauranga Council consideration

Preface

This report has been prepared for Western Bay of Plenty District, Thames Coromandel District, Whakatāne District and Tauranga City Councils by MartinJenkins.

For over 30 years MartinJenkins has been a trusted adviser to clients in the government, private, and non-profit sectors in Aotearoa New Zealand and internationally. Our services include organisational performance, employment relations, financial and economic analysis, economic development, research and evaluation, data analytics, engagement, and public policy and regulatory systems.

We are recognised as experts in the business of government. We have worked for a wide range of public-sector organisations from both central and local government, and we also advise business and non-profit clients on engaging with government.

Kei te āwhina mātau ki te whakapai ake i a Aotearoa. We are a values-based organisation, driven by a clear purpose of helping make Aotearoa New Zealand a better place. Our firm is made up of people who are highly motivated to serve the New Zealand public, and to work on projects that make a difference.

Established in 1993, we are a privately owned New Zealand limited liability company, with offices in Wellington and Auckland. Our firm is governed by a Board made up of Executive Partners and Independent Directors. Our Independent Directors are Sophia Gunn and Chair David Prentice. Our Executive Partners are Sarah Baddeley, Nick Carlaw, Allana Coulon, Nick Davis, and Richard Tait. Michael Mills is a non-shareholding Partner of our firm.

Disclaimer

This report has been prepared solely for the purposes stated in it. It should not be relied on for any other purpose.

No part of this report should be reproduced, distributed, or communicated to any third party, unless we explicitly consent to this in advance. We do not accept any liability if this report is used for some other purpose for which it was not intended, nor any liability to any third party in respect of this report.

Information provided by the client or others for this assignment has not been independently verified or audited. Information supplied has been subject to change.

Any financial projections included in this document (including budgets or forecasts) are prospective financial information. Those projections are based on information provided by the client and on assumptions about future events and management action that are outside our control and that may or may not occur.

We have made reasonable efforts to ensure that the information contained in this report was up to date as at the time the report was published. That information may become out of date quickly, including as a result of events that are outside our control.

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This Disclaimer supplements and does not replace the Terms and Conditions of our engagement contained in the Engagement Letter for this assignment.

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Introduction and purpose

Introduction and purpose

Joint Councils engaged MartinJenkins to undertake a high-level financial assessment of a possible Joint Water Services Council Controlled Organisation – including Tauranga City Council, Western Bay District Council, Whakatāne District Council, and Thames Coromandel District council

To inform the preparation of its Water Services Delivery Plan required by the Local Government (Water Services Preliminary Arrangements) Act 2024, participating councils wish to understand the potential financial implications of various joint WSCCO options.

Local Water Done Well requires councils to demonstrate their delivery of water services is financially sustainable

The Government's Local Water Done Well policy means councils across New Zealand will need to assess whether their water services delivery arrangements are, and will continue to be, financially sustainable over the medium- to longer-term.

Councils also need to consider whether existing service delivery arrangements will continue to meet community expectations regarding levels of service, achieve compliance with future regulatory requirements, while remaining affordable for their communities.

Future legislation is expected to require that councils demonstrate their water services can stand on their own two feet. This means that:

- rates and water charges are ring-fenced and only used to pay the costs of water services
- rates and water charges generate sufficient revenue to fully-fund operating and financing costs over the medium-term, and
- investment to maintain and renew assets, to meet regulatory requirements, and provide for growth can be funded and financed on a sustainable basis.

A Water Services Council Controlled Organisation offers additional financial benefits compared to in-house delivery options

A WSCCO has the ability to borrow at higher gearing ratios than councils, while also borrowing at rates similar to councils due its ability to access LGFA lending. The potential economies of scale from amalgamating assets and service delivery, ability to optimise capital structure, alongside professional governance and management, mean there are likely efficiencies available to those who participate, relative to in-house delivery opdtions.

This report assesses how joint WSCCO delivery models could benefit participating councils, collectively and individually, through enabling greater efficiencies and more efficient capital structures.

It presents these findings for a joint WSCCO comprising all participating councils under three scenarios:

1. Balanced budget
2. Accelerated investment
3. Optimised prices

It also provides an indicative assessment of costs to consumers under scenario three where prices are harmonised and where they are not.

Further scenarios that explore alternative mixes of council participants are included as appendices for reference.

We have relied on council inputs and an agreed set of assumptions

In undertaking this analysis, we have relied on information provided by the participating councils and used assumptions agreed upon by them (refer Appendix B). These assumptions guide the scope of potential outcomes and inform the overall conclusions regarding the financial and operational viability of the proposed joint WSCCO model. Changes to these underlying assumptions will likely have a material impact on the outcomes presented in this report.

Limitations

This is a point-in-time, indicative assessment of stylised WSCCO scenarios to inform decision making.

This analysis represents a snapshot in time, based on the data, assumptions and information available at the date of this report. As circumstances, policies and council data evolve, this assessment, in whole or part, may become out of date and warrant re-evaluation.

We have relied on council-provided information and have not verified its accuracy.

The modelling outputs are dependent on the accuracy and completeness of information provided by participating councils. Any errors, omissions or inconsistencies in that information may affect the reliability of the findings, and have not been independently verified by us.

Scope of analysis is limited to indicative financial implications only.

Work focuses on the potential structure and outcomes of a joint water services council-controlled organisation. It does not examine potential flow-on effects for other parts of the councils' operations and delivery arrangements, nor does it evaluate the underlying capital delivery programme. It is high-level, indicative analysis and does not constitute a detailed business case nor provide information sufficient to support implementation planning.

The outputs should be considered representative rather than exhaustive.

The purpose of this modelling is to provide a representative analysis based on current assumptions. It is not an exhaustive analysis or a detailed operational review. Users of this report should exercise caution when extrapolating the results beyond the specific scenarios modelled.

Ongoing changes and updates.

Given the dynamic nature of legislative frameworks, council priorities and data quality, the inputs underpinning this analysis may change over time. Readers should refer to the most recent information and seek updated modelling if circumstances change.

Use of sensitive information

This report relies on the provision of sensitive information, the disclosure of which may prejudice commercial positions or negotiations, or inhibit the future supply of such information in a free and frank manner. It is recommended that participating councils are consulted prior to the disclosure of any information or findings in this report.

Scenario overview

+ target capital structure and key assumptions

Three scenarios have been modelled

1 Balanced budget (S1)

(simple aggregation)

- Combines starting assets and debt positions and projected opex, capex and revenue (including development contributions) for each council.
- Adjusts financial projections for one-off establishment costs (debt funded initially with recovery through charges over time) and additional operating costs.
- Incorporates agreed efficiency gains from consolidation and economic regulation.
- Targets a balanced budget (i.e., no operating surplus) and demonstrates efficiency gains only.
- Does not optimise capital structure.

2 Accelerated investment (S2)

(targeting increased investment, while maintaining current price paths)

- Utilises anticipated LGFA borrowing terms to fund higher levels of investment, consistent with principles of intergenerational equity.
- Maintains current price levels and revenues but accelerates investment in infrastructure, utilising the greater borrowing capacity and efficiencies.*
- Demonstrates how a WSCCO could increase investment without increasing costs to consumers.

3 Optimised prices (S3)

(targeting current investment paths, while flattening prices)

- Utilises anticipated LGFA borrowing terms to fund higher levels of investment, consistent with principles of intergenerational equity.
- Uses borrowing capacity* and efficiencies to lower prices while maintaining currently planned levels of investment.
- Demonstrates affordability benefits of the WSCCO model.

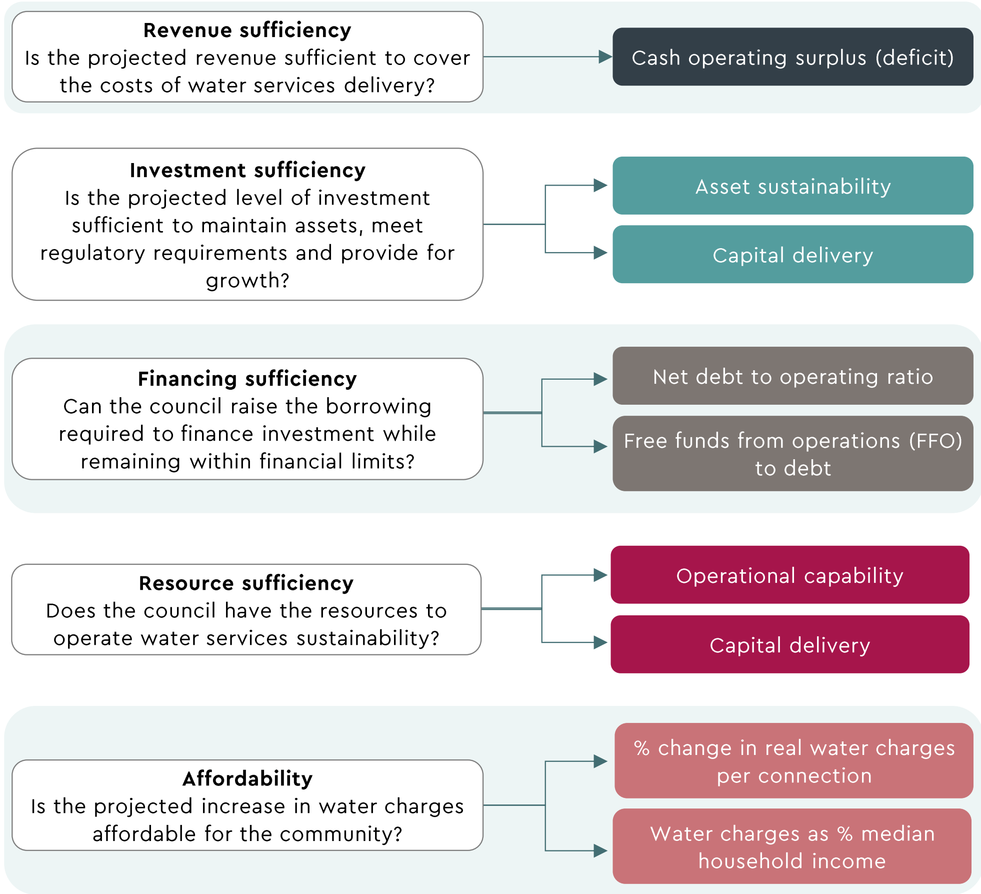
**An explanation of the target capital structure is explained overleaf*

Additional considerations:

- A status quo comparator is used as the benchmark for comparison, aggregating the financial positions supplied without adjustments or efficiency assumptions applied.
- Harmonised pricing is presented for scenario 3. An explanation of how the harmonised, and non-harmonised price paths are arrived is presented in Appendix D.

Target capital structure

- **DIA guidance sets out key financial principles** that underpin the requirement for financial sustainability. Under Local Water Done Well, the expectation is that operating revenues pay for operating costs with capital investment funded by capital sources (e.g., borrowing and development contributions).
- **LGFA has set out a number of credit criteria.** A critical component of the 'prudent credit criteria' is that a 'funds from operations' ('FFO') to debt covenant would be required, with an **expected minimum 'FFO to debt' ratio likely to fall between 8% and 12% depending on individual circumstances for the CCO**.
- FFO to debt provides a metric by which you can assess the ability for revenues (including DCs in certain circumstances) to meet operating costs and debt servicing requirements.
- By **targeting an efficient capital structure** through a WSCCO, it is possible to **optimise revenues, expenditures and debt** that meet prudent credit criteria. This creates opportunities to:
  - **increase investment while maintaining current price levels** or
  - **maintain investment while lowering price levels** or
  - **A combination of these scenarios.**
- **Our modelling targets FFO to debt at the mid-point of 10%** as a conservative assumption. This means cash surpluses (including DCs) generated in any year are equal to 10% of the WSCCOs net borrowings.

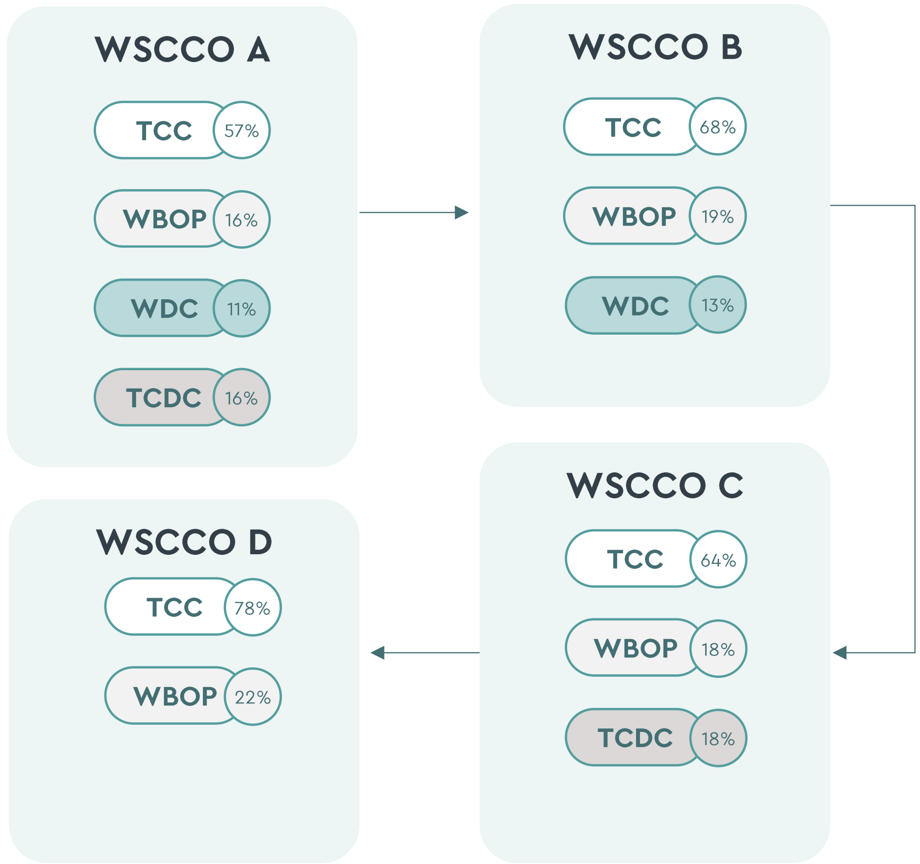


Entity permutations

Four entity permutations have been modelled against the three scenarios.

The analysis that follows is based on WSCCO A, with individual council findings in Appendix A.

The outputs for WSCCO B through WSCCO D can be found in the separately supplied Addendum.



The percentages indicate how costs, revenues and efficiencies would be allocated to each council. They were derived by averaging a number of measures. Further information can be found in Appendix B.

MARTINJENKINS **COMMERCIAL IN CONFIDENCE**

Key assumptions

Several key assumptions unpin the analysis, which are consistent across the scenarios modelled.

Additional information on the underlying assumptions and any adjustments can be found in Appendix B.

Further information on efficiencies can be found in Appendix C.

Assumption	Commentary
Operating efficiencies 1.5% – 2.0% p.a.	Operating efficiencies are driven by a number of factors, including productivity gains arising from effective management practices, purchasing power, and more streamlined operations and maintenance. Efficiencies are modelled to begin two-years after the entity's establishment (FY30) and ramp to 1.75% p.a. (the midpoint of the efficiency range) until **peak operating efficiency is achieved in FY44 (cumulative gain of 23.3% relative to the initial opex cost).**
Capital efficiencies 1.3% - 1.5% p.a.	Capital efficiencies reflect reductions in real unit costs from prudent investment decisions, streamlined cost structures and market power from a larger entity having long-term investment pipelines. They are modelled to begin two-years after the entity's establishment (FY30) and ramp to 1.4% p.a. (the midpoint of the efficiency range) until **peak capital efficiency is achieved in FY44 (cumulative gain of 20.8%).**
Inflation rates – BERL	Councils typically utilise the **BERL cost index** to inform inflation assumptions. These have been used to support the analysis in this report.
Establishment costs are capitalised	Establishment costs are assumed to be: • **$10 million for four council entity scenarios** • **$9 million for three council entity scenarios** • **$8 million for two council entity scenarios** This covers transition activities, including legal, commercial and other due diligence, and fit out of premises and basic IT hardware. ***The model is not sensitive to this assumption.***
Additional opex	Additional opex associated with a WSCCO include additional management costs, board fees, audit and other costs. **These are assumed to be around $2 million p.a.**
1 July 2027 establishment date	The entity is established from 1 July 2027.
Three waters	Water supply, wastewater and stormwater all transferred to the entity.

Key findings

WSCCO A

Key findings

By FY34, a price-optimised WSCCO could **support financially sustainable water services** while enabling **up to $638 million** in additional investment (+20% compared to the status quo) in water infrastructure and/or **reducing the cost to consumers by up to $951 on average** (-26%, relative to current price paths).

This means a **joint WSCCO** could deliver water services **at a lower cost to consumers** than individual councils under current operating models and capital structures.

A WSCCO could achieve:

- **Operating efficiencies peak at 22.3% relative to initial opex by FY44**, and generate $17.5 million in annual savings by FY34.
- **Capital efficiencies peak at 20.8% relative to initial capex by FY44**, and generate $44.8 million in annual savings by FY34.
- **The current investment profile could be delivered for around $121 million less between entity establishment and FY34.**

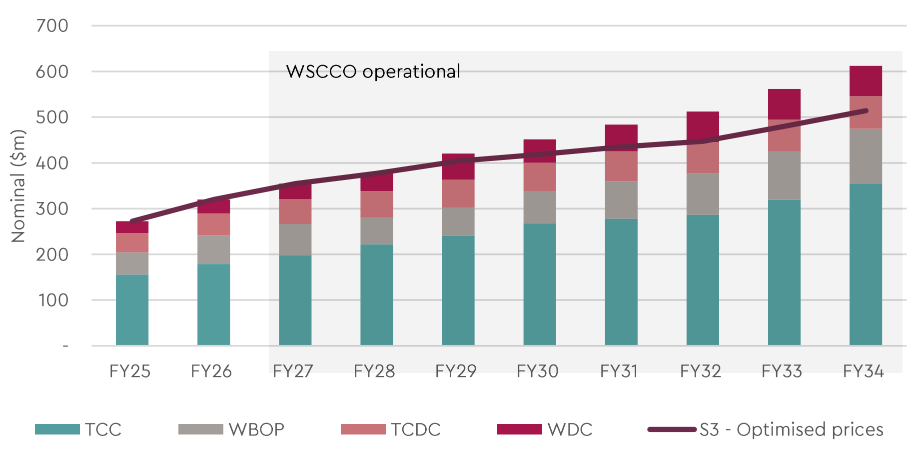
This arises from using a more **efficient capital structure** and opex and capex efficiency gains to provide:

- **Immediate uplift in access to borrowing.**
- **Better cost distribution** by funding and financing assets over their useful lives.
- **Increased investment capacity** and financial flexibility.

We note the underlying price paths for councils diverge over time, meaning councils face different pricing outcomes at different points over the 10 year period, whether pricing is harmonised or not.

Scenario	Cost per connection (FY25) ($ real)	Cost per connection (FY34) ($ real)	Total capex (FY25-FY34) ($m nominal)	FY34 FFO-to-debt (incl. DCs)
S1 Balanced budget	$2,027	$2,764	$2,999	8%
S2 Accelerated investment	$2,027	$3,715	$3,759	10%
S3 Optimised prices	$2,027	$3,047	$2,999	10%
Comparator (status quo)	$2,027	$3,715	$3,120	14%

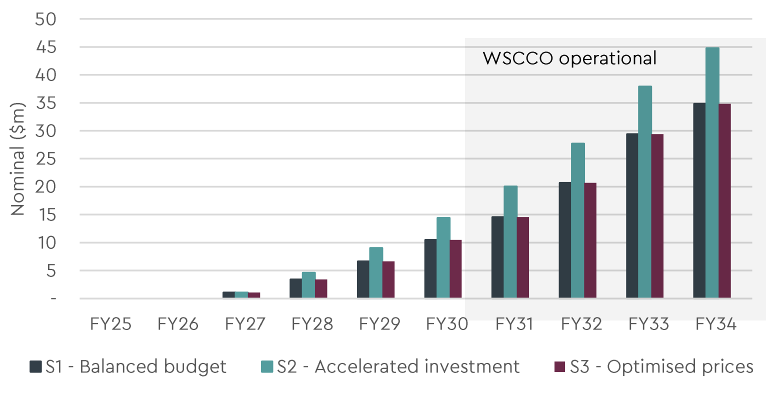
Total revenue (incl DCs)

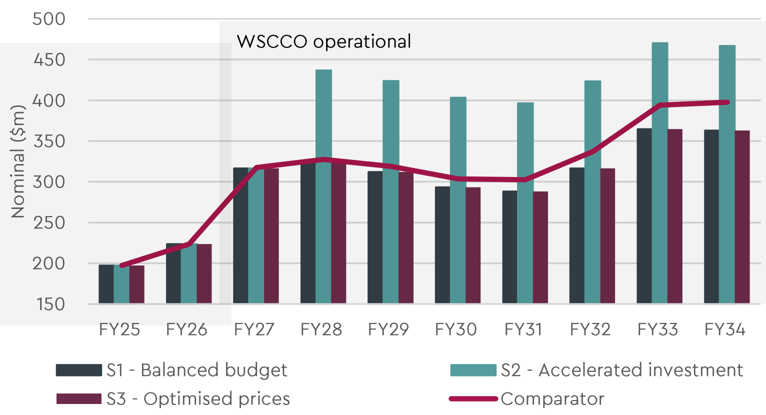


Capital expenditure

WSCCO A

Levels of investment





Current Investment Levels

The four councils plan to invest **$3.12 billion** in water infrastructure over the next ten years, representing a significant increase over recent investment levels and, in some cases, surpassing LTP commitments for regulatory compliance.

Investment Scenarios under a WSCCO

By optimising the capital structure and achieving modest efficiencies, the WSCCO could generate **annual capital efficiencies of between $34.8 million and $44.8 million by FY34**. This would enable the delivery of the same investment for **$121 million less** than current council arrangements between entity establishment in FY27 and FY34, while also **lowering costs for consumers**. As efficiencies are phased in and permanent, benefits would be larger and continue to accumulate over time.

If the **current price path** is maintained, a WSCCO could invest an **additional $638 million** over the next decade, raising total investment to **$3.76 billion**.

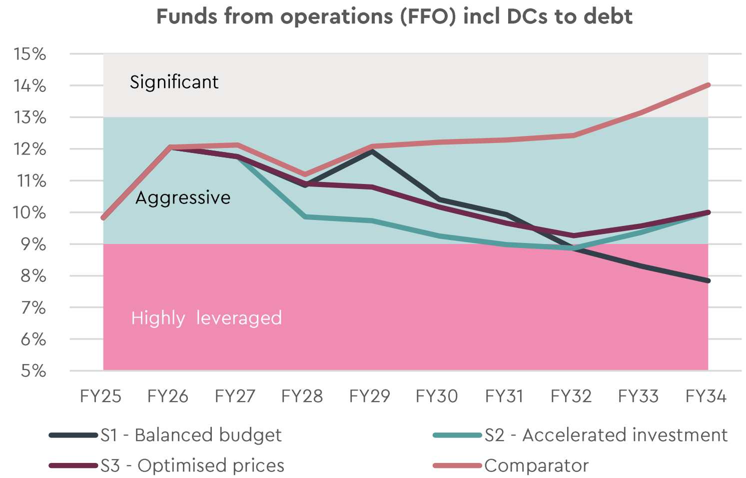
Scenario	Total capex (FY25-FY34) ($m)	Capex efficiencies p.a. (FY34) ($m)
S1 Balanced budget	$2,999	**$34.8**
S2 Accelerated investment	$3,759	**$44.8**
S3 Optimised prices	$2,999	**$34.8**
Comparator (status quo)	$3,120	**$0**

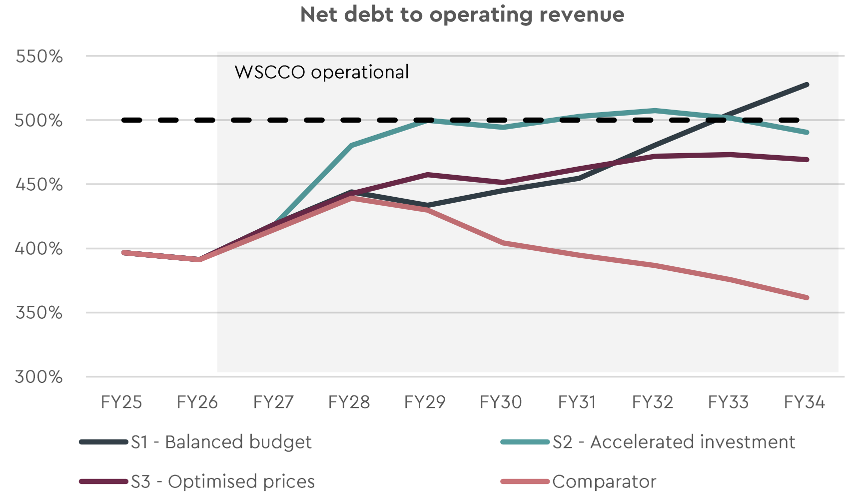
Capex efficiency	Cumulative efficiency (FY34)	Peak efficiency (FY44)
1.4% p.a.	8.8%	20.8%

Debt sustainability

WSCCO A

Debt sustainability





Borrowing for investment

Based on the information supplied, of the **$3.1 billion of water infrastructure investment projected over 10 years**, approximately:

- **$1.3 billion (42%)** is proposed to be **debt funded.**
- **$0.5 billion (16%)** is proposed to be funded through development contributions.
- **$1.3 billion (42%)** is proposed to be funded through operating revenues. This primarily comes from **depreciation funding** (funded via water charges). Depreciation expense is a non-cash operating item, with annual surpluses being retained on the balance sheet as reserves.

Capital structure

As outlined in DIA guidance, it is inefficient to fund investment in long-lived infrastructure primarily through operating revenues. Under **LWDW framework**, capital investment is expected to be funded through **capital sources** (i.e., **borrowing and development contributions**), while **operating revenues** must be sufficient to maintain debt repayments and ensure debt remains within LGFA lending limits* for water CCOs.

Scenarios 2 (accelerated investment) and 3 (optimised prices) target a FFO-to-debt ratio of 10%, the mid-point of the range indicated by the LGFA*, resulting in:

- **Higher average level of gearing of water activities**.
- **Lower long-term increases in water charges** compared to in-house service delivery options.
- **Increased levels of investment.**

**The LGFA has signalled a minimum 'FFO-to-debt' ratio of between 8% and 12%. If LGFA approved a lower FFO-to-debt ratio for the WSCCO, then this would further increase the additional investment or further reduce prices relative to the modelled scenario.*

Approaches to credit ratings

The standalone rating for water activities would be determined by the scale of the entity, the economic regulatory regime, WSCCO financial metrics and links to the parent council(s)

For regulated water utilities, the funds from operations (FFO) to debt ratio is the primary metric used.

To determine the appropriate FFO-to-debt ratio to target, we have used S&P's credit rating criteria to illustrate the ratios required for an investment grade entity. This aligns with DIA and LGFA guidance.

In the short term, uncertainty regarding the regulatory regime means higher ratios would be required to achieve an equivalent credit rating – in 5-10 years, once the economic regulatory regime is embedded, we expect WSCCOs will be assessed more favourably and the lower financial ratios apply .

The business risk assessment is expected to differ across WSCCO depending on the scale of the entity and diversity of the customer base (including geographic, economic, and regulatory foot-prints).

- For a large multi council WSCCO this is expected to result in an 'excellent' business risk profile and therefore an FFO / debt of 6-9% would be required for an investment grade rating,
- **For this analysis, a target FFO-to-debt of 10% is applied to WSCCO A. This moves the WSCCO up from the 'aggressive' to the more favorable 'significant' band, leaving a lower residual risk for participating councils.**

The above analysis considers the **standalone rating.**

We note the WSCCO **issuer credit rating may benefit from links to the council and therefore is expected to be only a few notches below council (once it is standalone investment grade).*

S&P corporate rating criteria (for a regulated water utility)

Outcome	1	2	3	4
Country risk	Low risk			
Industry risk	Very low risk			
Competitive position	Strong		Satisfactory	
Business risk	**Excellent**		**Strong**	
Financial risk	**Significant**	**Aggressive**	**Significant**	**Aggressive**
Modifier	None			
Standalone rating	**a-**	**bbb**	**bbb**	**bb+**
Government support*	**Very high***			
Issuer credit rating	**aa-**	**a**	**a**	**bbb+**

Ratio	Significant[1]	Aggressive[1]
FFO / Debt (%)	9 - 13%	6 - 9%

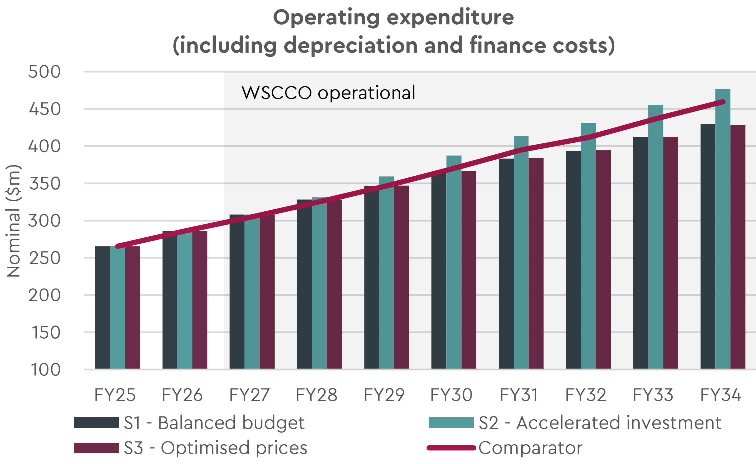
A large, regional water utility is likely to have an 'excellent' business risk profile and therefore could be in the 'aggressive' band whereas a small, rural water utility is likely to have a 'strong' business risk profile and therefore need to be in the 'significant' band to achieve an investment grade standalone rating (i.e. before any uplift for government support (e.g. from parent council(s)).

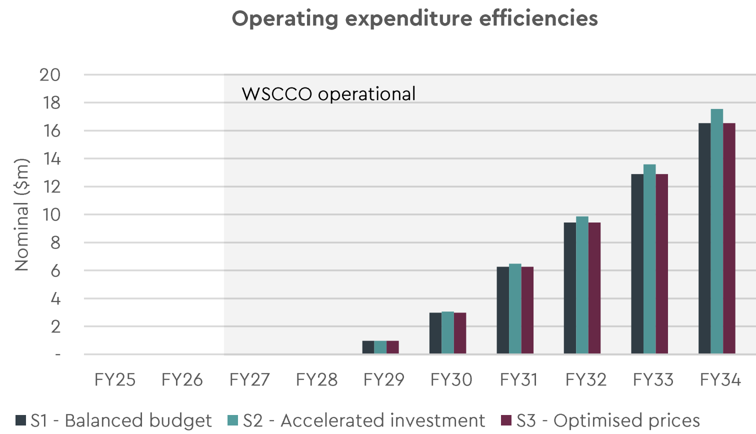
1. Assumes a 'strong' regulatory assessment applies once the regulatory regime is established and therefore the 'low volatility' metrics are applied.

Operating expenditure

WSCCO A

Projected operating expenditure





Scenario	Total opex (FY25-FY34) ($m)	Opex efficiencies p.a. (FY34) ($m)
S1 Balanced budget	$3,518	**$16.5**
S2 Accelerated investment	$3,714	**$17.5**
S3 Optimised prices	$3,519	**$16.5**
Comparator (status quo)	$3,601	**$0**

Opex efficiency	Cumulative efficiency (FY34)	Peak efficiency (FY44)
1.75% p.a.	8.4%	23.3%

Operating expenditure

Efficiency gains increase over time, with a two-year ramp-up post-establishment, and the full efficiency frontier reached 15-years thereafter. This means cost savings will **continue beyond the FY25–FY34 period modelled**, delivering ongoing benefits and savings to communities. *Operating efficiencies have been applied only to core operating costs. No efficiencies are applied to financing or depreciation costs.*

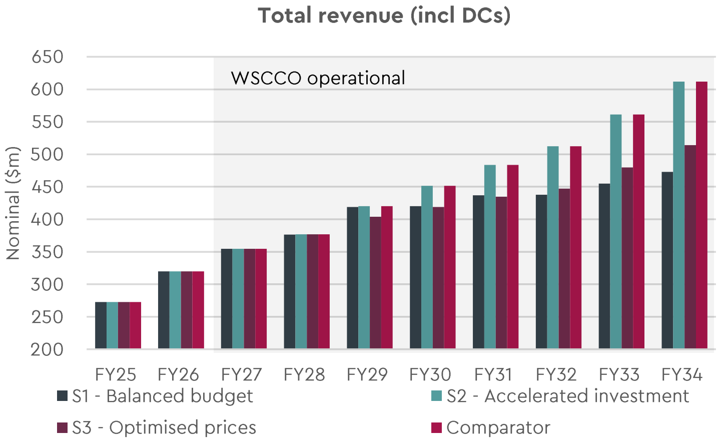
The **largest cost drivers over the forecast period** are **finance and depreciation**, accounting for approximately **half of total operating expenses**.

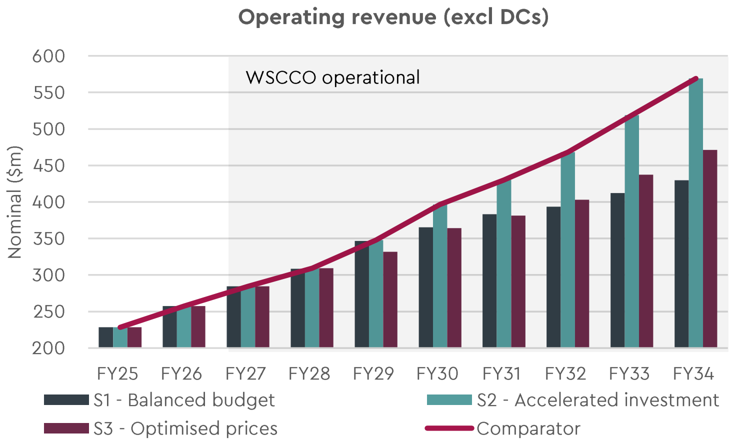
Scenario 2 provides for additional investment of up to $638 million, which drives additional **financing and depreciation costs.** This is enabled through a more **efficient capital structure**. *We have assumed this additional capex is primarily directed to improving existing assets and have not allowed for consequential opex.*

Operating revenue

WSCCO A

Projected revenues





Determining operating revenues

Under Local Water Done Well, the expectation is that operating revenues pay for operating costs with capital investment funded by capital sources (e.g., borrowing and development contributions).

This means operating revenues (and therefore charges for water services) should be set to recover all cash operating expenses plus a minimum FFO requirement (indicatively 8-12% of net debt, depending on the underlying council credit profiles).

We have adopted this approach to determine the level of revenue required, ensuring an efficient approach to setting water charges while maintaining borrowing at a prudent level.

The balanced budget scenario (S1) solves for zero operating surplus, meaning it has a more aggressive FFO –to-debt profile relative to the other scenarios which target a 10% FFO-to-debt ratio. The status quo comparator operates with lower leverage (i.e., an FFO-to-debt ratio of 14%).

Scenario	Total revenue, incl. DCs (FY25-FY34) ($m)	FFO-to-debt(FY34)
S1 Balanced budget	$3,964	8%
S2 Accelerated investment	$4,365	10%
S3 Optimised prices	$4,022	10%
Comparator (status quo)	$4,365	14%

Cost to consumers

WSCCO A

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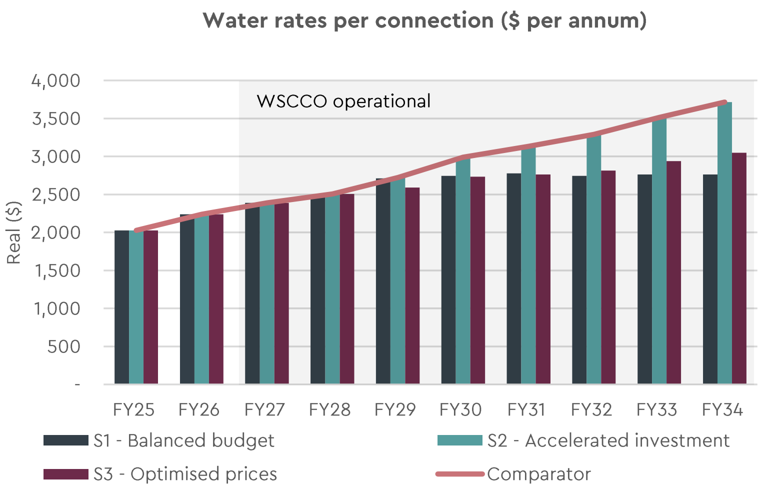
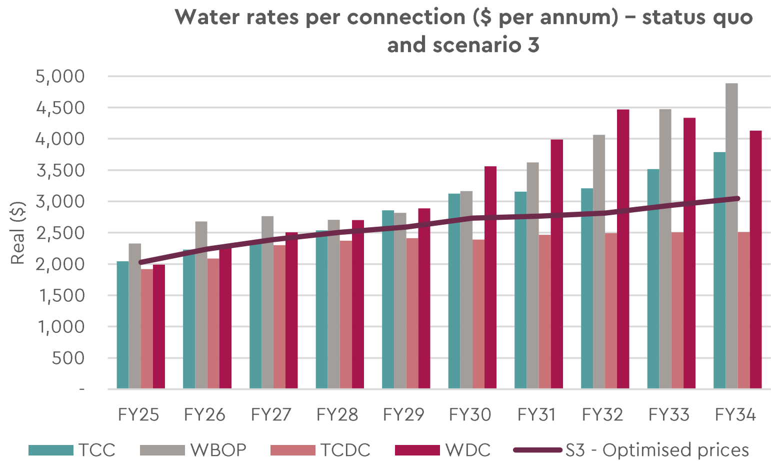
WSCCO price path





Water charges per connection

Under current council arrangements, the average water charge per connect is projected to exceed **$3,700 per connection annually*** (in today's terms). A **WSCCO could reduce this to as low as $3,050 per connection** across the councils.

Consistent pricing methodology

This approach reflects an entity level price per connection. We note that in practice the customers will like be subject to different tariff structures as they are currently. For ease of reference, individual council price paths are located in Appendix A, and include relevant observations on harmonised and non-harmonised price paths. A explanation of the approach is found in Appendix D.

Harmonising prices means that there are consistent pricing methodologies for similar households and users across the area served by the WSCCO. Good pricing principles would likely drive the setting of these charges over time to ensure the approach reflects the long-term costs of delivering water services regardless of the specific point in time investment requirements of those communities.

Council	Savings (cumulative) to current price path - Non-harmonised
A	+ve
B	+ve
C	-ve
D	+ve

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Appendix A: Individual Council findings

Note only includes Council who have considered advice

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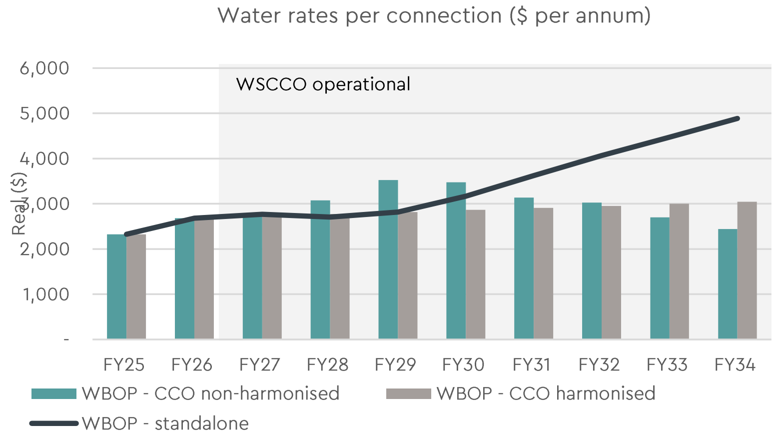
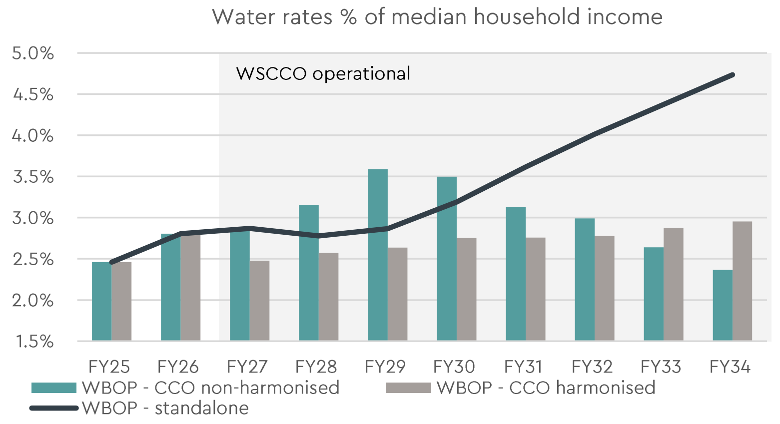
Western Bay of Plenty District Council findings – Optimised prices (S3)





Water charges per connection

Under current council arrangements, average water charges are projected to exceed **$4,880 per connection annually** (in today's terms). A **WSCCO could reduce this to as low as $3,050 per connection**, reducing the required increases by up to 38%, under a harmonised scenario and by up to 50% under a non-harmonised scenario.

Affordability of water charges

Affordability of water charges would improve for the WBOP community by FY30, compared to the status-quo. Efficiencies would build over time, likely generating further savings for your community.

Council	Savings (cumulative) to current price path - Non-harmonised
WBOP	~$4,350
B	+ve
C	-ve
D	+ve

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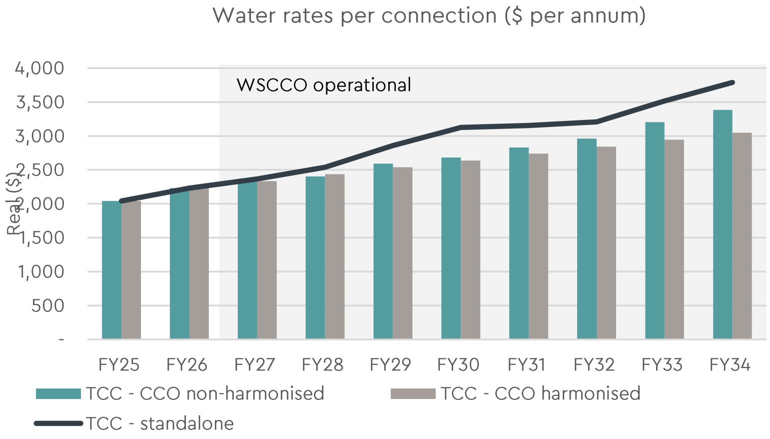
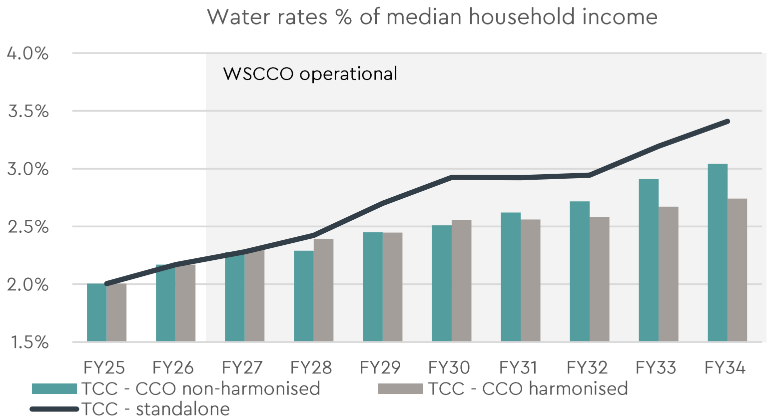
Tauranga City Council findings – Optimised prices (S3)





Water charges per connection

Under current council arrangements, average water charges are projected to reach nearly **$3,800 per connection annually** (in today's terms). A **WSCCO could reduce this to as low as $3,050 per connection**, reducing the required increases by up to 20%.

Affordability of water charges

Affordability of water charges would improve for the TCC community as early as FY28, compared to the status-quo. Efficiencies would build over time, likely generating further savings for your community.

Council	Savings (cumulative) to current price path - Non-harmonised
A	+ve
TCC	~$2,100
C	-ve
D	+ve

Appendix B: Approach to modelling

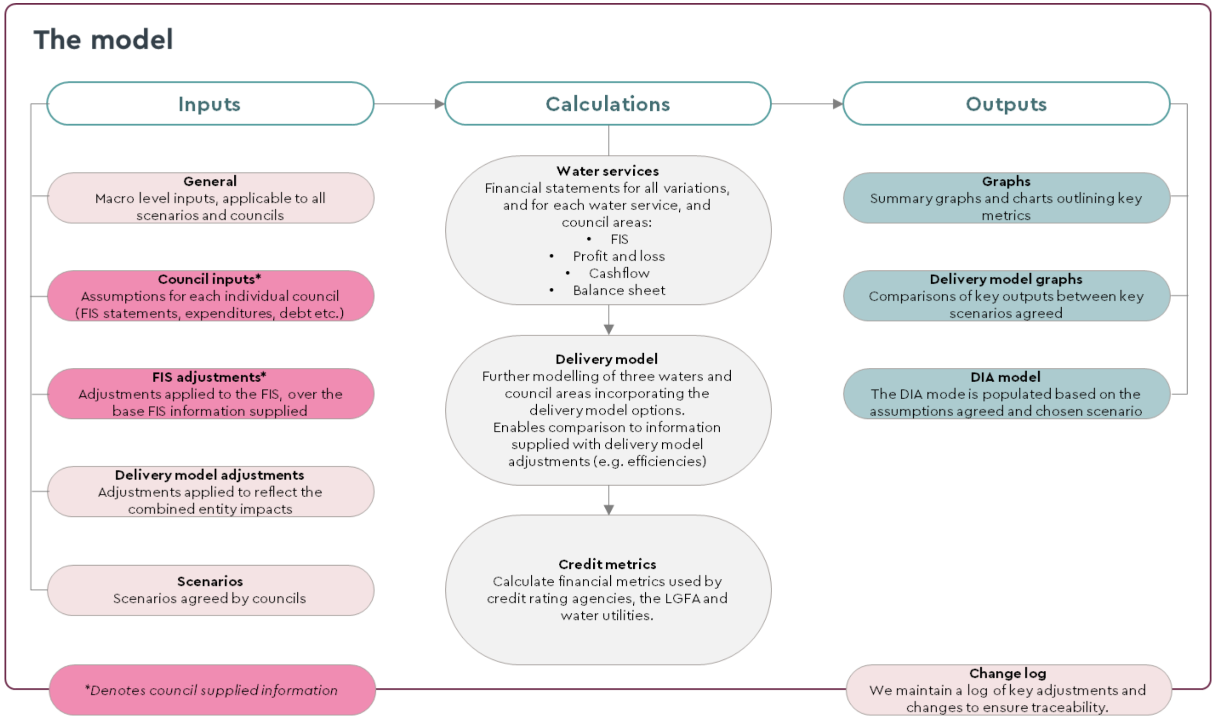
Our modelling approach

Our model builds on the Department of Internal Affairs WSDP financial template in a number ways including:

- Ability to solve for certain capital structures, financial ratios, revenue profiles and other key metrics. Testing and comparison of multiple scenarios.
- Incorporates efficiency assumptions for both capital and operating expenditure based on international benchmarks and scale of the proposed entity.
- Allows for estimated establishment costs.
- Models several key assumptions, based on evidence or information supplied by councils.

The usefulness of the model's outputs is dependent on the robustness of inputs and assumptions.

We have relied on information supplied by councils, with adjustments documented in the assumptions.



Base assumptions

Assumption	Commentary	Basis of assumption / source
Financing	LGFA has indicated that for multi-council CCOs the borrowing margin would be based on the weighted average borrowing margin of the participating councils. Default weighting will be based on ownership structure per LGFA guidance.	LGFA
Inflation	Each Council will have created their FIS with potentially different inflation rates. We rely on nominal inputs and do not attempt to normalise. We will present nominal and real figures for capital and operating spend.	BERL LGCI
Governance costs	WSCCOs will have a board of directors. We have assumed that the board will be comprised of **5 members**, with the following assumptions: • **Chair = $108,000 pa** • **Other board members = $54,000 pa** • **Meeting costs = $10,000 pa**	Watercare Services Limited (base)
Management costs	• **CEO = $400,000 pa** • **CFO = $300,000 pa** • **Other management costs are assumed to be captured within existing opex figures**	Relative to council salaries
Establishment costs (one-off)	Establishment costs are assumed to be: • **$10 million for four council entity scenarios** • **$9 million for three council entity scenarios** • **$8 million for two council entity scenarios** This covers transition activities, including legal, commercial and other due diligence, and fit out of premises and basic IT hardware. IT investment may not be fully captured. ***The model is not sensitive to this assumption.***	*Note: We assume that operating costs associated with establishment will be capitalised.*
Stormwater	Stormwater has been included for the purposes of the modelling.	
Levies	Commerce Commission (estimated $362,000) and Taumata Arowai (estimated $1.15m) levies will be built into the base case.	Commerce Commission and Taumata Arowai + population statistics
Optional price harmonisation	For the testing of price harmonisation, scenario 3 is used, with price harmonisation being phased in from FY27 to FY34 as a representative analysis.	Agreed by councils
Establishment date	The joint WSCCO is operational from 1 July 2026 (FY27), with all councils joining at the same time.	Agreed by councils

Base assumptions (allocations)

Assumption	Commentary		
Allocation of efficiencies, costs and revenues (non-harmonised)	Adjustments possible through the following →	• Asset value (book or replacement value) • Connections	• Population • Share of revenue • Share of opex
	Efficiencies have been allocated using an average of each of the options identified above. **Table one**, below sets outs the relative weightings of each measure to the participating councils.		

Table one: Allocation methodologies

Allocation methodology (WSCCO A)	WBOP	TCC	WDC	TCDC
Total connections	15%	55%	10%	20%
Population	20%	55%	13%	12%
Operating revenue	16%	55%	11%	18%
Operating expenditure	17%	56%	11%	16%
Asset book value	13%	64%	8%	15%
Asset replacement value	14%	56%	12%	18%
Average	**16%**	**57%**	**11%**	**16%**

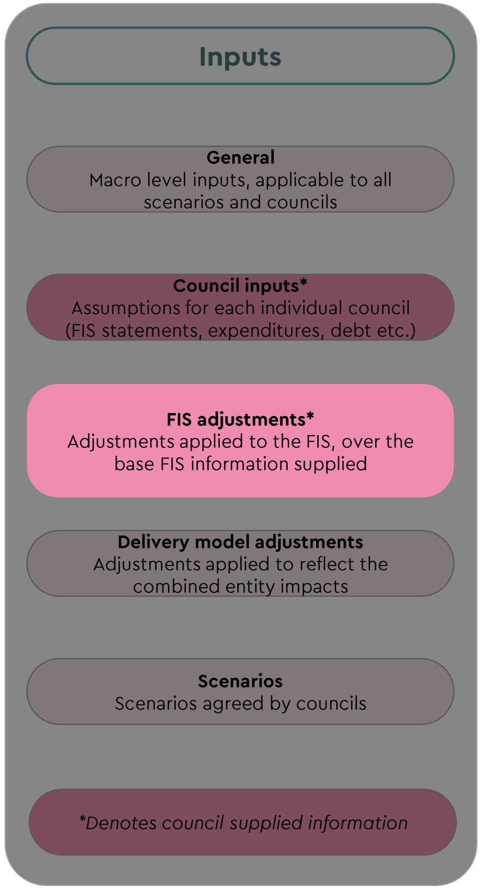
Efficiency assumptions

We have examined international experience where water utilities have been merged into larger public entities. Evidence suggests that efficiencies are largely driven by scale and the agglomeration benefits of a metro. For the proposed WBOP WSCCO, we have **applied the mid-point of** the following:

Composition	TCC + WBOP	TCC + WBOP + WDC	TCC + WBOP + TCDC	TCC + WBOP + WDC + TCDC
Characteristics				
No. of councils	2	3	3	4
Population (2023 census)	209,028	246,177	241,023	278,172
Proposed assumptions				
Opex efficiencies p.a.	1.2% - 1.4%	1.3% - 1.5%	1.3% - 1.5%	1.5% – 2.0%
Capex efficiencies p.a.	1.0% - 1.3%	1.1% - 1.4%	1.1% - 1.4%	1.3% - 1.5%
Commentary	Consistent with prior advice to TCC.	The addition of WDC offers marginal scope for operational efficiencies and capex efficiencies.	The addition of TCDC offers marginal scope for operational efficiencies and capex efficiencies.	Larger scale and concentrated urban area (TCC + WBOP) offer greatest scope for operating efficiencies. Capex efficiencies relatively higher due to larger asset base and procurement pipeline.

The above efficiencies represent a MartinJenkins view of reasonable efficiency assumptions that could be applied to support financial assessment of alternative options. The assumption should be applied on a compound (diminishing rate) basis from year-2 onwards. Note the above estimates apply after adding incremental establishment or operating costs.

Main adjustments to data provided



Whakatāne District Council

- Changes to the LTP capital programme based on data provided by the council (from Tonkin & Taylor) to ensure capex projections meet LWDW requirements for compliance with regulatory requirements.
  - The additional capex is debt funded with corresponding increases in interest and depreciation costs.
  - Consequential opex information supplied by WDC has also been included.
  - The revenue path for WDC was adjusted to support this new capex. It was adjusted to maintain water debt at 450% debt-to-revenue.

Thames Coromandel District Council

- Adjustment to household income data to reflect non-resident ratepayers (holiday homes) and older demographics (fixed incomes). This is consistent with TCDC's practices.

Tauranga City Council

- No adjustments have been made to data supplied by TCC.

Western Bay of Plenty District Council

- No adjustments have been made following updates to "Alternative Revenue" scenario modelling. This is consistent with updated data that has also been provided to DIA.

Appendix C: Additional information on efficiencies

We have had to make assumptions regarding the policy and regulatory environment (including economic regulation) and quality of governance and management given their critical impact on potential realisable efficiency gains

What efficiencies are gained by moving to professional Boards but with sole council ownership?

International water reform has tended to involve a combination of legislative reform, improved quality and economic regulation, corporatisation and professionalisation of governance, aggregation or amalgamation of service delivery and, in some cases, privatisation. As a result, it is very difficult to disentangle the impact of any one element from other changes.

We consider corporatisation and professional Boards provide an opportunity to improve governance and management, when supported by appropriate institutional and regulatory frameworks. Professional Boards alone, as demonstrated by entities like Wellington Water Limited, are insufficient to drive high-performance improved efficiency. A key differentiator is having Boards empowered with integrated oversight of investment, pricing, and financing decisions, and subject to economic regulation. This alignment of decision-making responsibilities with asset stewardship creates stronger incentives for effective and efficient operations than a professional Board operating with limited decision-making scope.

The assumption of improved governance and strategic focus is reflected in all scenarios being analysed. However, evidence clearly suggests that stronger corporate governance alone is insufficient to realise significant efficiency benefits without being coupled with clear strategic priorities, a service delivery model that provides appropriate incentives for the Board, and a strong-form economic regulation.

We have assessed efficiency on the basis that corporate structure, council performance and clear policy priorities are not compromising factors.

We have had to make assumptions regarding the policy and regulatory environment (including economic regulation) and quality of governance and management given their critical impact on potential realisable efficiency gains

The role of the economic regulator is yet to be determined, and this may have an impact on efficiency realisation.

Separate water CCOs can expect more focused attention from future regulators, with structural separation supporting greater transparency and accountability for delivery. However, given the costs of customized, entity-specific regulation, this is likely to be reserved for a small subset of the largest entities.

A key question is the extent of attention a water CCO gets under the future economic regulatory regime, and the degree of customisation to the entity's particular circumstances. This is an unknown as there is limited information currently on the approach the Commerce Commission will take, and the threshold for when they will move from an Information Disclosure regime to stronger forms of regulation (e.g., Price-Quality regulation). However, we know that Watercare will be subject to a price-quality path from 1 July 2025 under an interim regulatory scheme and is expected to transition to price-quality regulation under the enduring regulatory framework.

There are two plausible scenarios here:

1. Most water services providers (including inhouse council business units) are subject to information disclosure-only, with only the largest metropolitan CCOs subject to a stronger form of regulation
2. All inhouse council business units are subject to ID-only, with all independent water CCOs subject to some form of stronger regulation (see for example the PREMO model in Victoria).

Evidence base to support efficiency assumptions

Significant improvements in efficiency have been achieved in overseas jurisdictions that have pursued reform of a similar nature to that proposed in New Zealand. For example:

Productivity Commission

- In Australia, the Productivity Commission found that service delivery reform has helped to improve efficiency and deliver significant benefits for water users and communities. National Water Reform - Draft Report (pc.gov.au)

Frontier Economics

- In its review of the experience with water services aggregation in Australia, Great Britain, Ireland and New Zealand (Auckland) finds that there is "strong and consistent evidence" that reforms have led to significant improvements in productivity and efficiency. Review of experience with aggregation in the water sector (dia.govt.nz)

FarrierSwier

- In its review of WICS methodology, FarrierSwier commented on the potential that exists for efficiency gains from amalgamating water services in New Zealand and notes significant improvements are possible through aggregation and associated reforms, including improving the ability to attract and retain skilled management and staff, more effective procurement functions, asset level optimisation and reduction in corporate overheads and duplicative functions. Farrierswier - Three Waters Reform Programme - Review of WICS methodology and assumptions underpinning economic analysis of aggregation - 2 May 2021 (dia.govt.nz)
- In an independent review of the Essential Services Commission's PREMO regulatory model in Victoria, Australia, FarrierSwier found that water companies set efficiency targets through its 2018 Price Review ranging from 1.0% p.a. to 2.7% p.a. (averaging 1.8% p.a. across 15 regulated water authorities). While all but two companies delivered reductions in controllable opex per connection, the actual opex savings reported were lower than the target (ranging from 2.2% to -0.2% and average 0.9% p.a.) Victoria's water sector: The PREMO model for economic regulation

WICS

- WICS reports that Scottish Water has been able to reduce its operating costs by over 50% since reform, while improving levels of service to customers and absorbing the new operating costs associated with its investment programme. WICS Supporting Material 2 - scope for efficiency (dia.govt.nz)

UK Water Trade Association

- A report for the United Kingdom water trade association found that reform of the water industry in England resulted in annual productivity growth of 2.1% or 64% over 24 years when adjusted for service quality improvements. Water-UK-Frontier-Productivity.pdf

The Victorian model is a strong example of driving greater focus on customer, and driving cost efficiencies and reducing customer bills

In the mid-1990s, Victoria's water industry underwent significant restructuring. The provision of water services was largely corporatised, so that over 80 water providers became 20. This reform had an impact on the price consumers pay for water, as well as the terms of service delivery. As part of the restructuring process (in conjunction with the privatisation of the energy industry), the Kennett Government established the Office of the Regulator-General, which later became the ESC. On 1 January 2004, the ESC became the economic regulator for all water businesses in Victoria.

In the State of Victoria in Australia, the Essential Services Commission makes individual price determinations using its PREMO framework for four metropolitan water businesses (South East Water, Yarra Valley Water, Greater Western Water, Melbourne Water) and 11 regional urban water authorities (Barwon Water, Central Highlands Water, Coliban Water, East Gippsland Water, Gippsland Water, Goulburn Valley Water, Lower Murray Water (urban), North East Water, South Gippsland Water, Wannon Water and Westernport Water). These entities range in size, from 20,000 customers (Westernport Water) to 2 million customers (Yarra Valley Water).

There is strong evidence that regulation under the PREMO regime, combined with well governed and managed water businesses, led to a much greater focus on their customers and improved customer outcomes (see two independent reviews by FarrierSwier of the PREMO model on the Essential Service Commission's website). Under the PREMO framework, water businesses are required by the regulator to commit to a range of customer outcomes and associated performance measures and targets as part of their price submissions.

The PREMO model in Victoria has been effective in incentivising water businesses to pursue cost efficiencies and minimise prices for customers. Water businesses' opex efficiency improvement targets averaged 1.3% in the 2023 price review. This is lower than the 1.8% average opex efficiency hurdle in the 2018 price review, but higher than the standard 1.0% rate the commission applied prior to the introduction of PREMO.

The lower efficiency hurdles in the 2023 price reviews reflects the view that Victorian water businesses are now operating close to the 'efficient frontier' following years of regulation.

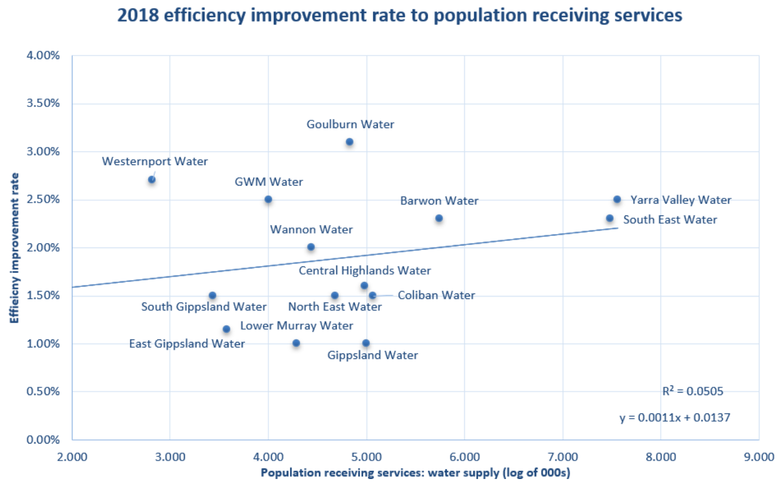
Analysis of Victorian utilities demonstrates potential deliverable efficiencies may improve with scale

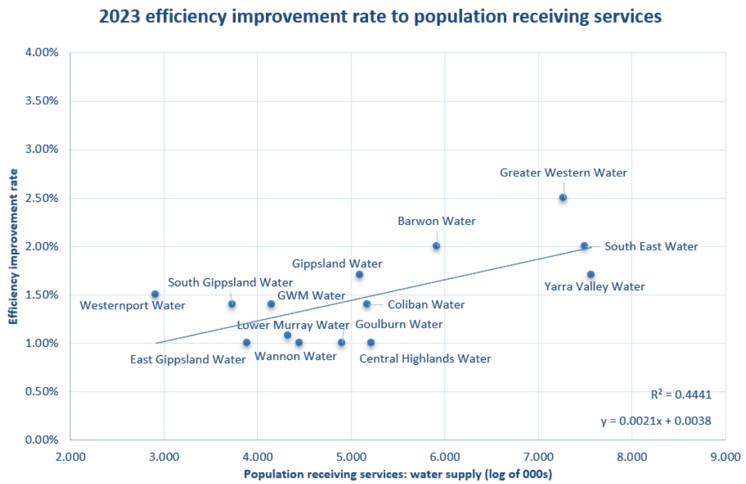
While actual performance data across Victorian utilities is limited and inconsistent (discussed overleaf), analysis of regulatory efficiency targets (hurdles) provides valuable insights into the relationship between scale and expected improvements.

We have analysed the efficiency improvement hurdle imposed by or agreed with the Essential Services Commission in Victoria for each of the price reviews in 2018 and 2023 against scale (measured by population served).

The analysis highlights a clear relationship in the 2023 price review where larger entities were set a higher efficiency improvement hurdle for the ensuing five years. Larger entities were set efficiency hurdles of 1.5 – 2.5% per annum despite already being regulated for over 15 years.

The relationship in the 2018 price review is less clear (largely driven by a number of smaller entities with efficiency improvement hurdles of 2.5 – 3.0%), reflective of a greater weighting on industry-wide catch-up efficiency. The larger entities in this price review were still set efficiency targets of approximately 2.5% per annum for the ensuing 5 years. We also note that most entities serving 200,000 or less population (5.3 on X-axis) were set targets of 1 – 1.5% in both price reviews.





Source: Essential Services Commission, Victoria Water Price Reviews 2018 and 2023

The Australian national performance report does not measure efficiency however average operating expenditure per property can be analysed

This analysis captures all Australian water utilities however does not track actual efficiency improvement and as such is only intended to be used for verification rather than in determining the efficiency opportunity purposes. We note that inferences from this data should be undertaken with caution given the limited sample size in each category (shown below graph) and the numerous factors influencing operating costs per property. External variables such as geographic dispersion, water sources, treatment requirements, growth impacts and infrastructure delivery methods make comparisons challenging (despite averaging approach).

Operating costs vary significantly by utility size

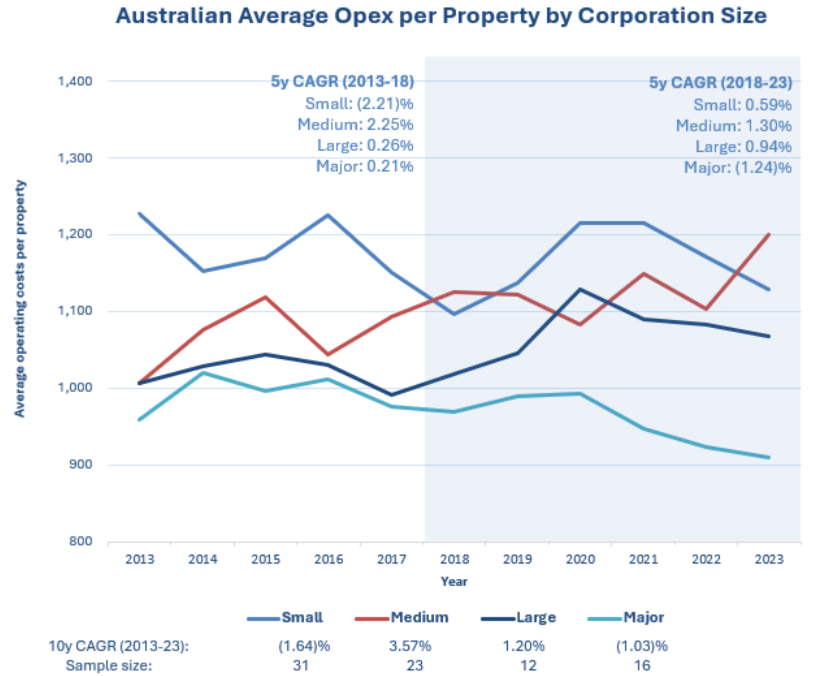
Major utilities (100,000 plus connections) consistently demonstrate the lowest operating costs per property (around $900–1,000) likely partly due to economies of scale as well as higher density.

10-year horizon highlights benefit of scale

Major utilities annualised growth over the period 2013 – 2023 outperformed large and medium utilities by 2.2% and 4.6% respectively. Small utilities average operating cost per property reduced by more than the major utilities however off a substantially higher base.

Dataset highlights variability over time

We note there are limited differences between medium, larger and major utility cost per property changes in the first five-year period (2013 – 2018) with all of the differential occurring in the second five-year period (2018 – 2023). The small utility dataset shows an irregular pattern over time.



Source: Urban NPR Dataset 2023
Note: four outliers with extreme operating costs per property have been removed from the Small utility group dataset.
Note: CAGR stands for 'Compound Annual Growth Rate', which is the cumulative average annual growth rate over the period.

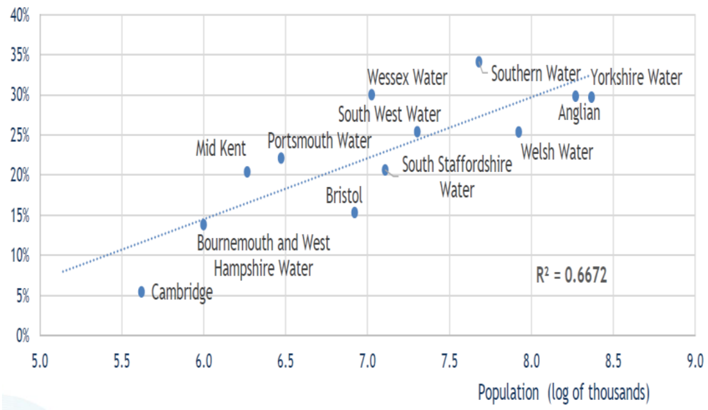
Small	Medium	Large	Major
Less than 20,000 connected properties	Between 20,000 and 50,000 connections	Between 50,000 and 100,000 connections	Over 100,000 connections

WICS compared efficiency for different scale UK water utilities following corporatisation, and used this to inform estimates for NZ councils

Water Industry Commission for Scotland (WICS) undertook analysis of the observed operating efficiency improvement for the different UK entities over a six-year period commencing with corporatisation (between 1994 and 1996) relative to the population served. In terms of quantifying the gains, the evidence indicates a non-linear relationship between scale (measured as population size or number of connections) and potential efficiency (see graph below). The WICS models are based on models developed by Ofwat and have been in use for 20+ years in England, Wales and Scotland.

There are diminishing returns to scale, with maximum scale reached with a connected customer base of 600,000-800,000. For councils below 60-70,000 population there is minimal scope for efficiency gains. This is consistent with management theory, whereby small entities are unable to achieve high levels of asset management maturity, procurement gains etc. WICS utilised the below to estimate efficiency gains for different scales of entity. WICS reduced the potential efficiency gains by a factor of 5 for scenarios where economic regulation, strong corporate governance and clear policy objectives were considered not present.

WICS calculated improvement in efficiency (over 6-year period following corporatisation) for UK water utilities and assessed catch-up potential for NZ



Council Area	LGNZ classification	Population served (thous)	Log of populatio n	Assessed catch-up based on observed experience
Auckland	Metro	1,758	7.47	100%
Christchurch	Metro	385	5.95	55.1%
Wellington City	Metro	223	5.41	38.9%
Hamilton	Metro	162	5.09	29.6%
Tauranga	Metro	143	4.97	25.9%
Dunedin	Metro	121	4.80	21.0%
Palmerston North	Metro	89	4.49	11.8%
New Plymouth	Provincial	64	4.16	2.0%
Hastings	Provincial	64	4.15	1.9%
Upper Hutt	Metro	63	4.14	1.6%
Rotorua Lakes	Provincial	62	4.13	1.3%
All other Councils		<60	4.1	0%

Source: Water Industry Commission for Scotland

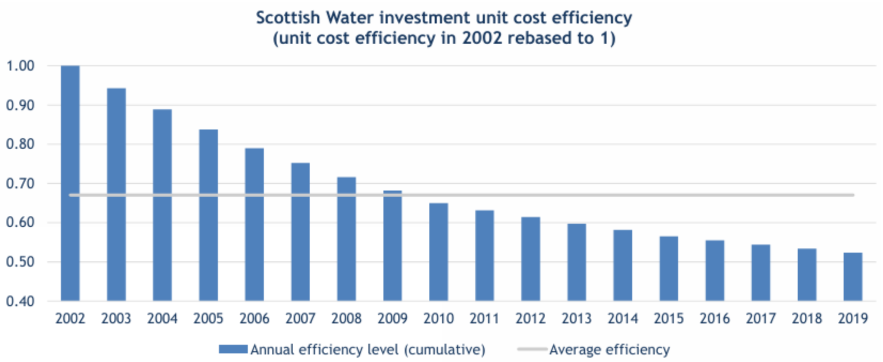
The table above shows the estimated potential efficiency improvement (%) that each NZ council could achieve relative to Watercare (i.e., New Zealand's most efficient water company), based on the observed efficiency improvements of similar-sized UK water utilities in their first 6 years following corporatisation.

The capital efficiency evidence base is less robust due to information scarcity. WICS utilised the capital efficiency achieved in Scotland reforms to estimate potential efficiency deliverable in NZ

There is limited international information readily available that enables a robust estimate of the potential capital efficiency gains possible from water reform in New Zealand. This reflects a lack of investment unit cost efficiency reporting which is necessary to ensure capital efficiency can be identified (as opposed to capital expenditure deferral or other driving factors).

WICS are the economic regulator for Scottish Water under a detailed and comprehensive economic regulation model. As such WICS have a detailed understanding of the Scottish Water investment unit cost efficiency over time. This information is presented below and highlights that as a result of reform, Scottish Water achieved approximately 45-50% lower capital expenditure unit costs between 2002-2019. WICS also noted that Scottish Water had recently committed to achieving further 0.75% real improvements in capital expenditure unit costs annually until 2040 suggesting significant further long-term efficiency gains were possible.

WICS considered that under the previous NZ water reform model (including necessary scale, professionalisation of Boards / governance and strong-form economic regulation) that NZ entities could achieve similar improvements. WICS worked closely with Watercare (and other councils) to understand potential differences between NZ and Scotland that would limit the potential capital efficiency achievable and edit efficiency targets to account for these differences.



Source: Water Industry Commission for Scotland

FarrierSwier in reviewing the WICS approach noted that:

- While this represents a reasonable starting point the analysis suffers from several limitations, including that Scottish Water's experience could differ markedly from what may be achievable in New Zealand.
- The top-down efficiency assumption was also not adjusted to account for differences between Scotland and New Zealand in key expenditure drivers, potential for asset optimisation and any other driving factors.
- Without such adjustments or comparison to other case studies, it is hard to say whether the Scottish Water experience is a reasonable guide for what is achievable in New Zealand.

As such we believe it is prudent to use a significantly more conservative capital efficiency assumption (relative to WICS) and vary this less with increasing scale.

Appendix D: Approach to price paths

Harmonised and non-harmonised price paths

Approach to price paths

The councils jointly agreed to model three scenarios based on an agreed set of assumptions including:

- Efficiency gains for operating and capital spend
- A capital structure based on a target FFO:debt ratio of 10% (the mid-point of LGFA's guidance).

It was agreed that modelling should demonstrate the differences in price paths for each participating council, based on the above assumptions, for both a harmonised and non-harmonised price path, with both alternatives compared to the standalone price path implied in the data supplied by each council, post adjustments. This is tested against scenario 3 (optimised prices).

Determining a non-harmonised price path

1. The model takes the initial debt, revenues, and expenditures for each constituent council, effectively ringfencing borrowing, revenues, and expenditures.
2. Establishment costs and ongoing incremental costs are allocated back to each council using the agreed basis for apportionment. E.G. If the costs are $10 million, and Council A's apportionment is 20%, then $2 million is allocated to Council A.
3. Entity level efficiency assumptions are applied each individual council's forecast opex and capex projections.
4. In summary, the net cashflow impact of the establishment and incremental costs are allocated back to each council's starting operating and debt positions. The price path for each council is then recalculated by solving, at the council level, for the revenues required to maintain the FFO-to-debt ratio at 10%. **Note, this calculation is performed for each council, resulting in varying revenue per connection at council level.**

This approach has the effect of sharing the net benefits of efficiency savings with each district, by lowering prices relative to their standalone price path, but does not result in cost-sharing between districts.

Determining a harmonised price path

1. The model combines the initial debt and projections of revenues and expenditures into an aggregate CCO view.
2. Establishment costs and ongoing incremental costs are added to the CCO's starting debt position and forward opex projections, with efficiencies applied to forecast opex and capex projections to reduce the WSCCO's cash outgoings.
3. The net cashflow impact of these changes is incorporated within the aggregate WSCCO cashflow projections (i.e., they do not sheet back to individual districts).
4. The price path for the WSCCO is determined by solving for revenues required to maintain FFO-to-debt ratio at 10%. **Note, this calculation is performed at the WSCCO level. Revenues are then allocated to each district according to the number of connections,** resulting in each district having and equivalent revenue per connection .

This approach basis has the effect of sharing debt, revenues and costs between districts (noting that, net of efficiencies, most customers are likely to be better off relative to the standalone position once benefits are accounted for).