

Wairarapa and Tararua Water Done Well

MASTERTON DISTRICT COUNCIL

**Assessment of the financial sustainability of Masterton District
Council's water services delivery and considerations for
potential joint Wairarapa/Tararua water services CCO**

11 November 2024

This document has been prepared to provide information to Masterton District Council on the financial sustainability of water services provision (as indicatively assessed against the requirements for Water Services Delivery Plans), and to provide information relating to a potential Joint Wairarapa/Tararua water services CCO.

The Department of Internal Affairs has relied on information provided by Masterton District Council in the development of the analysis and guidance included in this report.

This guidance is not legal advice; and is intended to support Masterton District Council's decision-making requirements under Local Water Done Well.

Wairarapa and Tararua Joint Council Project

Carterton District Council, Masterton District Council, South Wairarapa District Council and Tararua District Council are investigating a joint arrangement under Local Water Done Well (referred to as 'WAI + T').

The Council Grouping approached the Department of Internal Affairs ('The Department') for analytical and guidance support to investigate the financial sustainability and viability of status quo in-house water services delivery, and that of potential new joint delivery arrangements for water services.

The Department has worked with each participating council to confirm baseline positions and provide guidance on the financial sustainability of status quo water services delivery. A report on the viability of a potential 'WAI + T' Water CCO has been developed and provided to Wairarapa and Tararua councils (titled *Wairarapa and Tararua Water Done Well*, 1 November 2024).

This pack has been developed as an addendum report which provides further analysis and guidance on trade-offs and benefits that could be obtained for Masterton District Council and Masterton communities through establishing a 'WAI + T' Water CCO.

A similar report has been developed and provided to the other Wairarapa and Tararua councils.

The analysis within this pack should be considered alongside the *Wairarapa and Tararua Water Done Well* report.

A 'WAI + T' Water CCO would be financially viable

Our analysis on the financial information provided by Wairarapa and Tararua councils demonstrates that a **'WAI + T' Water CCO would be financially sustainable** at LTP projected levels of investment, revenues and debt financing.

A **'WAI + T' Water CCO would also meet the financial sustainability requirements** of Water Services Delivery Plans.

A 'WAI + T' Water CCO will:

- Be **able to access additional debt financing from LGFA** up to the equivalent of 500% of operating revenues (a significant uplift against what Wairarapa and Tararua councils can achieve on a stand-alone basis).
- **Improve the financial resilience for water services delivery** across the Wairarapa and Tararua.
- Provide the ability to **fund the required levels of water services investment**, with **scope to increase and/or accelerate proposed investment**.
- Provide the opportunity to deliver **lower water charges to Wairarapa and Tararua consumers** than what councils could deliver on a stand-alone in-house basis.
- Create **new borrowing headroom for owning councils** if water services revenues and debt are transferred to 'WAI + T' Water CCO. This new borrowing headroom could be **used to fund non-water investment** that is projected to be revenue funded, leading to a **reduction in projected rates increases**.
- Enable an **efficient financing strategy for water services** to be developed and implemented.

Further analysis is required with trade-offs to consider for each council to unlock the benefits of Local Water Done Well

Based on the current set of financial projections for each council, a **combined 'WAI + T' Water CCO would be financially sustainable.**

Wairarapa and Tararua councils should however **continue to investigate their water services financial projections and financial strategies to realise the full set of benefits** that Local Water Done Well and the LGFA financing solution for water CCOs provide.

This report sets out the considerations and trade-offs to be considered by Masterton District Council.

Each council should look to **strike an effective balance between levels of investment, debt financing and affordability** for consumers when developing a Water Services Delivery Plan, confirming financial projections and developing implementation plans.

There is **significant scope for debt financing to be more effectively utilised to increase and/or accelerate investment, or to reduce charges for consumers.**

Each council should also review the projected water services investment included in their 2024-34 LTP (or other council projections) against the minimum requirements required in Water Services Delivery Plans guidance and look to identify any potential savings or efficiencies that could be gained to reduce the total investment requirement.

Savings to investment programmes could be identified through:

- Wairarapa and Tararua councils working together on joint investment programmes, including identifying new opportunities to deliver regional solutions at lower cost, rephasing of investment, or developing efficient joint procurement approaches to lower costs; and/or
- Working through the impact that expected changes to regulatory standards signalled by the Government will have on water services investment requirements.

The financial sustainability of Masterton District Council's water services and opportunities under a 'WAI + T' Water CCO

This pack includes analysis and guidance on:

- Financial sustainability considerations for Masterton District Council's status quo in-house water services delivery based on 2024-34 LTP information.
- An indicative assessment of LTP information against the financial sustainability measures in Water Services Delivery Plans.
- Trade-offs and opportunities from the potential establishment of a 'WAI + T' water services CCO that can access additional debt financing (up to 5x revenues) through LGFA, to the benefit of Masterton communities .
- The potential impact on Masterton District Council's financials if water services were to be structurally separated from other council business.

Key conclusions of analysis for Masterton District Council

Financial sustainability review of status quo water services delivery for Masterton District Council

No material financial sustainability issues identified from review of 2024-34 LTP for water services or all-of-council business.

LTP projections for water services would **likely meet the 'revenue sufficiency' test**.

Subject to Masterton District Council's review of projected investment against the requirements of Water Services Delivery Plans, the proposed level of investment would **likely meet the 'investment sufficiency' test**.

Projected borrowing requirements for water services and at an all-of-council level are financeable, meaning it is **likely LTP projections for water services would meet the 'financing sufficiency' test**.

There is **significant scope to adjust debt and revenue profiles if a joint water services CCO is established** that can borrow up to 5x operating revenues.

A 'WAI + T' water CCO would be viable

A **'WAI + T' Water CCO would be financially sustainable** at LTP projected levels of investment, revenues and debt financing.

A 'WAI + T' Water CCO would also **likely meet the financial sustainability requirements** of Water Services Delivery Plans.

A 'WAI + T' Water CCO will:

- Be able to **access additional debt financing** from LGFA (500% of operating revenues).
- **Improve financial resilience** for water services delivery.
- Provide the **ability to fund the required levels of water services investment**, with scope to increase and/or accelerate proposed investment.
- Result in **lower water charges** to Masterton consumers than what MDC could deliver on a stand-alone in-house basis, if debt financing is appropriately utilised to fund investment.
- Create **new borrowing headroom for MDC**.
- **Enable an efficient financing strategy** for water services to be developed and implemented.

Trade-offs and opportunities for Masterton District Council and communities under 'WAI + T'

The transfer of MDC's water services into a joint CCO could:

- Create **\$42 million of initial borrowing headroom for water services** delivery to Masterton communities; and
- Create **\$30 million of borrowing headroom for MDC**.

The additional capacity for water services through a joint CCO could:

- Be retained for future requirements (i.e., with no change to LTP projected revenue or investment requirements); or
- **Enable \$64 million more capital investment** over the LTP period at LTP projected revenues (+68%); or
- **Eliminate 15% of projected rates requirements for water services** over the LTP period (\$28 million), generating **savings of \$300 per household per year**; or
- Be applied to some combination of improved financial resiliency, increased investment and reduced prices.

Opportunities for Masterton District Council as part of 'WAI + T'

Additional capital investment could be funded at LTP projected revenues

The Long-Term Plan proposes \$94 million of capital investment over ten years.

We have run a scenario to test the upper boundary of benefits achievable under a water services CCO, through determining how much additional capital investment could be theoretically funded assuming current project revenues from the LTP.

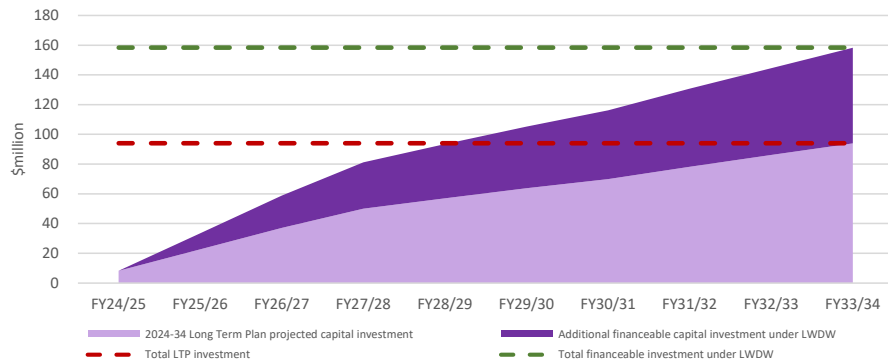
This scenario:

- Keeps projected revenues and operating expenses in line with LTP.
- Increases the amount of capital investment that could be delivered, where debt to revenue is maintained under a limit of 500% to FY33/34.
- Recalculates interest costs and debt balances based on these assumptions.
- Assumes no uplift for the current FY24/25 year.

Masterton District Council could theoretically **increase capital investment by \$64 million (68%)** over the LTP period, based on current projected water services revenues and increasing borrowings up towards a 500% limit. **This additional fundable investment is shown below in dark purple and represents potential investment uplift headroom.** Alternatively, Masterton District Council could theoretically finance its entire LTP capex requirement of \$94 million by FY28/29 – an acceleration 5 years (or twice as fast).

| Projected investment in water services | FY24/25 | FY25/26 | FY26/27 | FY27/28 | FY28/29 | FY29/30 | FY30/31 | FY31/32 | FY32/33 | FY33/34 | Total |
|---|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| 2024-34 Long Term Plan projected capital investment (\$000) | 8,250 | 14,373 | 14,517 | 12,779 | 7,047 | 6,723 | 6,210 | 8,358 | 7,828 | 7,927 | 94,012 |
| Capital investment financeable under LTP projected revenues (\$000) | 8,250 | 25,153 | 25,405 | 22,363 | 12,332 | 11,765 | 10,868 | 14,627 | 13,699 | 13,872 | 158,334 |
| Extra capital investment financeable (\$000) | 0 | 10,780 | 10,888 | 9,584 | 5,285 | 5,042 | 4,658 | 6,269 | 5,871 | 5,945 | 64,322 |
| Extra capital investment financeable (%) | 0% | 75% | 75% | 75% | 75% | 75% | 75% | 75% | 75% | 75% | 68% |

Additional capital investment that could be theoretically funded at 5x revenues



| Metrics | FY24/25 | FY25/26 | FY26/27 | FY27/28 | FY28/29 | FY29/30 | FY30/31 | FY31/32 | FY32/33 | FY33/34 |
|-------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Rates increase | 10.4% | 5.1% | 8.9% | 3.8% | 5.2% | 4.6% | 1.8% | 1.5% | 3.8% | 3.1% |
| Operating revenue increase | 12.5% | 2.8% | 7.7% | 3.8% | 5.1% | 4.4% | 1.8% | 1.5% | 3.7% | 3.0% |
| Operating expenses increase | 18.7% | -2.0% | 3.1% | 2.6% | 2.7% | 3.3% | 1.8% | 2.9% | 2.6% | 1.9% |
| Net debt to operating revenue | 200.3% | 298.4% | 374.9% | 441.3% | 444.5% | 444.5% | 450.4% | 475.7% | 484.6% | 495.1% |
| FFO to net debt | 20.6% | 14.6% | 10.7% | 8.4% | 8.2% | 8.3% | 8.1% | 7.4% | 7.2% | 7.1% |

Alternatively, water revenues (and charges) could be reduced against LTP

The additional borrowing headroom that would be created from establishing a water services CCO could alternatively be used to debt-finance capital investment and reduce the rates (or charges) required to fund the investment over the LTP period.

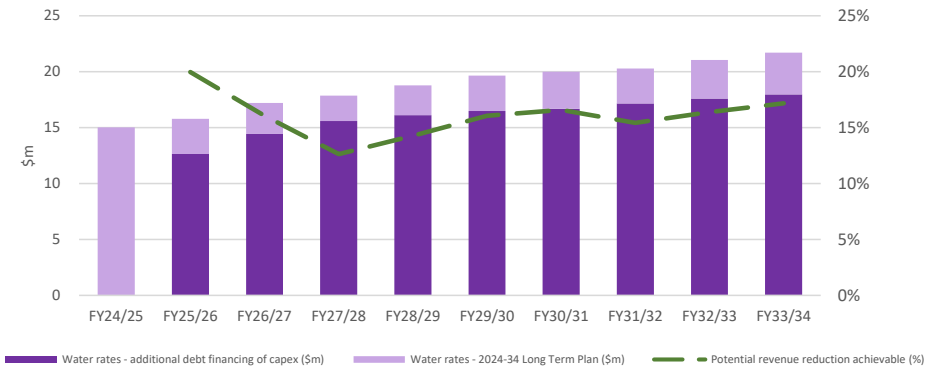
We have run a scenario that delivers LTP investment, increases the amount of debt financing, and reduces revenues to a level sufficient to cover cash costs and support borrowing requirements (assuming minimum operating cashflow requirements set to 8% of gross debt).

Masterton District Council could theoretically reduce projected rates requirements by 15% for water services over the LTP period (\$28 million). This would save each household approximately \$300 per year (\$2,966 total savings per household over LTP period).

Average charge per connection including GST – LTP v more debt financing scenario

| Average charge per connection including GST | FY24/25 | FY25/26 | FY26/27 | FY27/28 | FY28/29 | FY29/30 | FY30/31 | FY31/32 | FY32/33 | FY33/34 | Total |
|--|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|--------|
| Average charge - 2024-34 Long Term Plan | 1,693 | 1,763 | 1,902 | 1,956 | 2,037 | 2,109 | 2,126 | 2,135 | 2,194 | 2,238 | 20,153 |
| Average - reset with additional debt financing of capex | 1,693 | 1,410 | 1,595 | 1,706 | 1,745 | 1,769 | 1,773 | 1,806 | 1,835 | 1,854 | 17,187 |
| Projected increase - 2024-34 Long Term Plan | 9.3% | 4.1% | 7.9% | 2.9% | 4.1% | 3.5% | 0.8% | 0.5% | 2.7% | 2.0% | |
| Projected increase - reset with additional debt financing of capex | 9.3% | -16.7% | 13.1% | 7.0% | 2.3% | 1.4% | 0.2% | 1.9% | 1.6% | 1.1% | |
| Savings for each household | 0 | 353 | 307 | 250 | 292 | 339 | 353 | 329 | 359 | 384 | 2,966 |
| Savings for each household (%) | 0% | 20% | 16% | 13% | 14% | 16% | 17% | 15% | 16% | 17% | 15% |

Theoretical reduction to water rates requirement achievable for a water services CCO



Comparison of charges: LTP v more debt financing scenario

| Revenue requirements for water services (\$000) | FY24/25 | FY25/26 | FY26/27 | FY27/28 | FY28/29 | FY29/30 | FY30/31 | FY31/32 | FY32/33 | FY33/34 | Total |
|---|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Water rates - 2024-34 Long Term Plan | 15,016 | 15,786 | 17,197 | 17,856 | 18,786 | 19,642 | 19,999 | 20,293 | 21,054 | 21,697 | 187,326 |
| Water rates - reset with additional debt financing of capex | 15,016 | 12,634 | 14,435 | 15,599 | 16,106 | 16,488 | 16,682 | 17,163 | 17,605 | 17,970 | 159,699 |
| Potential water rates reduction achievable | 0 | 3,152 | 2,762 | 2,257 | 2,680 | 3,154 | 3,317 | 3,130 | 3,449 | 3,727 | 27,627 |
| Potential water rates reduction achievable (%) | 0% | 20% | 16% | 13% | 14% | 16% | 17% | 15% | 16% | 17% | 15% |
| Savings for each household (\$) | 0 | 353 | 307 | 250 | 292 | 339 | 353 | 329 | 359 | 384 | 2,966 |

| Metrics | FY24/25 | FY25/26 | FY26/27 | FY27/28 | FY28/29 | FY29/30 | FY30/31 | FY31/32 | FY32/33 | FY33/34 |
|-------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Rates increase | 10.4% | -15.9% | 14.3% | 8.1% | 3.8% | 2.4% | 1.2% | 2.9% | 2.6% | 2.1% |
| Operating revenue increase | 12.5% | -16.2% | 12.3% | 7.7% | 3.2% | 2.4% | 1.3% | 2.8% | 2.5% | 2.1% |
| Operating expenses increase | 18.7% | -2.0% | 3.1% | 2.6% | 2.7% | 3.3% | 1.8% | 2.9% | 2.6% | 1.9% |
| Net debt to operating revenue | 243.9% | 364.7% | 386.4% | 402.1% | 397.6% | 394.0% | 391.5% | 393.7% | 393.1% | 393.9% |
| FFO to net debt | 16.9% | 8.0% | 8.0% | 8.0% | 8.0% | 8.0% | 8.0% | 8.0% | 8.0% | 8.0% |

Impact on Masterton District Council from transferring water services to a CCO

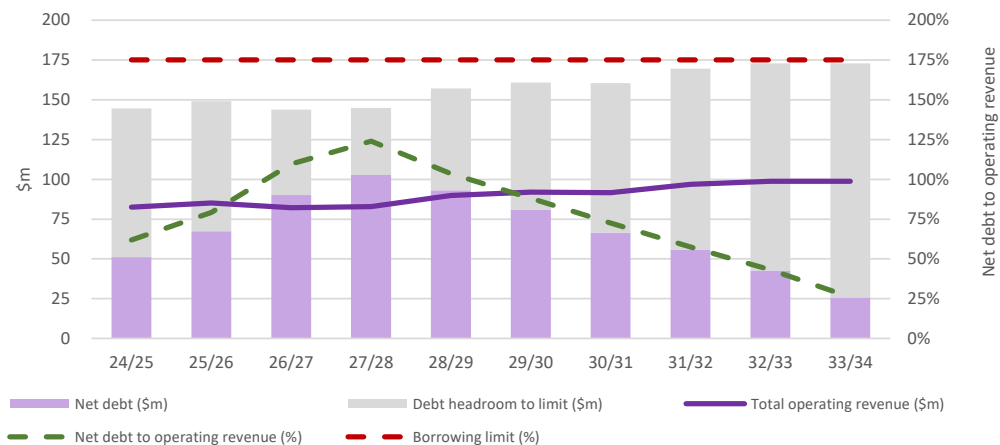
| Masterton District Council analysis (\$m) | FY24/25 | FY25/26 | FY26/27 | FY27/28 | FY28/29 | FY29/30 | FY30/31 | FY31/32 | FY32/33 | FY33/34 |
|---|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Including water services (status quo) | | | | | | | | | | |
| Operating revenue | 83 | 85 | 82 | 83 | 90 | 92 | 92 | 97 | 99 | 99 |
| Net debt | 51 | 67 | 90 | 103 | 93 | 81 | 67 | 56 | 43 | 26 |
| Net debt to operating revenue | 62% | 79% | 110% | 124% | 104% | 88% | 73% | 57% | 43% | 26% |
| Excluding water services | | | | | | | | | | |
| Operating revenue | 66 | 68 | 64 | 64 | 70 | 71 | 71 | 75 | 77 | 76 |
| Net debt | 11 | 21 | 37 | 46 | 39 | 30 | 20 | 11 | 2 | (11) |
| Net debt to operating revenue | 16% | 30% | 58% | 72% | 55% | 42% | 28% | 15% | 3% | -14% |
| Debt headroom created from excluding three waters | 30 | 33 | 33 | 33 | 34 | 33 | 31 | 32 | 31 | 30 |

Impact on borrowing headroom if water services are transferred to a water services CCO

- Masterton District Council would benefit from the creation of \$30 million in debt headroom at the parent council level if water services are transferred to a 'WAI + T' Water CCO. **This new borrowing headroom could be used to fund non-water investment that is projected to be revenue funded, with a corresponding reduction in non-water rates requirements.**
- This would provide significant borrowing headroom for council's other activities and improve financial resilience, reducing net debt to operating revenue from 62% to 16% for FY24/25; and from a peak of 124% to 72% in FY27/28.

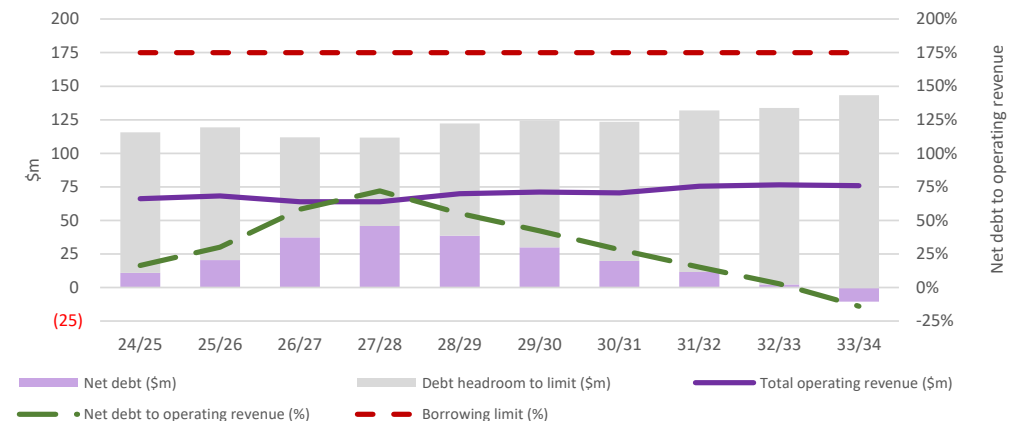
All of council financing (including water services)

Projected council net debt to operating revenue



All of council financing (excluding water services)

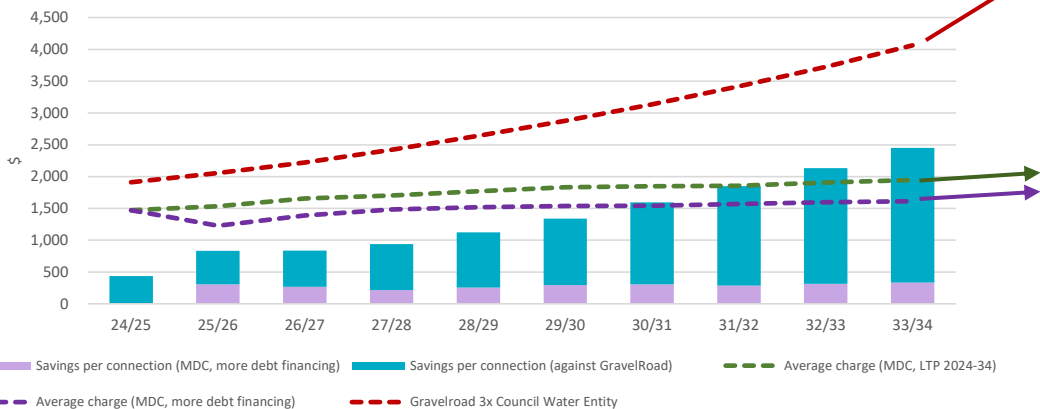
Projected council net debt to operating revenue (excluding water services)



Comparison of Masterton District Council LTP indicative water charges against GravelRoad Wellington/Wairarapa outputs

Wairarapa District Council – charges excluding GST from 2024-34 LTP

Comparing Masterton District Council water price path against GravelRoad Wairarapa output (excl GST)



| Masterton District Council – charges excluding GST | FY24/25 | FY25/26 | FY26/27 | FY27/28 | FY28/29 | FY29/30 | FY30/31 | FY31/32 | FY32/33 | FY33/34 |
|---|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Average charge (MDC, LTP 2024-34) - \$ | 1,472 | 1,533 | 1,654 | 1,701 | 1,771 | 1,834 | 1,848 | 1,857 | 1,908 | 1,946 |
| Average charge (MDC, more debt financing) - \$ | 1,472 | 1,226 | 1,387 | 1,484 | 1,517 | 1,539 | 1,542 | 1,571 | 1,595 | 1,612 |
| GravelRoad 3x Council Water Entity scenario - \$ | 1,909 | 2,058 | 2,223 | 2,423 | 2,641 | 2,878 | 3,137 | 3,420 | 3,728 | 4,063 |
| Savings per connection (MDC, more debt financing) - \$ | 0 | 307 | 267 | 217 | 254 | 295 | 307 | 286 | 313 | 334 |
| Savings per connection (MDC, more debt financing) - % | 0% | 20% | 16% | 13% | 14% | 16% | 17% | 15% | 16% | 17% |
| Savings per connection (against GravelRoad scenario) - \$ | 437 | 832 | 836 | 939 | 1,123 | 1,340 | 1,596 | 1,849 | 2,132 | 2,451 |
| Savings per connection (against GravelRoad scenario) - % | 23% | 40% | 38% | 39% | 43% | 47% | 51% | 54% | 57% | 60% |

MDC's 2024-34 LTP shows average charges for water services increasing from \$1,472 to FY24/25 to \$1,946 in FY33/34 (excluding GST), noting these are average calculated estimates based on information provided by MDC.

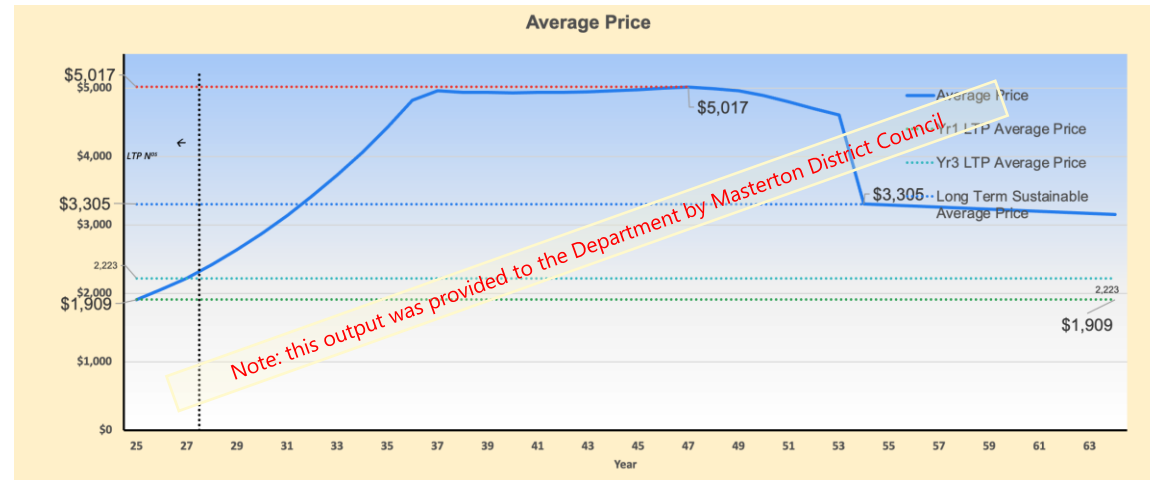
For the LTP level of proposed investment, our analysis suggests that projected charges could reduce against LTP projections through additional use of the debt financing capacity that would be available to a Wairarapa/Tararua water services CCO funded by LGFA.

Masterton District Council provided the Department with analysis completed by GravelRoad for the 10 council Wellington/Wairarapa Grouping and a hypothetical Wairarapa CCO, using network condition modelling to imply capital investment requirements. The GravelRoad modelling assumes a much higher capital investment requirement than is outlined in your LTP.

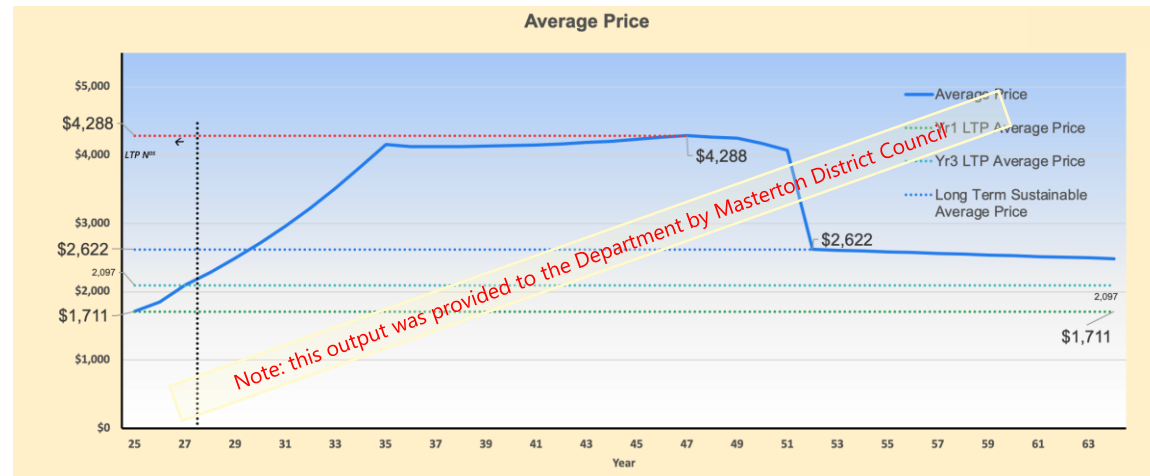
It is worth noting that the proposed level of investment included in GravelRoad modelling outputs has not been determined by specifying the individual projects and other works that Masterton District Council needs to undertake on your water services infrastructure. The Department's view is that councils are best placed to determine the level of investment required through the identification of the capital works / projects required, and consequently we view investment requirements in your LTP as being the most reliable data set available for this analysis and any council decisions to be made around financial sustainability and delivery model options analysis.

Given the relative difference in projected charges between the scenarios presented by the Department and GravelRoad, Masterton District Council has significant scope to increase investment (if required over time) while keeping charges significantly lower than what is presented in the GravelRoad Wairarapa scenario.

GravelRoad output – '3x Council Water Entity' (Wairarapa councils)



GravelRoad output – 'Regional Water Entity' (10 council grouping)



Masterton District Council: Revenue sufficiency

Projected statement of comprehensive revenue and expense

| Statement of comprehensive revenue and expense (\$000) | FY24/25 | FY25/26 | FY26/27 | FY27/28 | FY28/29 | FY29/30 | FY30/31 | FY31/32 | FY32/33 | FY33/34 |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Operating revenue | 16,512 | 16,982 | 18,287 | 18,975 | 19,935 | 20,819 | 21,204 | 21,525 | 22,312 | 22,982 |
| Other revenue | 1,440 | 170 | 170 | 170 | 170 | 170 | 170 | 170 | 170 | 170 |
| Total revenue | 17,952 | 17,152 | 18,457 | 19,145 | 20,105 | 20,989 | 21,374 | 21,695 | 22,482 | 23,152 |
| Operating expenses | 4,837 | 4,559 | 4,661 | 4,784 | 4,885 | 5,016 | 5,108 | 5,226 | 5,327 | 5,442 |
| Finance costs | 2,003 | 1,883 | 2,076 | 2,309 | 2,555 | 2,405 | 2,189 | 1,967 | 1,854 | 1,702 |
| Overheads and support costs | 2,868 | 2,990 | 3,120 | 3,201 | 3,315 | 3,457 | 3,517 | 3,646 | 3,774 | 3,832 |
| Depreciation & amortisation | 6,973 | 7,071 | 8,032 | 8,195 | 8,522 | 9,310 | 9,422 | 9,521 | 10,096 | 10,187 |
| Total expenses | 16,681 | 16,503 | 17,889 | 18,489 | 19,277 | 20,188 | 20,236 | 20,360 | 21,051 | 21,163 |
| Net surplus / (deficit) | 1,271 | 649 | 568 | 656 | 828 | 801 | 1,138 | 1,335 | 1,431 | 1,989 |
| Revaluation of infrastructure assets | 0 | 29,609 | 0 | 0 | 26,691 | 0 | 0 | 26,567 | 0 | 0 |
| Total comprehensive income | 1,271 | 30,258 | 568 | 656 | 27,519 | 801 | 1,138 | 27,902 | 1,431 | 1,989 |
| Cash surplus / (deficit) from operations (excl depreciation) | 8,244 | 7,720 | 8,600 | 8,851 | 9,350 | 10,111 | 10,560 | 10,856 | 11,527 | 12,176 |

Key water services metrics

| Metrics | FY24/25 | FY25/26 | FY26/27 | FY27/28 | FY28/29 | FY29/30 | FY30/31 | FY31/32 | FY32/33 | FY33/34 |
|-------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Rates increase | 10.4% | 5.1% | 8.9% | 3.8% | 5.2% | 4.6% | 1.8% | 1.5% | 3.8% | 3.1% |
| Operating revenue increase | 12.5% | 2.8% | 7.7% | 3.8% | 5.1% | 4.4% | 1.8% | 1.5% | 3.7% | 3.0% |
| Operating expenses increase | 18.7% | -2.0% | 3.1% | 2.6% | 2.7% | 3.3% | 1.8% | 2.9% | 2.6% | 1.9% |
| Net debt to operating revenue | 243.9% | 276.3% | 289.0% | 299.2% | 273.2% | 245.4% | 220.4% | 205.5% | 181.7% | 157.9% |
| FFO to net debt | 16.9% | 16.1% | 16.0% | 15.3% | 16.9% | 19.5% | 22.2% | 24.2% | 28.0% | 33.1% |

Commentary on water services revenue and expenses

- The 2024-34 LTP shows a 12.5% uplift in water services revenues for FY24/25, which is due to an 18.7% increase in operating expenses.
- For the remaining nine years of the LTP period, operating revenue and expense increases are projected to be more moderate.
- The projected levels of water services revenues are sufficient for the level of investment and expenditure proposed, and fully cover all operating costs including depreciation.
- In the last five years of the LTP period, water services revenues generate cashflows to fund debt repayments, which reduces debt to revenue for water services to 158% in FY33/34 from a peak of 299% in FY27/28.
- Water services are projected to provide funds from operations ('FFO', i.e., operating cashflows) of \$8.2 million in FY24/25, which represents 17% of water services debt.
- Due to projected debt repayments, free funds from operations increase to \$12.2 million in FY33/34, which represent 33% of projected FY33/34 water services debt.
- A Wairarapa / Tararua water services CCO that borrows through LGFA would be likely required to maintain a minimum FFO to debt ratio of 8-10%.**
- This means that there is significant scope for Masterton District Council to reevaluate the level of water services revenue required.**
- Establishing a water CCO that could borrow to 5x operating revenues would provide an opportunity to potentially reduce revenue requirements for water services.**

Revenue sufficiency performance measures

Average charge per connection including GST

| Average charge per connection including GST | FY24/25 | FY25/26 | FY26/27 | FY27/28 | FY28/29 | FY29/30 | FY30/31 | FY31/32 | FY32/33 | FY33/34 |
|---|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Average drinking water bill (including GST) | 615 | 626 | 701 | 743 | 815 | 849 | 855 | 858 | 876 | 895 |
| Average wastewater bill (including GST) | 948 | 994 | 1,038 | 1,025 | 1,032 | 1,058 | 1,067 | 1,075 | 1,106 | 1,130 |
| Average stormwater bill (including GST) | 130 | 143 | 163 | 188 | 190 | 202 | 203 | 202 | 213 | 213 |
| Average charge per connection including GST | 1,693 | 1,763 | 1,902 | 1,956 | 2,037 | 2,109 | 2,126 | 2,135 | 2,194 | 2,238 |
| Projected increase | 9.3% | 4.1% | 7.9% | 2.9% | 4.1% | 3.5% | 0.8% | 0.5% | 2.7% | 2.0% |

Operating surplus ratio: does operating revenue cover operating costs including depreciation?

| Operating surplus ratio | FY24/25 | FY25/26 | FY26/27 | FY27/28 | FY28/29 | FY29/30 | FY30/31 | FY31/32 | FY32/33 | FY33/34 | Total |
|--|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Operating surplus/(deficit) excluding capital revenues | (169) | 479 | 398 | 486 | 658 | 631 | 968 | 1,165 | 1,261 | 1,819 | 7,696 |
| Total operating revenue | 16,512 | 16,982 | 18,287 | 18,975 | 19,935 | 20,819 | 21,204 | 21,525 | 22,312 | 22,982 | 199,533 |
| Operating surplus ratio | (1.0%) | 2.8% | 2.2% | 2.6% | 3.3% | 3.0% | 4.6% | 5.4% | 5.7% | 7.9% | 3.9% |

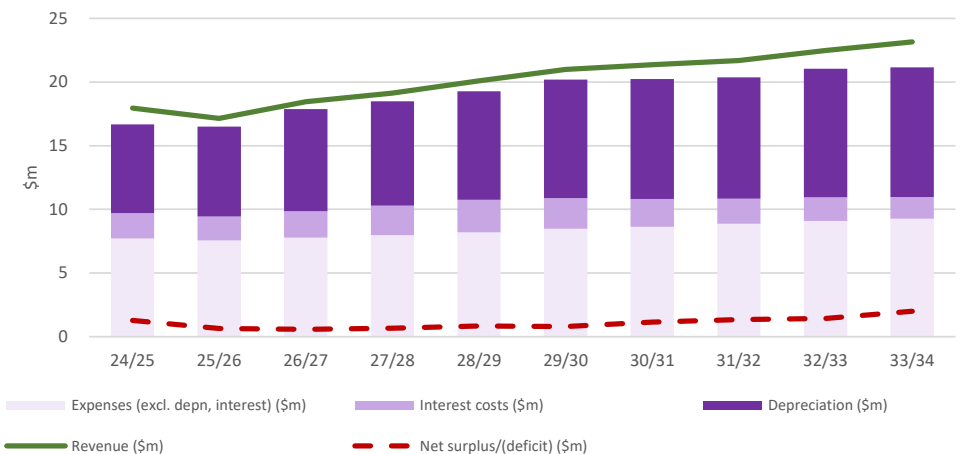
Operating cash ratio: what much cash is generated from operations?

| Operating cash ratio | FY24/25 | FY25/26 | FY26/27 | FY27/28 | FY28/29 | FY29/30 | FY30/31 | FY31/32 | FY32/33 | FY33/34 | Total |
|---|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Operating surplus/(deficit) + depreciation + interest costs - capital revenue | 8,807 | 9,433 | 10,506 | 10,990 | 11,735 | 12,346 | 12,579 | 12,653 | 13,211 | 13,708 | 115,968 |
| Total operating revenue | 16,512 | 16,982 | 18,287 | 18,975 | 19,935 | 20,819 | 21,204 | 21,525 | 22,312 | 22,982 | 199,533 |
| Operating cash ratio | 53.3% | 55.5% | 57.5% | 57.9% | 58.9% | 59.3% | 59.3% | 58.8% | 59.2% | 59.6% | 58.1% |

Commentary on revenue sufficiency for water services in 2024-34 LTP

- Projected operating revenues cover projected operating costs including depreciation.
- Funds from operations are higher than what would be required for a combined water services CCO funded by LGFA.
- LTP projections for water services would likely meet the 'revenue sufficiency' test.**

Projected water services revenue and expenses



Masterton District Council: Investment sufficiency

Projected water services investment

| Projected investment in water services (\$000) | FY24/25 | FY25/26 | FY26/27 | FY27/28 | FY28/29 | FY29/30 | FY30/31 | FY31/32 | FY32/33 | FY33/34 | Total |
|--|--------------|---------------|---------------|---------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|
| Drinking water | | | | | | | | | | | |
| Capital expenditure - to meet additional demand | 0 | 863 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 863 |
| Capital expenditure - to improve levels of services | 200 | 3,656 | 7,929 | 6,870 | 0 | 0 | 0 | 0 | 26 | 0 | 18,681 |
| Capital expenditure - to replace existing assets | 5,030 | 4,373 | 2,225 | 2,234 | 3,478 | 3,066 | 2,395 | 2,516 | 3,788 | 2,562 | 31,667 |
| Total projected investment for drinking water | 5,230 | 8,892 | 10,154 | 9,104 | 3,478 | 3,066 | 2,395 | 2,516 | 3,814 | 2,562 | 51,211 |
| Wastewater | | | | | | | | | | | |
| Capital expenditure - to meet additional demand | 0 | 1,414 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1,414 |
| Capital expenditure - to improve levels of services | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2,520 | 621 | 1,898 | 5,039 |
| Capital expenditure - to replace existing assets | 2,710 | 1,891 | 2,161 | 2,333 | 2,394 | 2,453 | 2,583 | 2,566 | 2,621 | 2,678 | 24,390 |
| Total projected investment for wastewater | 2,710 | 3,305 | 2,161 | 2,333 | 2,394 | 2,453 | 2,583 | 5,086 | 3,242 | 4,576 | 30,843 |
| Stormwater | | | | | | | | | | | |
| Capital expenditure - to meet additional demand | 0 | 435 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 435 |
| Capital expenditure - to improve levels of services | 0 | 1,088 | 1,115 | 626 | 470 | 482 | 493 | 0 | 0 | 0 | 4,274 |
| Capital expenditure - to replace existing assets | 310 | 653 | 1,087 | 716 | 705 | 722 | 739 | 756 | 772 | 789 | 7,249 |
| Total projected investment for stormwater | 310 | 2,176 | 2,202 | 1,342 | 1,175 | 1,204 | 1,232 | 756 | 772 | 789 | 11,958 |
| Total projected investment in water services | 8,250 | 14,373 | 14,517 | 12,779 | 7,047 | 6,723 | 6,210 | 8,358 | 7,828 | 7,927 | 94,012 |

Funding sources of projected investment

| Investment funding source | FY24/25 | FY25/26 | FY26/27 | FY27/28 | FY28/29 | FY29/30 | FY30/31 | FY31/32 | FY32/33 | FY33/34 | Total |
|---|--------------|---------------|---------------|---------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|
| Capital expenditure - to meet additional demand | 0 | 2,712 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2,712 |
| Capital expenditure - to improve levels of services | 200 | 4,744 | 9,044 | 7,496 | 470 | 482 | 493 | 2,520 | 647 | 1,898 | 27,994 |
| Capital expenditure - to replace existing assets | 8,050 | 6,917 | 5,473 | 5,283 | 6,577 | 6,241 | 5,717 | 5,838 | 7,181 | 6,029 | 63,306 |
| Total investment | 8,250 | 14,373 | 14,517 | 12,779 | 7,047 | 6,723 | 6,210 | 8,358 | 7,828 | 7,927 | 94,012 |
| Capital revenues | 1,440 | 170 | 170 | 170 | 170 | 170 | 170 | 170 | 170 | 170 | 2,970 |
| Increase/(decrease) in debt | (8,851) | 2,687 | 4,209 | 2,931 | (3,046) | (4,428) | (4,622) | (2,318) | (3,281) | (3,218) | (19,937) |
| Funds from operations | 15,661 | 11,516 | 10,138 | 9,678 | 9,923 | 10,981 | 10,662 | 10,939 | 10,975 | 110,979 | 110,979 |
| Total investment funding | 8,250 | 14,373 | 14,517 | 12,779 | 7,047 | 6,723 | 6,210 | 8,358 | 7,828 | 7,927 | 94,012 |

Commentary on water services investment

- The 2024-34 LTP is projecting \$94 million of capital investment over ten years.
- \$63 million of this is for renewals, against ten-year depreciation charges of \$87 million.
- \$31 million investment is provided for improving levels of service and growth.
- The major projects included in LTP relate to levels of service improvements for drinking water infrastructure over FY25/26 – FY27/28.
- Given that the LTP is projecting water services debt to be paid down over ten years (net \$20 million), effectively this means that projected capital investment is virtually fully funded from operating revenues (i.e., rates funding).
- A Wairarapa / Tararua water services CCO that borrows through LGFA would be likely able to borrow up to 5x operating revenues, which provides significant additional capacity to debt fund capital investment, which spreads the burden of this investment on ratepayers over a longer period.**
- Under Local Water Done Well, there are significant savings achievable to current water consumers from utilising new borrowing headroom and updating water services financing strategies to debt finance capital investment, with rates (or charges) set to a level that covers costs and services and support debts balances, as opposed to direct funding capital investment.**

Investment sufficiency performance measures

Asset sustainability ratio: comparison of renewals capital expenditure to depreciation

| Asset sustainability ratio | FY24/25 | FY25/26 | FY26/27 | FY27/28 | FY28/29 | FY29/30 | FY30/31 | FY31/32 | FY32/33 | FY33/34 | Total |
|-----------------------------------|--------------|---------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Capital expenditure on renewals | 8,050 | 6,917 | 5,473 | 5,283 | 6,577 | 6,241 | 5,717 | 5,838 | 7,181 | 6,029 | 63,306 |
| Depreciation | 6,973 | 7,071 | 8,032 | 8,195 | 8,522 | 9,310 | 9,422 | 9,521 | 10,096 | 10,187 | 87,329 |
| Asset sustainability ratio | 15.4% | (2.2%) | (31.9%) | (35.5%) | (22.8%) | (33.0%) | (39.3%) | (38.7%) | (28.9%) | (40.8%) | (27.5%) |

Asset investment ratio: comparison of total capital expenditure to depreciation

| Asset investment ratio | FY24/25 | FY25/26 | FY26/27 | FY27/28 | FY28/29 | FY29/30 | FY30/31 | FY31/32 | FY32/33 | FY33/34 | Total |
|-------------------------------|--------------|---------------|--------------|--------------|----------------|----------------|----------------|----------------|----------------|----------------|-------------|
| Capital expenditure | 8,250 | 14,373 | 14,517 | 12,779 | 7,047 | 6,723 | 6,210 | 8,358 | 7,828 | 7,927 | 94,012 |
| Depreciation | 6,973 | 7,071 | 8,032 | 8,195 | 8,522 | 9,310 | 9,422 | 9,521 | 10,096 | 10,187 | 87,329 |
| Asset investment ratio | 18.3% | 103.3% | 80.7% | 55.9% | (17.3%) | (27.8%) | (34.1%) | (12.2%) | (22.5%) | (22.2%) | 7.7% |

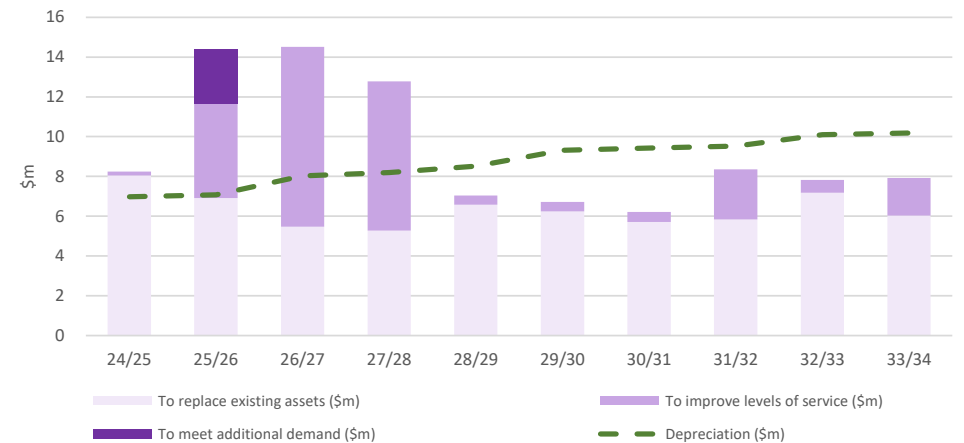
Asset consumption ratio: comparison of book value to replacement value

| Asset consumption ratio | FY24/25 | FY25/26 | FY26/27 | FY27/28 | FY28/29 | FY29/30 | FY30/31 | FY31/32 | FY32/33 | FY33/34 |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Book value of infrastructure assets | 246,984 | 283,895 | 290,380 | 294,964 | 320,180 | 317,593 | 314,381 | 339,785 | 337,517 | 335,257 |
| Total estimated replacement value of infrastructure | 455,324 | 499,306 | 513,823 | 526,602 | 560,340 | 567,063 | 573,273 | 608,198 | 616,026 | 623,953 |
| Asset consumption ratio | 54.2% | 56.9% | 56.5% | 56.0% | 57.1% | 56.0% | 54.8% | 55.9% | 54.8% | 53.7% |

Commentary on investment sufficiency for water services in 2024-34 LTP

- Renewals investment is lower than depreciation, this level of investment should be confirmed by MDC that it is appropriate and consistent with the council's investment strategy.
- Total investment is in line with projected depreciation charges over ten years and does not lead to a significant decline in remaining useful life of the network over ten years.
- Subject to MDC's review of projected investment against the requirements of Water Services Delivery Plans, **this level of investment would likely meet the 'investment sufficiency' test.**

Projected water services investment requirements



Masterton District Council: Financing sufficiency

Financing sufficiency measures

Net debt to operating revenue ratio

| | FY24/25 | FY25/26 | FY26/27 | FY27/28 | FY28/29 | FY29/30 | FY30/31 | FY31/32 | FY32/33 | FY33/34 |
|---------------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Net debt to operating revenue | | | | | | | | | | |
| Total net debt (gross debt less cash) | 40,273 | 46,926 | 52,843 | 56,771 | 54,468 | 51,080 | 46,730 | 44,232 | 40,533 | 36,284 |
| Operating revenue | 16,512 | 16,982 | 18,287 | 18,975 | 19,935 | 20,819 | 21,204 | 21,525 | 22,312 | 22,982 |
| Net debt to operating revenue | 244% | 276% | 289% | 299% | 273% | 245% | 220% | 205% | 182% | 158% |

Borrowing headroom/(shortfall) against 500% LGFA limit for water CCO

| | FY24/25 | FY25/26 | FY26/27 | FY27/28 | FY28/29 | FY29/30 | FY30/31 | FY31/32 | FY32/33 | FY33/34 |
|---|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Borrowings headroom/(shortfall) against limit | | | | | | | | | | |
| Operating revenue | 16,512 | 16,982 | 18,287 | 18,975 | 19,935 | 20,819 | 21,204 | 21,525 | 22,312 | 22,982 |
| Debt to revenue limit | 500% | 500% | 500% | 500% | 500% | 500% | 500% | 500% | 500% | 500% |
| Maximum allowable net debt | 82,560 | 84,910 | 91,435 | 94,875 | 99,675 | 104,095 | 106,020 | 107,625 | 111,560 | 114,910 |
| Total net debt | 40,273 | 46,926 | 52,843 | 56,771 | 54,468 | 51,080 | 46,730 | 44,232 | 40,533 | 36,284 |
| Borrowing headroom/ (shortfall) against limit | 42,287 | 37,984 | 38,592 | 38,104 | 45,207 | 53,015 | 59,290 | 63,393 | 71,027 | 78,626 |

Free funds from operations to debt ratio: The percentage of borrowings balance that is generated in funds from operations each year

| | FY24/25 | FY25/26 | FY26/27 | FY27/28 | FY28/29 | FY29/30 | FY30/31 | FY31/32 | FY32/33 | FY33/34 |
|--|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Free funds from operations (FFO) to debt ratio | | | | | | | | | | |
| Total net debt | 40,273 | 46,926 | 52,843 | 56,771 | 54,468 | 51,080 | 46,730 | 44,232 | 40,533 | 36,284 |
| Funds from operations | 6,804 | 7,550 | 8,430 | 8,681 | 9,180 | 9,941 | 10,390 | 10,686 | 11,357 | 12,006 |
| FFO to debt ratio | 16.9% | 16.1% | 16.0% | 15.3% | 16.9% | 19.5% | 22.2% | 24.2% | 28.0% | 33.1% |

Commentary on financing sufficiency for water services in 2024-34 LTP

- Net debt to revenue for water services peaks at 299% before being paid down to 158% by FY33/34.
- At an all of council level borrowings remain well within borrowing limits.
- Projected water services revenues provide sufficient operating cashflow to support borrowing requirements.
- The projected level of investment in the 2024-34 LTP is fundable under status quo in-house delivery.
- Establishing a water CCO that could borrow to 5x operating revenues would provide significant additional borrowing headroom, and an opportunity to reduce revenue requirements for water services.

Projected debt to revenue by water service

| Debt to revenue by water service (\$k) | FY24/25 | FY25/26 | FY26/27 | FY27/28 | FY28/29 | FY29/30 | FY30/31 | FY31/32 | FY32/33 | FY33/34 |
|--|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Drinking water - operating revenue | 6,147 | 6,326 | 6,947 | 7,421 | 8,175 | 8,591 | 8,743 | 8,871 | 9,134 | 9,419 |
| Drinking water - net debt | 10,241 | 16,784 | 24,298 | 30,703 | 31,152 | 30,916 | 29,877 | 28,903 | 29,006 | 27,672 |
| Drinking water - net debt to operating revenue % | 167% | 265% | 350% | 414% | 381% | 360% | 342% | 326% | 318% | 294% |
| Wastewater - operating revenue | 9,304 | 9,472 | 9,980 | 9,964 | 10,144 | 10,493 | 10,694 | 10,883 | 11,290 | 11,652 |
| Wastewater - net debt | 29,762 | 28,206 | 25,005 | 21,948 | 18,796 | 15,312 | 11,668 | 10,278 | 6,688 | 3,983 |
| Wastewater - net debt to operating revenue % | 320% | 298% | 251% | 220% | 185% | 146% | 109% | 94% | 59% | 34% |
| Stormwater - operating revenue | 1,061 | 1,184 | 1,360 | 1,590 | 1,616 | 1,735 | 1,767 | 1,771 | 1,888 | 1,911 |
| Stormwater - net debt | 270 | 1,936 | 3,540 | 4,120 | 4,520 | 4,852 | 5,185 | 5,051 | 4,839 | 4,629 |
| Stormwater - net debt to operating revenue % | 25% | 164% | 260% | 259% | 280% | 280% | 293% | 285% | 256% | 242% |
| Three Waters - net debt to operating revenue % | 244% | 276% | 289% | 299% | 273% | 245% | 220% | 205% | 182% | 158% |

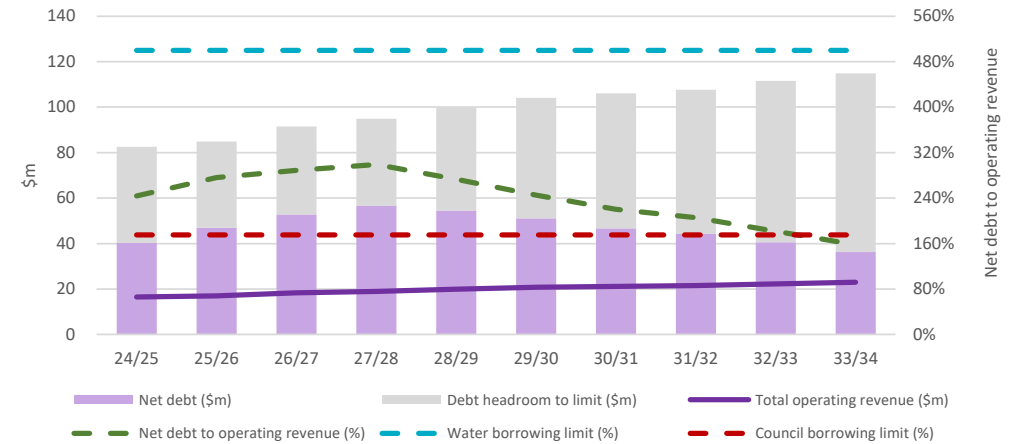
Funding source of investment

| Investment funding source | FY24/25 | FY25/26 | FY26/27 | FY27/28 | FY28/29 | FY29/30 | FY30/31 | FY31/32 | FY32/33 | FY33/34 | Total |
|-----------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|----------|
| Capital revenues | 1,440 | 170 | 170 | 170 | 170 | 170 | 170 | 170 | 170 | 170 | 2,970 |
| Increase/(decrease) in debt | (8,851) | 2,687 | 4,209 | 2,931 | (3,046) | (4,428) | (4,622) | (2,318) | (3,281) | (3,218) | (19,937) |
| Funds from operations | 15,661 | 11,516 | 10,138 | 9,678 | 9,923 | 10,981 | 10,662 | 10,506 | 10,939 | 10,975 | 110,979 |
| Total investment funding | 8,250 | 14,373 | 14,517 | 12,779 | 7,047 | 6,723 | 6,210 | 8,358 | 7,828 | 7,927 | 94,012 |

The 2024-34 LTP projects capital investment of \$94 million. Over ten years water services debt is projected to be paid down by \$20 million. Effectively this means that \$111 million of operating revenues are utilised to fund capital investment and debt repayments for water services over ten years.

Water services financing

Projected water services net debt to operating revenue



A 5x operating revenue debt limit is included to compare against projected leverage for water services, in line with what LGFA have indicated could be provided to water services CCOs. There would be significant borrowing headroom for water services under a water services CCO.

All of council financing (including water services)

Projected council net debt to operating revenue

