



Share allocation options for multi-council owned water organisations

Councils establishing a multi-council owned water organisation will need to agree how to allocate the number of shares in the water organisation between the shareholder councils. This is relevant at the establishment of the water organisation, but also when a new council joins the organisation or an existing council exits the water organisation. When selecting a share allocation method, the following should be considered:

- the rights and obligations of each council that are determined by the level of shareholding, and whether each council is able to discharge those obligations;
- the ease of implementing the allocation method (which can avoid disagreements), including the availability of the information required, ensuring transparency of the methodology and updating the share allocation (where applicable – see above); and
- whether the allocation can be made transparently and able to be explained simply to key stakeholders (including ratepayers).

The table below outlines five options for how shares can be allocated across councils, with benefits and risks associated with each option.

This guidance has been prepared to provide information to councils considering options as to how shareholding allocations could be determined for multi-council owned water organisations. It is important to note that:

- New Zealand Local Government Funding Agency Limited (LGFA) will require shareholder guarantees or uncalled capital to be in place for LGFA funding of water organisations; and
- the structure or allocation of guarantees or uncalled capital does not necessarily need to be attributed to shareholding councils on the same basis as shareholding allocations.

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

Option 1 - Population allocation

The shares in the water organisation are to be allocated to each council shareholder based on the proportionate population of its service area (as determined by the most recent census data) against the population of all of the service areas of all of the council shareholders. Relative shareholding can be reviewed and updated at agreed frequency (e.g. five yearly) to reflect population changes, or earlier, when any council joins or exits as a shareholder.

Benefit

- Likely to more accurately reflect the relative level of effort and assets required by the water organisation to serve each community within a council's service area, without being masked by the number households (without reference to household size).
- Provides a better proxy for the relative number of individuals entitled to vote in local government elections, and is simple to calculate.

Risk

- Census data is available only every five years, and may be out of date when used for share allocation, in particular where there is rapid change to the relative populations between the service areas of the councils.
- The census may not provide accurate information if there is low participation.
- The allocation will not reflect the value of the net assets (after deduction of liabilities) transferred by each council to the water organisation.

Implications of shareholding levels

Shareholding levels affect:

- voting rights in respect of decisions made by the Shareholder Council of the water organisation or, if there is no Shareholder Council, shareholder decisions generally (e.g. ability to appoint directors, reserved shareholder matters such as major transactions, amendments to the constitution etc);
- rights to approve dividends and the proportion of any dividends received by a shareholder (if any);
- rights to approve the distribution of assets on dissolution of the water organisation, and potentially what assets/the proportion of assets each shareholder may receive on dissolution;
- the amount of uncalled capital to be provided by each shareholder;
- the ability to require the rights of a defaulting shareholder to be suspended until the defaulting issue is addressed;
- involvement in the water organisation's water services strategy and water services annual budget (e.g. if the approach provided for in the water organisation's foundation documents gives shareholders the ability to approve these documents – see section 236 of the Local Government (Water Services) Act 2025);
- rights to approve the issue of shares and the transfer of shares by other shareholders; and
- rights to approve the remuneration of directors.

Option 2 - Connections allocation

The shares in the water organisation are to be allocated to each council based on the number of water connections (residential and commercial) in the council's service area (as determined by the water organisation's records). The number of connections in a community would be a proxy for the number of water ratepayers in that area. Again, relative shareholding can be reviewed and updated at an agreed frequency (e.g. five yearly) to reflect changes to the number of connections or earlier, when any council joins or exits as a shareholder.

Benefit

- More reflective of the number of water users that will be required to pay water user charges.
- The water organisation will hold accurate data on the number of connections.
- Simple to calculate.
- Allocation can be updated more frequently than option 1 as connections data will be readily available and up-to-date.

Risk

- The number of connections may not reflect the extent of water services provided by the water organisation (e.g. one large industrial user vs a one-person household will each be counted equally for the purposes of this option). However, water usage will be relevant to water charges paid by water users to the water organisation, and will be less relevant to the shareholding control of each council as the councils are not directly funding the activities of the water organisation. If desired, greater weighting can be applied to larger users.

Option 3 - Net asset value allocation

The shares in the water organisation are to be allocated to each council based on the total net value of the council's assets (minus agreed liabilities) transferred to (or from) the water organisation in a transfer agreement*, at the time the organisation is established or when any council joins or exits as a shareholder. For example, one share will be issued for every \$500,000 (net value) of water assets (minus agreed liabilities) transferred to the water organisation.

[*A transfer agreement is required under sections 12 and 15 of the Local Government (Water Services) Act 2025, and must contain information on the assets and liabilities being transferred (among other matters).]

Benefit

- Recognises the extent of assets (less liabilities) each shareholding council is transferring to the water organisation.

Risk

- The allocation will need to address potential negative net asset value being transferred to the water organisation.
- More complex to calculate, in particular when other councils join as shareholders later. Reallocation of shares may have to address how depreciation and asset value write-offs post establishment of the water organisation are treated, and the benefit that the water organisation has had of the assets transferred earlier, to ensure relative share proportions between councils continue to be fair.
- Decisions as to how to allocate new assets built by the water organisation will also need to be made, which could be determined by location (i.e. based on which service area the asset is located in), or by use (i.e. which users benefit from the asset).

Other considerations

Initial capital water organisation contribution:

Councils establishing a multi-council owned water organisation may be required to contribute initial working capital to the organisation while it builds up its revenue base. The obligation to make such proportionate contribution may be determined by the relative shareholdings between the councils (whether or not such contributions are in the form of equity or repayable shareholder loan).

Upside of early participation: Should councils that join at the establishment of the water organisation be issued relatively more shares than those that join later? Given the expected long tenure of the organisation, any decision to favour early shareholders over later joiners should be justified reasonably and transparently.

Council guarantees: Shareholders are likely to be required to guarantee any financial liabilities of the water organisation owed to LGFA, which may be by way of having uncalled capital payable in accordance with the water organisation's constitution and shareholders' agreement.

Option 4 - Equal proportion allocation

The shares in the water organisation are to be allocated to each council equally. For example, each of four participating councils is issued 100 shares each.

Benefit

- Provides equal shareholder rights to all councils, which avoid risk of minority shareholder concerns, and facilitates equal participation by all councils.

Risk

- Does not reflect the relativities of each council's community size or the likely extent of the community's water needs, or the assets and liabilities being transferred by the councils into the water organisation. This means a smaller council will have equal rights despite the smaller population and lower demand for water services.
- Smaller councils will have greater influence over the water organisation that is not proportionate to the factors identified in the above point.

Option 5 - Combination

The shares in the water organisation are to be allocated through a combination of the methods above. For example, 50% of the shares could be allocated based on number of water connections and 50% based on net asset value.

Benefit

- This will be a combination of the benefits of the options selected, though each will have a reduced impact.

Risk

- This will be a combination of the risks of the options selected, though each will have a reduced impact.