

# Water Services Delivery Plan Assessment

Assessment Report – Hurunui and Kaikōura

Date completed: 25 August 2025

**Te Kāwanatanga o Aotearoa**  
New Zealand Government



**Internal Affairs**  
**Te Tari Taiwhenua**

## Glossary and abbreviations

The table below sets out the abbreviations used in this report.

Term	Abbreviation
Council Controlled Organisation	CCO
Department of Internal Affairs	Department
Funds From Operations	FFO
Hurunui District Council	HDC
In-house Business Unit	IBU
Kaikōura District Council	KDC
Levels of Service	LOS
Local Government Funding Agency	LGFA
Local Government (Water Services Preliminary Arrangements) Act 2024	Preliminary Arrangements Act
Long-term Plan	LTP
Secretary for Local Government	Secretary
Service Level Agreement	SLA
Waimakariri District Council	WDC
Water Services Council Controlled Organisation	WSCCO
Water Services Delivery Plan	Plan

# Assessment Cover Sheet

## Background on Councils and engagement with the Department

Detail	Commentary
<b>Councils involved in Plan</b>	Hurunui District Council and Kaikōura District Council.
<b>Number of connections</b>	11,678 total connections across both districts in 2024/25.
<b>DIA comment on council engagement during Plan development process</b>	<p>HDC and KDC were initially focussed on the possibility of a North Canterbury joint model (alongside WDC). In early September 2024, they undertook to develop financial modelling for a joint model which demonstrated the option would be viable but advised the Department they were interested in a range of options for working collaboratively, including shared services. They requested that LGFA consider and approve how LGFA financing arrangements could be applied to different approaches, such as a shared service model with revenue setting powers.</p> <p>On 23 January 2025, councils of the North Canterbury grouping met with the Department to work through considerations for a joint approach.</p> <p>On 28 February 2025, the three North Canterbury councils released a joint statement signalling WDC’s preference to go in-house, and KDC and HDC decided to pursue a joint WSCCO as their preferred option for consultation. The statement expressed intent for continued collaboration between the councils.</p> <p>HDC and KDC commenced consultation on a preferred multi-council WSCCO model between the two Councils on 20 March 2025. Following consultation, the Councils resolved in mid-late May 2025 to submit a Plan reflecting their preferred option.</p> <p>HDC and KDC are aware further collaboration is desirable in the medium to long term and will continue to explore options in the short term.</p>
<b>Feedback provided to Councils prior to submission on Draft Plan</b>	On 16 July 2025, the Councils submitted a draft Plan to the Department for review. On 23 July 2025, the Department met with the Councils prior to sending out a written response to outline material concerns from the assessment of the draft. Feedback on the draft noted that revenue requirements set by LGFA were not met, projected renewals were lower than projected depreciation, and FFO was lower than 11% over the period of the Plan.

<b>Engagement with Councils during review and assessment process</b>	The legislative compliance check highlighted a missing section of the Plan which was subsequently provided by the Councils.
<b>Other background comments</b>	N/A

# Assessment Summary

Section	Commentary
<b>Confirmation of completeness checklist</b>	Yes – all required components completed.
<b>General Comment on Plan</b>	<p>The three water CCO Plan demonstrates investment and revenue sufficiency across 10 years but the Plan exceeds LGFA’s five-year phase in period for meeting its financial covenants. Achieving financing sufficiency will require a bespoke funding agreement with LGFA to comply with its financing guidelines for CCO’s.</p> <p>The LGFA board can consider and approve exceptions to their standard covenants, and we understand they have undertaken to do for these two councils but offer no guarantee until a formal request for lending has been made.</p> <p>The Plan indicates a maximum two-year extension is required on the five-year phase in period to meet LGFA’s FFO ratio. The Plan forecasts FFO cover for 2030/31 of 6.6% compared to LGFA’s guideline of 10%. However, by 2032/33 the FFO is forecast to be 10.3%, noting in 2031/32 the forecast FFO is only 7.4%. The Plan meets LGFA’s interest cover ratio guideline from 2027/28 onwards and this improves consistently over the Plan.</p> <p>The assessment noted the following:</p> <ul style="list-style-type: none"> <li>• The Plan demonstrates investment sufficiency and HDC has made a significant investment in treatment infrastructure to meet regulatory requirements in recent years.</li> <li>• The proposed price pathway underpins affordability for these communities and over the 10 years it increases to show strong revenue sufficiency and exceeds FFO guidelines.</li> <li>• HDC and KDC are aware and will actively seek further collaborative arrangements to improve financial sustainability.</li> <li>• Interest cover improves from 2027/28 and has 1.79 times increasing to 2.54 times by 2030/31, and 3.41 times 2033/34, exceeding LGFA guidelines of 1.75 times within five years of establishment.</li> <li>• HDC and KDC have historically demonstrated their ability to deliver planned capital expenditure.</li> <li>• The Councils were left with little time to secure an alternative solution after more than a year of collaboration on a joint model with WDC.</li> </ul> <p>This is likely to be linked to a further collaborative arrangement.</p>

Section	Commentary
<b>Financial Sustainability Comment</b>	The Plan meets the definition of being “financially sustainable” set out in s 5 of the Act as the revenue is sufficient to ensure the long-term investment in delivering water services, and the level of investment is sufficient to meet levels of service, regulatory requirements and to provide for growth.
<b>Revenue Sufficiency</b>	<p>The average projected charges for water services from 2024/25 to 2033/34 shows a consistent 6.8% rise every year. Projected water services revenues do not cover the projected costs of delivering water services until 2031/32 when a net surplus is reached due to the proposed pricing strategy, and fully funding depreciation over the Plan. This is not a concern due to the age of their assets.</p> <p>Prices could be increased in the early years to enable a net surplus to be achieved earlier. However, the 10-year Plan has projected operating cash surpluses for water services every year.</p>
<b>Investment Sufficiency</b>	Projected water services investment is sufficient to meet levels of service, regulatory requirements and provide for growth. Renewals are planned but are lower than project depreciation and there is a reasonable explanation along with a plan to remediate this. The proposed level of investment is consistent with the LTP and there is a reasonable approach to fully funding depreciation investment by 2033/34. Significant asset replacement will not occur until after 2034 due to the age and remaining useful life of the asset portfolio.
<b>Financing Sufficiency</b>	<p>Debt is projected to nearly double over the 10 years of the Plan, starting at \$62m in 2024/25 and ending at \$110m in 2033/34. Net debt to operating revenue is high as it is above 417% in all years apart from the first and the last two years. There is limited headroom based on the 500% limit to cover unforeseen events or costs and gets as low as \$3.6m in 2027/28. We recommend that the level of debt and headroom is monitored going forward to ensure sufficient funding is available for unknown costs.</p> <p>The Plan indicates a maximum two-year extension is required on the five-year phase in period to meet LGFA’s FFO ratio. The Plan forecasts FFO cover for 2030/31 of 6.6% compared to LGFA’s guideline of 10%. However, by 2032/33 the FFO is forecast to be 10.3%, noting in 2031/32 the forecast FFO is only 7.4%. The Plan meets LGFA’s interest cover ratio guideline from 2027/28 onwards and this improves consistently over the Plan. As indicated above, the LGFA board can consider and approve exceptions to their standard covenants but are unable to offer any guarantee at this stage.</p> <p>We recommend the Councils continue to work with LGFA to understand how they might seek an approved exception to standard covenants or change their pricing or other financial strategies to obtain future funding.</p>
<b>Overall assessment recommendation</b>	The overall recommendation from the assessment phase is to <b>accept</b> the water services delivery plan from Hurunui District Council and Kaikōura District Council

## Issues for discussion with Panel

Issue	Description	Recommended treatment
<b>LGFA FFO Covenants</b>	<p>The Plan does not meet LGFA’s FFO covenants within the five-year phase in period.</p> <p>The Plan indicates a maximum two-year extension is required on the five-year phase in period to meet LGFA’s FFO to debt ratio. The LGFA board can consider and approve exceptions to their standard covenants, and we understand they have undertaken to do for the Councils but can offer no guarantee until a formal request for lending is made.</p>	<p>Given that no guarantee can be provided from the LGFA board in advance of a formal request for lending, recommend this is noted in the acceptance letter and monitored through implementation.</p>
<b>Limited implementation plan</b>	<p>The level of detail relating to how the WSCCO will be implemented is relatively light. While key milestones with dates have been provided, they are limited, and it is not clear what the associated establishment costs are. A commitment agreement is drafted but not finalised and adopted by the Councils. The Department understands that further collaboration will be sought in the short term and costs may be reduced by avoiding duplication of effort.</p>	<p>Recommend that this is monitored during implementation, noting that it meets the legislative requirements regarding implementation.</p>

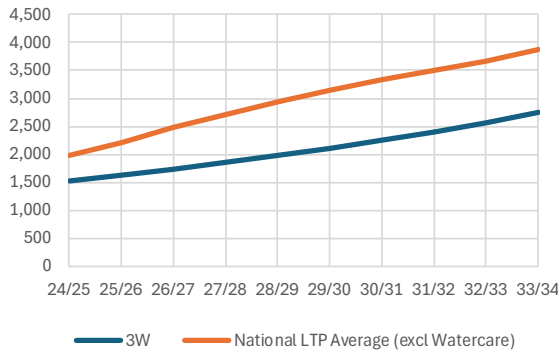
Council Summary Information

Summary information	Level
Current population	18,914
DW Connections	11,678
WW Connections	6,005
SW Connections	7,492
High growth council	No
10 year pop growth	16.0%



Affordability and Growth

Water Services Charge compare to national LTP average

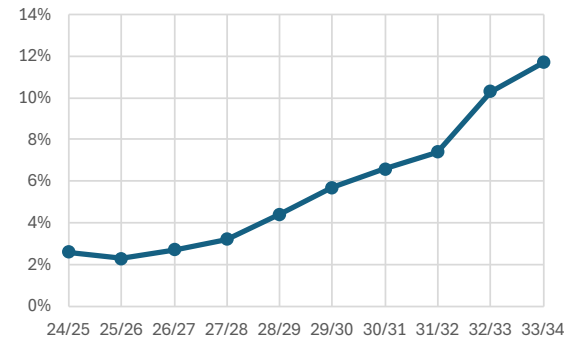


Assets, Network, and Compliance

Asset measures	Year 1	Year 10	10 Year Average
Total assets per connection (\$)	21,605	25,453	24,000
Total debt per connection (\$)	5,317	8,182	7,704
Operating costs per connection (\$)	809	823	818
Age of network (years)	DW	WW	SW
Average age outlined in plan	28	24	21

Financing

FFO to gross debt



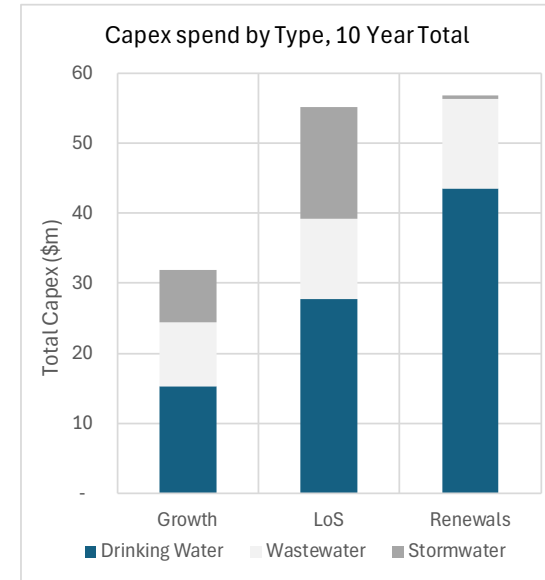
Network Performance	Level
Level of Service Performance Measures Achieved	Majority
Water loss rate	20% - 34%
Average consumption (L per person per day)	254 - 355

Compliance addressed in the Plan	
Drinking water compliance	Yes
Resource consent compliance	Yes

Capital Expenditure	Category of Capital Expenditure			Total over 10 years
	Growth	Level of Service	Renewals	
Drinking Water	15,234	27,758	43,500	86,492
Waste Water	9,234	11,510	12,827	33,571
Storm Water	7,356	15,924	545	23,825
Corporate	-	-	1,119	1,119
<b>Total 10 years</b>	<b>31,824</b>	<b>55,192</b>	<b>57,991</b>	<b>145,007</b>

Item	Year 1	Year 10	10 Year Average
Total charge as % of median income	2.00%	3.10%	2.50%
Annual price increase	N/A	6.90%	6.11%
DC collected for new connections (\$)	N/A	5,009	4,431

Item	Year 1	Year 10	10 Year Average
Water Related Net Debt to Operating Revenue %	397%	335%	423%
FFO to Debt	2.60%	11.70%	5.69%
Whole of Council net debt to revenue (approx)	119%	0%	29%



# Assessment Report: Part A – Statement of financial sustainability, delivery model, implementation plan and assurance

Section in Part A	Summary of content in Plan	Assessment Review Comment	Assessment	Focus for panel
<b>Delivery model and implementation</b>				
<b>Financially sustainable water services provision</b>	<p>The plan notes that the WSCCO will not meet financial sustainability requirements by the transfer date, 1 July 2026. However, it will achieve financial sustainability in 2033.</p> <p>The WSCCO will meet all but one of LGFA covenant requirements within 5 years of the commencement of operations (1 July 2026).</p>	<p>The Plan is financially sustainable, as the revenue is sufficient to ensure the long-term investment in delivering water services, and the level of investment is sufficient to meet levels of service, regulatory requirements and to provide for growth.</p> <p>The LGFA board can consider and approve exceptions to their standard covenants, and we understand they have undertaken to do for these two councils but offer no guarantee until a formal request for lending has been made.</p>	Meets requirements	N/A
<b>The proposed model to deliver water services</b>	<p>The proposal is for HDC and KDC to establish a Joint WSCCO 100% owned by the two Councils. The Councils expect that shareholding will be based on the Net Asset Value contributed by the two Councils.</p> <p>The WSCCO will become a legal entity in early 2026 with a transfer date of 1 July 2026.</p> <p>The WSCCO will deliver all water services for the HDC and KDC combined service area, including the Ashley Rural Water Scheme (located in the Waimakariri District).</p> <p>The WSCCO financials will be fully ringfenced.</p> <p>The organisational structure will be determined by the Board.</p>	<p>The proposed model for delivery of water services is clear with a 2026 transition from the current arrangements into the WSCCO.</p> <p>The implementation plan to establish the WSCCO is limited, and we note the commitment agreement is still outstanding.</p> <p>The organisational structure of the WSCCO will meet the requirements of the Act.</p>	Meets requirements	N/A

Section in Part A	Summary of content in Plan	Assessment Review Comment	Assessment	Focus for panel
	<p>The WSCCO may enter into shared service agreements with HDC and/or KDC for the provision of a range of services, including finance, customer services, IT, HR and similar services.</p> <p>The WSCCO will take on the Councils' water services debt.</p> <p>Revenue will be collected via water service charges, development levies and fees/charges for specified services.</p> <p>The methodology for setting charges will be determined by the Board. HDC has shared service arrangements with WDC to supply water to properties on the Ashley Rural Water Scheme.</p> <p>HDC and KDC remain open to working with other councils by way of a WSCCO or through shared service agreements.</p>			
<p><b>Implementing the proposed service delivery model</b></p>	<p>HDC and KDC have committed to establishing and giving effect to the WSCCO once the Plan is accepted.</p> <p>Implementation of the WSCCO will occur over the next 10 months.</p> <p>The Councils have drafted a commitment agreement which is yet to be finalised.</p> <p>Stated key milestones for establishment of the WSCCO are:</p> <ul style="list-style-type: none"> <li>• Council adoption of key documentation, including the Shareholders' Agreement and WSCCO constitution - February 2026</li> <li>• Establish the WSCCO legal entity and appoint board – March 2026</li> <li>• Complete transfer agreement – May 2026</li> <li>• Agreement of Statement of Expectations – June 2026</li> <li>• Transfer of assets and liabilities, staff and commencement of WSCCO operations – 1 July 2026.</li> </ul>	<p>Limited information is provided in the implementation plan, but it is sufficient to meet the requirements of section 13(2) of the Preliminary Arrangements Act.</p> <p>The implementation plan does not outline or define a comprehensive process for delivering the WSCCO. While key milestones with dates have been provided, they are limited. A commitment agreement has been drafted but is not finalised and adopted by the Councils.</p> <p>It is not clear in the financial projections that an allowance has been made for set up costs associated with the WSCCO, however the legislative requirements have been met and this will be monitored during implementation of the WSCCO.</p>	<p>Meets requirements</p>	<p>Yes</p>

Section in Part A	Summary of content in Plan	Assessment Review Comment	Assessment	Focus for panel
	<p>A project team has been established that comprises the Chief Executives, Chief Financial Officers, and Project Leads from the two Councils.</p> <p>A reference group will be established to oversee the implementation plan following the 2025 local government elections. The group will comprise the Chief Executives and two councillors from each Council.</p>			
<b>Consultation and engagement undertaken</b>	<p>The Councils undertook public consultation during April and May 2025 in accordance with the requirements of sections 61 and 64 of the Preliminary Arrangements Act.</p> <p>HDC consulted on:</p> <ul style="list-style-type: none"> <li>• Option 1: A joint WSCCO with KDC (Council’s preferred option resolution passed 13 May 2025)</li> <li>• Option 2: Forming an in-house business unit.</li> </ul> <p>KDC consulted on:</p> <ul style="list-style-type: none"> <li>• Option 1: A joint WSCCO with HDC (Council’s preferred option resolution passed 28 May 2025)</li> <li>• Option 2: A single council WSCCO</li> <li>• Option 3: Forming an in-house business unit.</li> </ul> <p>Overall, 50% of submitters supported the preferred WSCCO option, with 47% support in HDC, and 64% support in KDC.</p>	N/A	Meets requirements	N/A
<b>Assurance and adoption of the Plan</b>				
<b>Council resolution to adopt the Plan</b>	HDC resolved to adopt the Plan on 5 August 2025. KDC resolved to adopt the Plan on 6 August 2025.	N/A	Meets requirements	N/A

Section in Part A	Summary of content in Plan	Assessment Review Comment	Assessment	Focus for panel
<b>Certification of the Chief Executives of HDC and KDC</b>	The Chief Executives of HDC and KDC certified the Plan on 7 August 2025.	N/A	Meets requirements	N/A

## Assessment Report: Part B – Network Performance

Section in Part B	Summary of content in Plan	Assessment Review Comment	Assessment	Focus for panel
<b>Investment required in water services</b>				
<b>Serviced population and serviced areas</b>	The Plan provides projected service populations for HDC, KDC, and the Ashley Water Scheme, covering residential and non-residential connections. Non-serviced populations are noted for Kaikōura in commentary. Future population growth is expressed as percentages over 10 years. Current water, wastewater, and stormwater LOS follow the Department Mandatory Measures, with consistent targets from FY2024/2025 to FY2033/2034. Tables detail serviced and non-serviced areas, LOS for both districts, and infrastructure plans for growth areas.	Information has been supplied on serviced areas, connections and growth.	Meets requirements	N/A
<b>Assessment of the current condition and lifespan of the water services network</b>	KDC does not record condition information in its asset management database, relying instead on estimated residual life. HDC has complete condition data for all network assets and records average age with greater accuracy. KDC provides average age based on residual life and lists critical water services assets in a table, while HDC notes critical assets as a percentage.  Extensive replacements of underground infrastructure occurred in Kaikōura following the 2016 earthquakes.	For HDC, condition information is provided and is suitable to plan maintenance, renewals and capital and operating expenditure in the long term.  For KDC, critical assets are identified but no condition information is provided.  These observations do not limit our ability to accept the Plan.	Meets requirements	N/A

Section in Part B	Summary of content in Plan	Assessment Review Comment	Assessment	Focus for panel
<b>Asset management approach</b>	<p>KDC contracts out asset monitoring, operations, and maintenance to a CCO, with specialised services and sampling also outsourced, while HDC manages these activities in-house with support from WDC for modelling.</p> <p>HDC and KDC have asset management policies and plans. KDC's maturity assessment is at 39% (Basic), and HDC has not been assessed since 2014. Future integration of asset management strategies aims to leverage HDC's best practices.</p> <p>KDC's ADAPT asset management system is partially implemented, with continued reliance on spreadsheet data.</p> <p>HDC uses AssetFinda as its primary water services assets data storage system, alongside a range of other advanced software in relation to water services assets and activities. HDC's asset management approach includes planned network renewals, dedicated resources, a metered supply system, and a small pipe replacement programme.</p>	<p>Limited information is provided on asset management processes. The Plan comments on how asset management will support the proposed model. The asset management approach partially aligns with the investment plan.</p> <p>These observations do not limit our ability to accept the Plan.</p>	Meets requirements	N/A
<b>Statement of regulatory compliance – drinking water</b>	<p>KDC has 100% bacterial and protozoa compliance, 98.8% chemical compliance, and has had no boil water notices or water restrictions in the past three years, with sufficient firefighting capacity in urban areas.</p> <p>HDC has 93.2% bacterial compliance, 79.2% protozoa compliance (with upgrades planned), and 100% chemical compliance, but currently has two boil water notices and has faced water restrictions nine times in three years. HDC completed a \$24m upgrade of 16/17 water treatment plants for protozoa compliance and plans further upgrades for firefighting in the Culverden and Balmoral water schemes.</p> <p>Neither system is fluoridated as it is not mandated.</p> <p>Capital investment plans are outlined in the document.</p>	<p>16/17 schemes meet compliance with Drinking Water Standards. The remaining non-compliant scheme (Balmoral) has 25 customers with whom HDC is engaging on future options for the scheme. HDC also awaits decisions from the Water Services Authority on acceptable solutions. Budget has been provided for compliance work once decisions are made.</p> <p>Budget has also been included in the investment plan to maintain compliance and respond to future compliance requirements.</p>	Meets requirements	N/A

Section in Part B	Summary of content in Plan	Assessment Review Comment	Assessment	Focus for panel
<b>Statement of regulatory compliance – resource consents</b>	<p>KDC holds 17 significant consents (10 water supply, six wastewater discharge, and one stormwater discharge). No consents are expired, with some set to expire within 10 years. It faces non-compliance in two wastewater consents and moderate risks in water supply, wastewater, and stormwater, with four abatement notices resolved.</p> <p>HDC has 88 significant consents (31 water supply, 16 wastewater, 41 stormwater). No consents are expired, with several expiring within 10 years. It shows high compliance rates for water and stormwater but moderate non-compliance risks for 41% of wastewater consents. HDC has no abatement notices and is preparing for wastewater consent renewals and additional water source consents.</p> <p>Both Councils outline capital investment plans with aggregated totals and graphs and significant projects are noted.</p>	<p>The Councils provided additional information after the draft Plan that the cost of regulatory compliance is incorporated into the LTP budgets which includes sampling costs, regulatory reporting, and renewal of consents.</p> <p>The Plan meets compliance with consents and has budget in the investment plan to maintain compliance and respond to future compliance requirements.</p>	Meets requirements	N/A
<b>Capital expenditure required to deliver water services and ensure that water services comply with regulatory requirements</b>	<p>KDC and HDC are growth councils with plans accommodating growth, improved LOS, and renewals over 2024 to 2034. Full depreciation funding is phased in by 2033/34. Revenue sufficiency is achieved in 2031/32.</p> <p>KDC’s post-earthquake capital expenditure reduces the need for significant investment over the next decade.</p> <p>Operational cost summaries and capital investment plans, including aggregated totals, funding impact statements, and graphs, are provided to demonstrate funding allocation for demand, LOS improvements, and asset replacements.</p>	<p>The Plan includes investment to achieve LOS, growth and compliance and renewals of \$145m over the 10-year period.</p> <p>The Councils have taken a strategic approach to manage peaks in future years and deliver on the planned investment and have matched resources for the programme. HDC has established an in-house project management office to assist with delivery of the programme.</p> <p>Stormwater renewals are minimal, but the assets of both Councils are relatively young and LOS are being met.</p> <p>The Plan states that there will be significant renewals from year 30 onwards.</p>	Meets requirements	N/A

Section in Part B	Summary of content in Plan	Assessment Review Comment	Assessment	Focus for panel
<b>Historical delivery against planned investment</b>	<p>The 2016 Kaikōura Earthquake led to significant unplanned investments, reducing the need for major capital expenditure in the next decade. Similarly, HDC accelerated its renewals due to funding from Covid-19-related disruptions, which caused supply chain issues, material shortages, and cost escalations. A Water Services Strategy, including a 10-year capital program, is planned for future implementation, with the LTP continuing in the interim. HDC's establishment of a project management office in 2019 has improved project delivery against plans.</p> <p>The last four years saw an average of \$17.5m per year actual capital expenditure and an average of \$14m per year over the past 7 years. The largest planned expenditure is in 2025/26 at \$26m.</p>	<p>The investment plan is deliverable. The Councils have demonstrated resources and plan to deliver their capital programme.</p>	<p>Meets requirements</p>	<p>N/A</p>

# Assessment Report: Part C – Revenue and financing arrangements

Section in Part C	Summary of content in Plan	Assessment Review Comment	Assessment	Focus for panel
<b>Revenue and charging arrangements</b>				
<b>Charging and billing arrangements</b>	<p>Current and proposed charges are stated in the Plan. Proposed water charges are similar/equivalent to the current rates in the first instance. There are no plans to harmonise the charging methodologies between the Councils, although this may change depending on the direction of the WSCCO's board.</p> <p>The WSCCO will adopt financial arrangements similar to those currently used by HDC, with separate accounts being maintained for each activity, sub-activity, and separately funded scheme.</p>	Charging and billing arrangements are clearly outlined in the Plan.	Meets requirements	N/A
<b>Water services revenue requirements and sources</b>	<p>Current sources of revenue comprise targeted rates, user charges and development contributions. Interest income is received in respect of any positive balances. Neither Council applies any general rates to water services.</p> <p>The average price increase is consistently 6.8% per year rising from \$1,520 to \$2,746 per connection over the 10 years of the Plan.</p> <p>The WSCCO is expected to directly invoice consumers for water charges, user fees and charges and development contributions. It is likely that HDC will be contracted to do this for the first three years.</p>	The Plan provides details of the water services revenue requirements and sources.	Meets requirements	N/A
<b>Existing and projected commercial and industrial users' charges</b>	The only water services rate for which there is a rates differential between residential and non-residential customers is the KDC sewerage rate for additional water closets / pans.	Projected commercial and industrial users' charges are the same as residential except for one sewerage rate in Kaikōura.	Meets requirements	N/A

Section in Part C	Summary of content in Plan	Assessment Review Comment	Assessment	Focus for panel
<b>The affordability of projected water services charges for communities</b>	The charges will remain between 2.0% and 3.1% of median household income throughout the planning period.	The Plan does not state what assumption of median household income rise is used, however given it is a 2% increase year on year this does not impact ability to accept the plan.	Meets requirements	N/A
<b>Funding and financing arrangements</b>				
<b>Water services financing requirements and sources</b>	<p>Projections are prepared on the assumption that the WSCCO will move to fully fund depreciation by 2034. The projected debt for the WSCCO starts at \$62m and rises to \$126m over the 10 years of the planning period.</p> <p>HDC may retain some external debt and there would be an equivalent loan established between HDC and the WSCCO. Over time this will be extinguished and the WSCCO will access its own external funding.</p> <p>The Plan states LGFA borrowing requirements are:</p> <ul style="list-style-type: none"> <li>• Funds from operation to cash interest coverage ratio (assuming within the band of 10,000-20,000 connections) – at least 1.75 times.</li> <li>• Funds from operation to gross debt ratio (assuming within the band of 10,000-20,000 connections) – at least 10%.</li> </ul>	<p>The Plan indicates a maximum two-year extension on the five-year phase in period is required to meet LGFA’s FFO ratio. The Plan forecasts a FFO cover for 2030/31 of 6.6% compared to LGFA’s guideline of 10%. However, by 2032/33 the FFO is forecast to be 10.3%.</p> <p>The Plan meets LGFA’s interest cover ratio guideline from 2027/28 onwards and this improves consistently over the planning period.</p> <p>The LGFA board can consider and approve exceptions to their standard covenants, and we understand they have undertaken to do for the Councils; however, no guarantee can be made until formal requests for lending are received.</p>	Meets requirements	Yes
<b>Internal borrowing arrangements</b>	A treasury function will be set up within the WSCCO and internal financing will be available to the various WSCCO activities / sub-activities / schemes both prior to and after 30 June 2028. Interest will be payable/receivable on account balances (methodology to be determined in the WSCCO internal financing policy, but is expected to be consistent between activities/sub-activities/schemes in the Kaikōura and Hurunui districts).	Sufficient details are provided on the current and proposed internal borrowing arrangements.	Meets requirements	N/A

Section in Part C	Summary of content in Plan	Assessment Review Comment	Assessment	Focus for panel
<b>Determination of debt attributed to water services</b>	The amount of water debt transferred is given.	The determination of debt attributed to water services for both Councils as at 30 June 2024 is clearly stated.	Meets requirements	N/A
<b>Insurance arrangements</b>	High-level insurance policies are outlined and detailed. The Plan notes that neither Council has a formal policy relating to insurance reviews or a disaster policy.	The insurance arrangements are sufficient.	Meets requirements	N/A

# Assessment Report: Part D – Financial sustainability assessment

Section in Part D	Summary of content in Plan	Assessment Review Comment	Assessment	Focus for panel
<b>Financially sustainable water services provision</b>				
<b>Confirmation of financially sustainable delivery of water services by 30 June 2028</b>	<p>The Plan notes that the WSCCO will be close to achieving revenue sufficiency by 2029/30 [based on operating surplus] and will have achieved it by 2031/32. It also notes that new efficiencies and/or regulatory change affecting wastewater expenditure may make it possible to achieve revenue sufficiency earlier.</p> <p>For the WSCCO to access funding through LGFA, KDC will need to become a guaranteeing authority. KDC has commenced work towards this requirement.</p>	<p>The Plan is financially sustainable, as the revenue is sufficient to ensure the long-term investment in delivering water services and the level of investment is sufficient to meet levels of service, regulatory requirements and to provide for growth.</p> <p>The Department understands that the Councils plan to continue to explore greater collaboration as an option to securing improved financial sustainability in the short term.</p>	Meets requirements	Yes
<b>Actions required to achieve financially sustainable delivery of water services</b>	<p>It is expected that the WSCCO will achieve revenue sufficiency during the planning period. The significant level of investment in water services assets in recent years is advantageous for the WSCCO.</p>	<p>As indicated above, sufficient revenue is in the plan, and the level of investment is sufficient to meet relevant standards.</p>	Meets requirements	Yes
<b>Risks and constraints to achieving financially sustainable delivery of water services</b>	<p>The Plan lists risks including regulatory changes, cost or price increases, growth assumptions, and natural disasters.</p>	<p>Risks and constraints to achieving financially sustainable delivery of water services are outlined appropriately.</p>	Meets requirements	N/A

Section in Part D	Summary of content in Plan	Assessment Review Comment	Assessment	Focus for panel
<b>Assessment of revenue sufficiency</b>				
<b>Projected water services revenues cover the projected costs of delivering water services</b>	It is projected that there will be an operating deficit in the early years of the planning period as the WSCCO stages in the funding of depreciation. It is expected that operating surpluses will be achieved from 2032/33.	Projected water services revenues do not cover the projected costs of delivering water services until 2032/33 when a net surplus is reached due to the proposed pricing strategy. Staging in full funding of depreciation over the planning period is not a concern due to the age of the assets.	Meets requirements	N/A
<b>Average projected charges for water services over 2024/25 to 2033/34</b>	Average projected charges are shown at a connection level. Average projected charges for water services rise from \$1,520 in year one to \$2,746 in year ten. This is an average rise of 6.8% per year.	The average projected charges for water services over the 10 years shows a consistent 6.8% rise every year. Our assessment notes that price increases could be phased differently to enable a surplus to be achieved earlier.	Meets requirements	N/A
<b>Projected operating surpluses/(deficits) for water services</b>	An operating deficit is projected in the first eight years. This starts at -39.9% and reaches 3.3% in year ten. This reflects the proposed policy for recovering depreciation charges, which is that the WSCCO will phase in the full funding of depreciation over the period to 30 June 2034. The surpluses in the later years will be applied to repaying debt. While there is a commitment to full funding of depreciation, it is not feasible to introduce full funding by 2028 because median household income is well below the national average and the resulting rapid increases in water charges would cause significant hardship for some households.	Projected operating surpluses for water services are not achieved before 30 June 2033 due to the proposed pricing strategy, and fully funding depreciation.	Meets requirements	N/A
<b>Projected operating cash surpluses for water services</b>	The Plan shows a sufficient operating cash surplus. The operating cash ratio for the combined ten years is 41.2%; ranging between 25.5% and 53.9%.	The Plan has projected operating cash surpluses for water services every year, growing from \$15.7m in the first year to \$32.8m in year 10.	Meets requirements	N/A

Section in Part D	Summary of content in Plan	Assessment Review Comment	Assessment	Focus for panel
<b>Assessment of investment sufficiency</b>				
<b>Projected water services investment is sufficient to meet levels of service, regulatory requirements and to provide for growth</b>	Both KDC and HDC have planned renewals and capital investments to support growth, improve LOS, and meet regulatory requirements, with depreciation staged to achieve financial sufficiency by 2031/2032. KDC undertook significant renewal programmes following the 2016 earthquakes, while HDC invested \$24m to upgrade 16/17 water treatment plants for Drinking Water Standards compliance. Overall, the capital expenditure for the period is lower than the long-term average.	The level of investment is sufficient to meet LOS and regulatory requirements.	Meets requirements	N/A
<b>Renewals requirements for water services</b>	<p>Asset sustainability ratios are negative until 2033/34, as capital renewal budgets are less than depreciation allowances due to the relatively new age of assets and planned renewals occurring at the end of their useful life. There is an exception in 2025/26, as there are higher renewals planned in that year. KDC replaced many assets post-earthquake, while HDC maintains an even renewals profile. Depreciation investment is staged to achieve financial sufficiency by 2031/32.</p> <p>The LTP generally guides the capital programme, though some past investments have occurred outside this framework. A Water Services Strategy, including a 10-year capital programme, will be implemented after establishment. Projected renewals are lower than projected depreciation, however due to the recent Kaikōura earthquake the asset age is quite low. Asset sustainability ratios are all negative (apart from 2025/26).</p>	Renewals are planned but are lower than project depreciation and there is a reasonable explanation along with a plan to remediate this.	Meets requirements	N/A

Section in Part D	Summary of content in Plan	Assessment Review Comment	Assessment	Focus for panel
<b>Total water services investment required over 10 years</b>	<p>The asset investment ratio fluctuates over the 10-year planning period, with combined capital expenditure generally exceeding renewals, though the renewals programme remains lower than depreciation funding. Fully funded depreciation will begin in 2034/35. The LTP adopts a strategic approach to balance the capital programme with available resources, projecting significant water asset renewals from year 30 onwards, with smoothing anticipated to spread renewals over several years. KDC does not currently fund depreciation, relying on rates for renewals due to its relatively new post-earthquake infrastructure, while HDC has begun staging depreciation funding, aiming for full funding by 2033/34 under the WSCCO framework.</p> <p>The asset investment ratio starts off high and trends down. The level of capital expenditure varies over the planning period.</p>	The proposed level of investment is consistent with the LTP. There is a reasonable approach to fully funding depreciation investment by 2033/34.	Meets requirements	N/A
<b>Average remaining useful life of network assets</b>	The asset consumption ratio decreases slightly from 56.3% to 48.2%, which is not significant. In KDC, the proposed asset investment has minimal impact on the average remaining useful life of assets due to their relatively young age, following recent earthquakes and district growth. Asset replacement is planned for the end of their useful life. In HDC, there is an even distribution and similar age profile of assets, with small pipe replacement programmes currently underway.	Significant asset replacement will not occur until after 2034 due to the age and remaining useful life of the asset portfolio.	Meets requirements	N/A

Section in Part D	Summary of content in Plan	Assessment Review Comment	Assessment	Focus for panel
<b>Assessment of financing sufficiency</b>				
<b>Confirmation that sufficient funding and financing can be secured to deliver water services</b>	<p>The Plan states that subject to the discussion about seeking approval for a bespoke arrangement with LGFA relating to the FFO to net debt ratio for a short period, it is expected that the required levels of borrowings can be sourced.</p> <p>The FFO to net debt ratio is expected to reach the 10% threshold in 2032/33, i.e. later than LGFA timeframe. Hence, a bespoke arrangement is being sought to achieve the financing sufficiency test.</p>	<p>The Plan indicates a maximum two-year extension is required on the five-year phase in period to meet LGFA's FFO ratio. The LGFA board can consider and approve exceptions to their standard covenants, and we understand they have undertaken to do for these two councils but offer no guarantee until a formal request for lending has been made.</p> <p>We recommend the councils continue to work with LGFA to understand how they might change their pricing or other financial strategies to obtain future funding.</p>	Meets requirements	Yes
<b>Projected council borrowings against borrowing limits</b>	<p>Council borrowing is projected to be within internal policy borrowing limits throughout the planning period. Net debt to operating revenue for KDC increases after the WSCCO is established but remains well within limits. After the initial increase, borrowing decreases for both Councils.</p>	<p>On page 58 the 'Total Debt Limit (less 3W Revenue)' line for KDC line is incorrect.</p>	Meets requirements	N/A

Section in Part D	Summary of content in Plan	Assessment Review Comment	Assessment	Focus for panel
<b>Projected water services borrowings against borrowing limits</b>	<p>The borrowing profile reflects the expected timing of capital investments with a water services borrowing peak in 2027/28 at 482%.</p> <p>It is expected that the ratio of net debt to operating revenue will remain under 500% throughout the planning period.</p>	<p>Debt doubles over the 10 years, starting at \$62m in 2024/25 and ending at \$110m in 2033/34. WSCCO borrowing limits are not measured by the net debt to operating revenue ratio. We assess the projected water services borrowings against borrowing limits using the FFO ratio.</p> <p>The Plan indicates a maximum two-year extension is required on the five-year phase in period to meet LGFA's FFO ratio. The Plan forecasts a FFO cover for 2030/31 of 6.6% compared to LGFA's guideline of 10%. However, by 2032/33 the FFO is forecast to be 10.3%</p> <p>The Plan meets LGFA's interest cover ratio guideline from 2027/28 onwards and this improves consistently over the planning period.</p>	Meets requirements	Yes
<b>Projected borrowings for water services</b>	<p>Projected net debt is \$62.1m in the first year and rises to \$109.7m in year 10.</p> <p>It is expected that a treasury policy will be developed for the WSCCO and that the existing treasury policies for the two shareholding Councils will be significantly revised on the establishment of the WSCCO. It is expected that the ratio of net debt to operating revenue will remain under 500% throughout the planning period.</p>	<p>Net debt is high: it is always above 335%, above 366% in all years apart from the first and last year, and above 417% in all years apart from the first and the last two years.</p> <p>We recommend that the level of debt is monitored to ensure it stays within the borrowing limits.</p>	Meets requirements	N/A

Section in Part D	Summary of content in Plan	Assessment Review Comment	Assessment	Focus for panel
<b>Borrowing headroom / (shortfall) for water services</b>	<p>The borrowing headroom has been calculated against debt to revenue with a limit of 500%.</p> <p>Assuming a limit for the ratio of net debt to operating revenue of 500%, there is borrowing headroom available in all years during the period to 30 June 2034. Borrowing headroom increases in the later years, primarily due to the increase in operating revenue.</p>	<p>We note that the calculation of borrowing headroom for a CCO should be against FFO to debt metric.</p> <p>There is limited headroom based on the 500% limit to cover unforeseen events or costs, especially in financial years 2025/26, 2026/27, and 2027/28 where it is under \$6.4m and gets as low as \$3.6m in 2027/28.</p> <p>We recommend that the level of headroom is monitored to ensure there is sufficient funding available for unforeseen costs.</p>	Meets requirements	N/A
<b>Free funds from operations</b>	<p>The FFO to net debt ratio (including 50% development contributions) climbs from 2.6% in 2024/25 to 11.7% in 2033/34.</p> <p>The Plan notes that the current Financial Strategy in the LTPs is for the Councils as a whole, rather than for water services in isolation and hence it is not possible to show a direct linkage between these figures and those in the Financial Strategy, and that the WSCCO board will develop a Financial Strategy as part of its overall planning processes.</p>	<p>The Plan indicates a maximum two-year extension is required on the five-year phase in period to meet LGFA's FFO ratio. It forecasts FFO cover for 2030/31 of 6.6% compared to LGFA's guideline of 10%. However, by 2032/33 the FFO is forecast to be 10.3%, noting in 2031/32 the forecast FFO is only 7.4%. The Plan meets LGFA's interest cover ratio guideline from 2027/28 onwards and this improves consistently over the planning period.</p> <p>Note earlier comments regarding exceptions to standard LGFA covenants</p>	Meets requirements	Yes
<b>Assessment of financing sufficiency</b>	<p>The ratio of FFO to net debt is expected to reach the 10% threshold in 2032/33, i.e. later than LGFA timeframe. Hence, a bespoke arrangement is being sought to achieve the financing sufficiency test.</p> <p>The ratio of FFO to net debt increases beyond 10% in subsequent years, once the WSCCO is fully funding depreciation.</p>	<p>Note earlier comments regarding exceptions to standard LGFA covenants.</p>	Meets requirements	Yes

# Assessment Report: Part E – Projected financial statements for water services

Section in Part E	Summary of content in Plan	Assessment Review Comment	Focus for panel
<b>Projected funding impact statement</b>	The funding impact statement is shown for water services.	The projected funding impact statement is shown combined and as individual waters.	No
<b>Projected statement of comprehensive revenue and expense</b>	The statement of comprehensive revenue and expense is shown for water services.	The projected statement of comprehensive revenue and expense is shown combined and as individual waters.	No
<b>Projected statement of cashflows</b>	The cashflow is shown for water services.	The projected statement of cashflows is shown combined and as individual waters.	No
<b>Projected statement of financial position</b>	The balance sheet is shown for water services.	The projected statement of financial position is shown combined and as individual waters.	No

# Assessment Report: Part E – Financial projections and measures

## Projected statement of comprehensive revenue and expense

Water Services Delivery Plan pages 67 to 69

## Projected statement of financial position

Water Services Delivery Plan pages 72 to 75

## Financial measures: revenue sufficiency

Water Services Delivery Plan pages 52 to 54

## Financial measures: investment sufficiency

Water Services Delivery Plan pages 55 to 56

## Financial measures: financing sufficiency

Water Services Delivery Plan pages 57 to 61

# Assessment Report: Water Service Delivery Plan – Additional information

Additional information	Summary of content in Plan	Assessment Review Comment	Focus for Panel
<b>Additional disclosures to support Plan</b>	N/A	N/A	N/A
<b>Significant capital projects</b>	Significant projects are listed.	N/A	N/A
<b>Key issues, constraints, risks and assumptions</b>	Key risks and assumptions are listed.	N/A	N/A