



land of
ranges



Te Kaunihera-ā-Rohe o Taratahi
CARTERTON
DISTRICT COUNCIL



Wai + T Project



Contents

| | |
|--|----|
| Introduction and Purpose..... | 4 |
| Executive Summary | 5 |
| Background | 6 |
| Scope and Scale of Wai + T Councils and Iwi Entities | 6 |
| The Project | 10 |
| In Scope of Project | 10 |
| Out of Scope of Project..... | 10 |
| Project Timeline..... | 11 |
| Project Structure | 11 |
| The Wai + T Option | 12 |
| High Level Entity Design..... | 12 |
| Decision Making Framework and Evidence Gathering..... | 14 |
| The Framework..... | 14 |
| Assessment Criteria and Criticality | 15 |
| Evaluation Process and Outputs..... | 16 |
| The process | 16 |
| Iwi Involvement | 16 |
| The Outputs | 18 |
| Sensitivity Analysis | 19 |
| Supporting Evidence for Evaluation | 23 |
| Peer Review of MCA Framework and Process | 23 |
| Interpretation and Discussion | 24 |
| Affordability – the ‘Elephant in the Room’ | 24 |
| Affordability Tests..... | 26 |
| Price Path Graphs..... | 26 |
| Economic Regulation and the Regulated Asset Base..... | 28 |
| “Win - Win – Win - Win" Approach | 29 |
| Investment Needs – the Strategy | 29 |
| Modelling..... | 31 |
| Scale and Scope – Limitations and Opportunities..... | 32 |
| Implementation Feasibility and Complexity..... | 33 |
| Climate Change and Local Waters Done Well..... | 35 |
| Regional Council View..... | 36 |

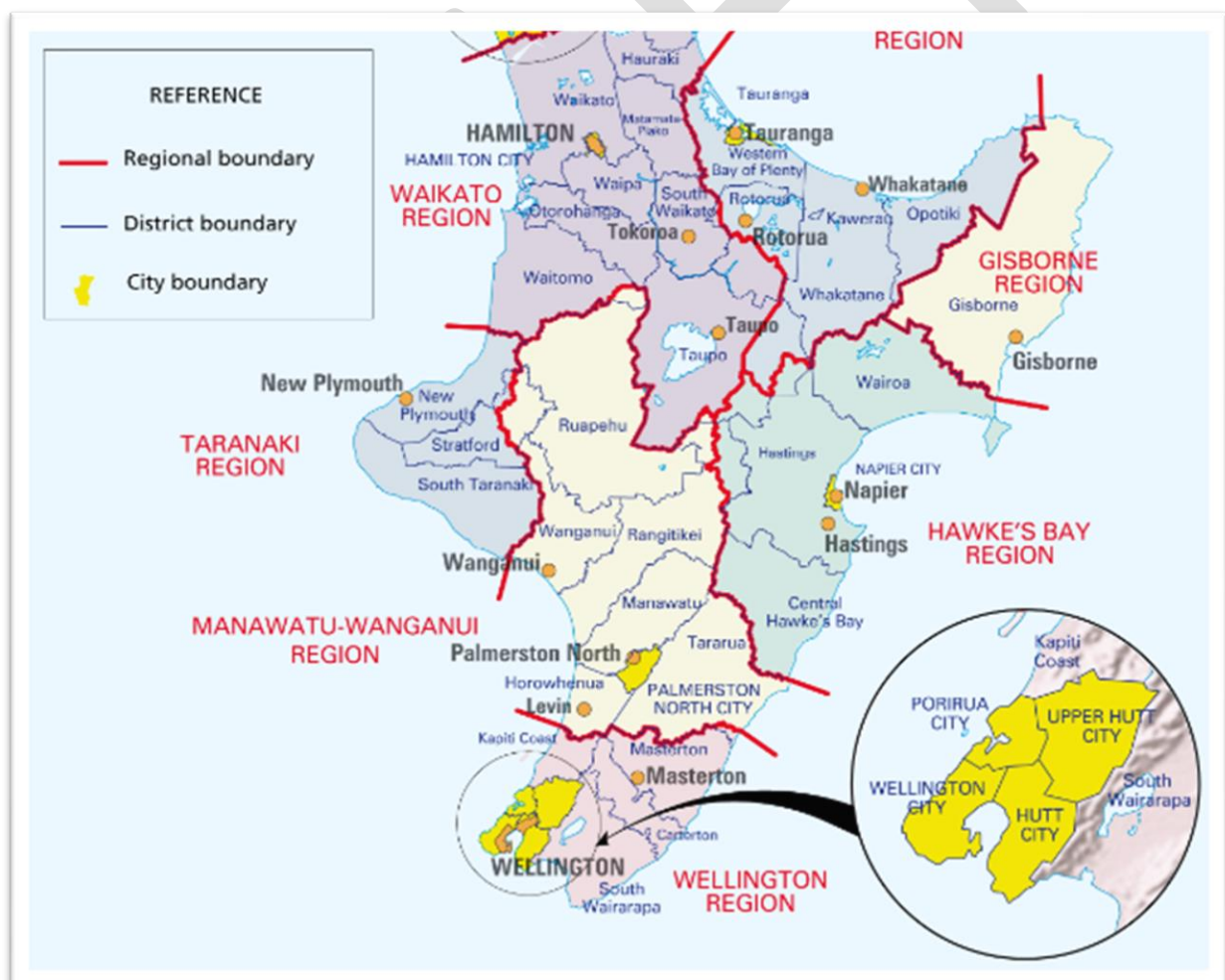
| | |
|---|----|
| Operational Benefits..... | 36 |
| Ability to Deliver | 38 |
| Uniqueness of the Wai + T Networks | 39 |
| Implementation | 39 |
| The enduring project team | 39 |
| Next Phases of Work..... | 39 |
| Project Implementation – Establishment Phase (on the runway)..... | 43 |
| Indicative Time and Cost for Phase 2 & 3 | 43 |
| Risk Assessment and Mitigation Strategies | 44 |
| Alignment with legislative intent..... | 49 |
| Conclusion – How do we feel? | 49 |
| Appendices | 51 |
| 1. Council snapshots | 51 |
| 2. Project Team Biographies | 51 |
| 3. Criterion – definition, priority and risk assessment..... | 51 |
| 4. Blank MCA Framework | 51 |
| 5. Evaluated MCA Framework..... | 51 |
| 6. Peer Review Letter from Castalia | 51 |
| 7. Water Infrastructure Reform Planning Report | 51 |
| 8. Gravel Road modelling for Wairarapa councils | 51 |

Introduction and Purpose

Under the Local Government (Water Services Preliminary Arrangements) Act a key decision required of councils when preparing a Water Services Delivery Plan (WSDP) is whether to continue delivering services as usual (whether under an existing CCO arrangement or alone) colloquially known as the 'status quo', or enter a joint arrangement with other councils, whether this be via a water services Council Controlled Organisation (CCO), Council Owned Organisation (COO) or other suitable model, for example shared services or a Community Trust.

The form of that joint arrangement, that is, with whom councils will work with, is being left to councils to decide.

Councils across the motu are approaching this decision in a variety of ways. For the Wairarapa councils they are actively engaged in investigating a Wellington Regional (10 council) option, a Wairarapa and Tararua (4 council) option and a Wairarapa (3 council) option). Tararua is engaged in investigating the Wairarapa and Tararua (4 council) option and a Whanganui and Manawatu Regional (7 council) option. Council boundaries are shown for illustrative purposes in the map below:



The purpose of this report is to deliver on the project scope of work which is to inform the elected members of the Wairarapa and Tararua District Councils of what a joint arrangement comprised of those four councils would look like, and to evaluate that joint arrangement option against a set of criteria and weightings to come up with a score. Each practicable joint arrangement option (except the Whanganui and Manawatu Regional option) was evaluated against the agreed criteria resulting in a ranking of possible joint arrangement options designed to assist elected members in deciding what, if any, joint arrangement option they may wish to pursue. Altogether, this is known as the Wai + T Project.

Executive Summary

In this executive summary, we start at the end of our chosen process; that is, how do we feel about the outputs of the project that the team has been tasked at delivering?

Our scope of work was clear, it was to develop a Wai + T joint arrangement option, an assessment tool, and evaluate that option against the larger Wellington Regional joint arrangement option comprising ten councils. We are satisfied that we have delivered on this defined scope of work in a way that is sufficiently detailed and robust enough to enable elected members to make an informed decision on the joint arrangement options of Wellington Regional and Wai + T.

At project commencement, elected members were apprised of the agreed process adopted to assess and evaluate the options and then on the results of the analysis.

During the process feedback from sought on the appropriateness of the criteria, and input was sought from Iwi to ensure their views were reflected.

At the end of the process, we have commissioned independent advice from experts on the framework and on the opportunities and limitations of economies of scale and scope. This independent advice was sought to supplement the expertise of the internal project team tasked with developing the scope of work.

The output of the multi-criteria-analysis framework developed indicated that a three or four Wairarapa or Wairarapa + Tararua joint arrangement option was the highest ranking. The key drivers for this outcome were:

- The view of Iwi, including recognizing the importance of the Te Rohe o Rongokako Joint Redress Act 2022 for the Wairarapa
- The ability to influence key strategic initiatives such as Water Resilience and Storage
- Ability to influence culture and deliver accountability locally
- The logic of a spatially similar sub-region being able to have a coordinated response to emergencies and standardized solutions for assets
- Right sized, fit for purpose systems and processes means innovation and cost efficiencies
- Less complexity and risk in establishment

- The ability to have strategic options in the future

Sensitivities on the weightings of criteria were performed and showed that only if there was a single set of criteria around financial projections would the larger regional ten council option rank highest, and then only marginally.

The pricing modelled for the two options come from two different perspectives, but neither can accurately reflect what tariffs the consumer will eventually face with certainty, as indicated by the disclaimers included in the Wellington Regional report.

We can make assumptions, receive advice, and intuit based on what we have seen in other regulated industries, but it will be the Board of these new entities and the executives they appoint that will be required to deliver to the regulatory regime, prepare the right-sized capital expenditure and operational expenditure plans, negotiate with the regulator, access funding, and implement for the communities they serve. Councils' role under a Water Services CCO model will be limited to a shareholder and what that entails under the constitution and shareholder agreement for example, issuance of an annual Letter of Expectations. Emphasis will need to be placed on capability and infrastructure experience of the new entity CEO and Executive Team. Key to that will be starting to think like a utility provider by optimising investment and debt levels to ensure intergenerational equity and optimal pricing.

The team has listened to feedback and looked at the risks of the project and identified mitigations for those risks including a peer review of the framework, adding a sixth step to the MCA, highlighting the importance of the Te Rohe o Rongokako Joint Redress Act 2022 for Iwi, appropriately considering what influence the councils will have in the future, the importance of good asset management planning, and the importance of alignment with legislative intent.

This report supports a strategic decision for councils but not the final decision as Councils must consult on the anticipated or proposed model for delivering water services in its Water Services Delivery Plan. Under the Act, a council must consult on its anticipated or proposed model or arrangement for delivering water services in its Plan and ensure that its consultation and decision-making process complies with the Act. Consultation must occur on the current model the council has adopted to deliver its water services, i.e. on its own or part of a CCO (including changes to comply with legislation) and one other alternative option.

Only following consultation on the plan can the project team start preparing the runway for establishing any new entity.

The evaluation undertaken in this report suggests the Wairarapa alone and the Wai + T joint arrangement ranks higher than the Wellington Regional ten council option.

Background

Scope and Scale of Wai + T Councils and Iwi Entities

Information about each council, their population, connected population, land area etc can be found in the respective Long Term Plan / Enhanced Annual Plan documents for each.

A snapshot of important information for each of the four councils can be seen in Appendix 1.

In this section we include the additional information on the current delivery model and scope, and the Iwi representation in the area, known as the Rohe.

Wairarapa + Tararua Rohe*:

Ngāti Kahungunu is New Zealand's third largest tribal group. Stretching down the North Island from the Māhia Peninsula to Cape Palliser, its territory is divided into three districts: Wairoa, Heretaunga and Wairarapa. The three divisions are Ngāti Kahungunu ki Te Wairoa, Ngāti Kahungunu ki Heretaunga and Ngāti Kahungunu ki Te Wairarapa.

The Rangitāne tribe are descended from Whātonga, who came to New Zealand from Hawaiki as a captain of the Kurahaupō canoe. As testament to early tribal expansion, their marae can still be found throughout the country. Some generations later the Rangitāne tribe migrated to Tāmakinui-a-Rua (around present-day Dannevirke), Wairarapa, Te Whanganui a Tara (Wellington), and Wairau in the south, and Manawatū and Horowhenua to the west. The Rangitāne people continue to claim mana whenua (traditional authority over the land) in these places.

(*Excerpts from Te Ara Encyclopaedia of New Zealand)

Existing Operational Model:

The scope and method of current water services delivery by council can be seen in the below table:

| Council | No of plants | Delivery | Consultancy | Contractor | Depot |
|-----------------------------|--------------|-------------------------------------|--|---------------------------|--|
| CARTERTON DC | | | | | |
| Wastewater Treatment | 1 | In house | | | |
| Water treatment | 2 | In house | | | |
| Network Maintenance | | In house | | | |
| Capex Renewals | | Outsourced with some Inhouse design | Egis NZ 5+1+1 contract | G&C Digger 5+1+1 contract | Council – in Carterton shared with Parks |
| MASTERTON DC | | | | | |
| Wastewater Treatment | 4 | In house | Technical Support, Optimisation etc outsourced | | |
| Water treatment | 2 | In house | Technical Support, WSPs etc outsourced | | |
| Network Maintenance | | Physical work Outsourced | Engineering design outsourced | City Care 3+1+1 contract | City Care – in Masterton |
| Capex Renewals | | Outsourced | Engineering design outsourced | City care and tendered | |
| SOUTH WAIRARAPA DC | | | | | |
| Wastewater Treatment | 4 | WWL | | | |

| Council | No of plants | | | Delivery | Consultancy | Contractor | Depot |
|-----------------------------|--------------|----------------------------|--|-----------------------|---|----------------------------------|--------------------------------|
| Water Treatment | 4 | | | WWL | | | |
| Network Maintenance | | | | WWL Alliance | | Fulton Hogan 10-year contract | Fulton Hogan – in Carterton |
| Capex Renewals | | | | | WWL Panel contract to 2026 | WWL Panel contract to 2026 | No local depot |
| TARARUA DC | | | | | | | |
| Wastewater Treatment | 7 | Internal | Chris French / Rationale | Tararua DC | Onsite | | |
| Water Treatment | 7 | Internal | Chris French / Rationale / Tonkin & Taylor | Tararua DC | Onsite | | |
| Network Maintenance | | Alliance /Collaborative | N/A | Tararua DC /Downer | Oringi Business Park | | |
| Capex Renewals | N/A | Alliance /Collaborative | WSP | Tararua DC /Downer | Oringi Business Park/ TDC; Inventory site, Pahiatua | | |

The Project

In Scope of Project

The scope of this project is to develop a joint arrangement option encompassing the Wairarapa and Tararua councils that is sufficiently detailed to enable it to be compared against other options. To do so a project team comprised of senior staff from the three Wairarapa and Tararua councils (1x each) has been tasked with:

1. Developing a joint arrangement option encompassing the Wairarapa and Tararua councils that is sufficiently detailed to enable it to be compared against other options.
2. Providing sufficient supporting evidence and a decision-making framework to enable evaluation of a joint operating model against other options for the delivery of water services (including the status quo).
3. Establishing the assessment criteria to enable options analysis within the decision-making framework, known as the Multi Criteria Analysis (MCA).
4. Assessing the Wellington Region joint arrangement option with the Wairarapa and Tararua Joint Council option.
5. Workshopping the options with elected members.
6. Commencing work on the details of a preferred joint arrangement option if directed by the Project Steering Group under a new term of reference.

The key details on the approach of the Wellington Regional Project option comprising the six Wellington Water Limited owners (Porirua, Wellington, Hutt, Upper Hutt, South Wairarapa and Greater Wellington), Kapiti, Horowhenua, Carterton and Masterton Councils and the Wai + T project option of the three Wairarapa councils and Tararua is shown in the table below.

| Wellington Region (10) | Wai + T (4) |
|--|--|
| MOU signed 10 May 2024 | Terms of Reference signed 5 July 2024 |
| Led by largely external project team to councils | Led by senior staff internal to councils |
| Non-binding commitment to collaborate | Binding commitment to fund a defined scope of work |
| Defined exit ramps at end of each phase | Driving the decision on which option to proceed with by 30 October 2024. |
| Progressive decision making required | Progressive decision making required |

Out of Scope of Project

Although the development of a Wellington Regional joint arrangement option is out of scope due to this is being led by a different project team under a separate MOU and funding

mechanism, it is in scope to assess the option derived from that process with the Wairarapa and Tararua Joint Council option. Also out of scope is the work Tararua is doing with Manawatu-Whanganui councils in a similar vein to Wairarapa with Wellington councils.

Similarly, out of scope also is development of the status quo / existing approach option for each individual council which will remain the responsibility of the respective council but must be compared against the joint council option as required by Part 3, clause 51. 2. a. (i) of the Preliminary Arrangements Act. However, in the evaluation process the team ran each of their existing delivery arrangement options through the MCA framework, and the option of a single council delivering services alone was modelled by the Wai + T project team as a stand-alone business unit (SABU).

It is a requirement that consultation with the community will occur on the existing delivery method versus the any new proposed delivery methods before a Water Services Delivery Plan is adopted by council and submitted to the government for certification.

Project Timeline

Critical milestones will be

| | |
|------------------------|---|
| October 2024 | Wairarapa councils' decision on joint water service delivery plan |
| November/December 2024 | Tararua decision on joint service delivery plan |
| Early 2025 | Public consultation on entity structure and establishment |
| April 2025 | Councils consultation Annual Plan (or Long-Term Plan amendment) setting out transition costs and potential effect on overhead allocations |
| 30 June 2025 | Target final date for Council pre-election decision on CCO/Entity and Annual Plans |
| 3 September 2025 | Completed Water Services Delivery Plan to be submitted to Secretary for Local Government |

Project Structure

The Wai + T project used a parallel construct to the Wellington Regional Group structure with an Advisory Oversight Group (AOG) comprised Mayors or Councillors and Iwi, a Project Steering Group (PSG) comprised of Chief Executives, and a project team.

The key difference between the projects being that the Wai + T project team is made up of internal staff contributing on a part-time basis, except for the Project Lead who was seconded from her substantive role at South Wairarapa District Council for the term of the project.

Members of the three groups are as follows:

| | |
|--------------------|--|
| Advisory Oversight | Mayor Ron Mark, Mayor Tracey Collis, Councillor Colin Olds, Councillor David Holmes, |
|--------------------|--|

| | |
|------------------|--|
| | Jo Hayes (Rangitāne) and Robin Potangaroa (Ngāti Kahungunu) |
| Project Steering | Janice Smith, Geoff Hamilton, Kym Fell (and in his absence Corin Haines) and Bryan Nicholson |
| Project | Robyn Wells (Lead and Principal Advisor 3 Waters SWDC), Maseina Koneferenisi (GM Infrastructure and Assets MDC), Peter Wimsett (Chief Advisor TDC) and Johannes Ferreira (Infrastructure Services Manager CDC) |

Iwi representatives for the AOG were nominated by Iwi formally upon invitation by the AOG council membership.

Represented by the four Iwi/Māori representatives on the AOG, the Iwi/Māori partners in this Wai + T area include:

- Rangitāne o Wairarapa
- Ngāti Kahungunu ki Wairarapa Tamaki Nui-a-Rua Treaty Settlement Trust
- Ngāti Kahungunu ki Wairarapa – Rūnanga
- Ngāti Kahungunu ki Wairarapa Tāmaki-Nui-a-Rua – PSGE
- Rangitāne Tu Mai Rā Trust – PSGE
- Rangitāne o Wairarapa Inc – Rūnanga

Short biographies for the Project Team members can be seen in Appendix 2.

The Wai + T Option

The first task the team needed to deliver was a Wai + T entity model sufficiently detailed to allow comparison to the Wellington Regional entity.

The Wai + T entity as described below has been used for financial modelling purposes and for ranking against the MCA criteria as described in the following sections.

More detailed design is contemplated at the next stage of the project, if agreed, and will involve an MCA process of the form of the entity, i.e. Council Controlled Organisation etc to confirm the details. For the purposes of this analysis, it is assumed a CCO will be the form of entity, this is based on the required funding envelope which can only be supported by Local Government Funding Agency (LGFA) if the entity is a CCO.

High Level Entity Design

The Wai + T joint arrangement option is a new Council Controlled Organisation-like entity that delivers water services to the connected consumers and urban areas (for stormwater) of South Wairarapa, Carterton, Masterton and Tararua districts. Other entity structures are permitted to be

considered by the council, such as business units, joint arrangements, consumer trusts and the council-controlled organisation (CCOS)s. However, only CCOs will have enhanced access to LGFA borrowing limits of 500% of revenue. The access to greater borrowing may prove critical to achieve future sustained service delivery.

The new organisation is required to have an independent board from councils, professional management and a head office based within the four-district area.

Funding will be required for a treasury function, credit rating, regulatory fees and the usual reporting for a CCO.

Although a decision for the new entity, there is likely to be one or more operational depots for the dispersed areas being serviced, it will be adequately resourced, have appropriate plant materials, standard turnaround times, and fit for purpose systems and processes.

Existing assets, debt, and revenue streams (both domestic and non-domestic) will be transferred from council into the new entity, whereafter the revenue streams will be realigned and optimised for efficiency. The exception to this is stormwater assets, that are difficult to separate from other non-water council assets, such as footpaths, kerb and channels, roading design, state highways and the transition of rural-town boundaries. For this reason, the new entity may end up contracting to deliver the service, while councils remain with stormwater assets, debt and future investment.

The Regulated Asset Base for the entity will be constructed from the latest fair value assessment of each organisation.

A win-win-win-win calculation will be agreed to account for:

- Starting debt
- Investment needs
- Tariff expectations

We have assumed an integrated capital investment programme across the four-districts, optimised to enable staging and efficiencies. We have also assumed procurement will be centralised and run out of the head office.

All staff currently employed within existing council water service operations are expected to be transferred into the new entity so that local knowledge and experience is retained, excluding tier 2 roles. It is anticipated tier 1, and 2 roles (the CEO and direct reports) will be contestable.

The entity will have its own set of values and culture with a unique Wairarapa-Tararua flavour, enhanced through careful selection of the new CEO and senior level staff.

We have assumed a brownfield approach to ensuring strong processes, systems and data management will be developed that is fit for purpose and right sized. Much of this initial work was done in preparation of the previous reform. However, new software systems can be costly and complex to implement, so the decision and timing to change systems will be one of the entity's first challenge. Contracting councils to perform some existing functions in the interim may be an option for the new Chief Executive and the new staff of the entity.

We have assumed the projected start date of the CCO will be 1 July 2026, however, depending on the financial construct this date may be earlier from a legal perspective. The decision to proceed is a matter for public consultation.

Establishment costs are estimated at a combined \$5 million based on the Wellington modelling. This is permitted to be borrowed back to Council from the settled-up organisation on day one when assets and debt is transferred / vested into the multi council CCO or if transfer occurs earlier the entity will be able to attain its own establishment funding through the LGFA.

It is anticipated the Wai + T entity will also have a coordinated emergency response office that will be standalone but also work closely with existing offices such as WREMO.

Governance will set the strategic vision for the entity, and this will align with other important initiatives such as water resilience, storage and the Te Rohe o Rongokako Joint Redress Act 2022.

It is expected shareholding councils will furnish a Letter of Expectations (LOE) which will denote specific strategic areas they wish to influence.

The entity will work closely with Rangitāne and Ngāti Kahungunu across a single Rohe.

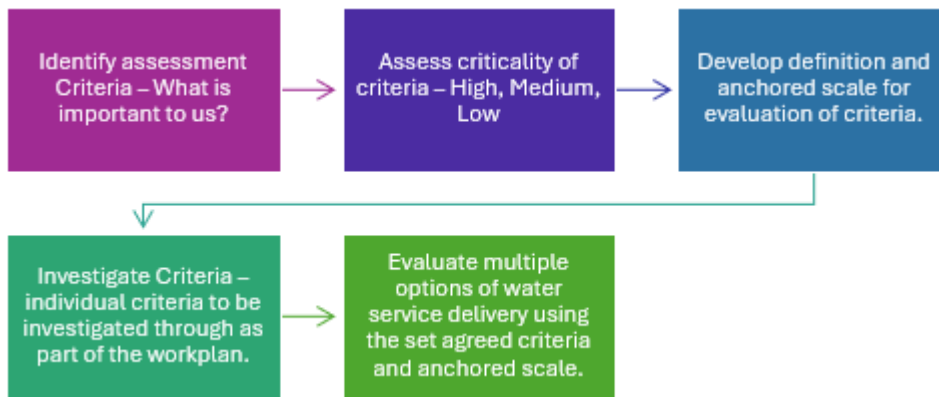
Decision Making Framework and Evidence Gathering

The project team prepared the framework for evaluation and carried out the evaluation process between July and September 2024. Because of the nature of the environment the project is being run in; that is, emerging legislation, parallel projects, progressive decision making required to meet deadlines; it was necessary for evaluations to be conducted with an understanding that new or refined information would emerge. However, a robust process and methodology run through a sensitivity test should provide the best information for decision making.

The Framework

The team elected to take a five-step approach (and possibly 6th) in developing a decision-making framework called a Multi-Criteria Analysis (MCA), much like the approach used in the procurement and assessment of tenders and technical solution decisions. The steps were as follows:

- a. Identify assessment Criteria – What is important to us?
- b. Assess criticality of criteria – What is more or less important?
- c. Develop definition and anchored scale for evaluation of criteria – How do we determine whether the option should be ranked poor, good or excellent against the criteria?
- d. Investigate Criteria – individual criteria to be investigated through as part of the workplan – Why did we assign the score, on what basis?
- e. Evaluate multiple options of water service delivery using the set agreed criteria and anchored scale.
- f. Assess how the outcome ‘feels’.



Assessment Criteria and Criticality

A long list of criteria was collected from several sources including the Waikato and Hawkes Bay transition teams, Whanganui / Manawatu via TDC, the draft legislation, and identification of measurable indicators in the financial models that were being utilised. These criteria were reduced to a short list and shared with the CEO group for comment, then further refined with the final criteria being shared with elected members of all councils

The financial criteria were peer reviewed by consultant Matt Townsend to ensure they were measurable from the modelling we had and aligned with legislative requirements.

Iwi were asked to create and score criteria important to them.

The final set of criteria chosen sat in six areas:

| | |
|--------------------------|---|
| Financial | Criteria that will impact affordability for the consumer |
| Level of Service | Criteria that will influence the experience of our customers |
| Operational | Criteria that will drive efficiencies and opportunities for our District/s |
| Relationships and Trust | Ease to set the right values and culture to drive performance in the organization and align with Māori view |
| Strategic | Criteria that may support achievement of our strategic goals for our District/s |
| Legislative Requirements | Does the arrangement proposed support achievement of the criteria required in any WSDP to be accepted by the Minister |

Within the six areas, a final 41 criteria were agreed and assigned a criticality of low, medium or high by the project team.

The criticality of low, medium or high was scored as a 1, 2 or 3 in the matrix giving a higher criticality a higher impact in the final calculations.

In total there were 23 high, 12 medium and 6 low criteria in the framework used for the assessment.

The project team, with the assistance of a Finance expert for the Finance area, agreed the anchor points for a rating of poor, good or excellent between zero and 100.

A full list of the 41 criteria with a definition, criticality assessment and anchor scales can be seen in Appendix 3.

Evaluation Process and Outputs

The process

The process followed was:

1. The core project team, through a moderation process in a series of workshops entered scores for poor, good or excellent against all criteria which resulted in a set of scores and a ranking for all options assessed.
2. The PSG iwi reps and a representative from Tamaki-nui-a-rua participated in a workshop on iwi criteria and rated the options against the agreed criteria.
3. The approach was workshopped with the PSG and AOG.
4. The approach was discussed and informally endorsed by Department of Internal Affairs.
5. The evaluation results were released to all four councils on the same day, Wednesday 21 August.
6. The evaluation was discussed in detail with the CFOs of the three Wairarapa councils.
7. The evaluation results were workshopped in detail at two Teams meetings with elected members, iwi representatives, and leadership team staff from all four councils on 3 and 4 September 2024.
8. Sensitivity testing was subsequently carried out by CE of CDC which successfully tested the criteria and weightings for bias.
9. Iwi workshops were held on 17 and 19 September in Tamaki nui a rua and Whakaoriori.
10. A hui with SWDC mana whenua was held on 16 October.
11. The draft report was workshopped by the three Wairarapa councils on 17th and 18th of October.

The working framework with the weighting used the criteria, criticality and anchor scales is included in Appendix 5.

Iwi Involvement

The project team invited Iwi to develop the set of criteria that reflected what was important to them in assessing each option. A starting set of principles was refined down to the following by attendees from Rangitāne and Ngāti Kahungunu in Wairarapa and Tararua:

Starting Principles:

| |
|--|
| Whakapapa - genealogical links |
| Te mana o te wai - the life force of water |
| Enabling of Te Tiriti o Waitangi |
| Mana motuhake - identity, self determination |

The final agreed assessment criteria and anchor scale, included within the Stakeholder / Trust section of the MCA was as follows:

| Criteria | Poor 0 - 30 | Good 31- 60 | Excellent 61-100 |
|---|-------------------------|--|---------------------------------------|
| Iwi support | No support | Partial support with concerns | Fully support |
| Whakapapa - genealogical links | No historical whakapapa | Relationships have been from some agreements, some whakapapa links | Direct whakapapa to same line descent |
| Te mana o te wai - the life force of water | Limited mana | Mana | Strong mana |
| Enabling of Te Tiriti o Waitangi | Limited mana | Mana | Strong mana |
| Mana motuhake - identity, self determination | Do not identify | Some identity | Strong identity |
| Mauri - life force /peoples' interaction with the wai | No connection / impact | Connection / impact | Strongly connected |

All Iwi criteria were considered to be of high criticality.

The Iwi participants then rated each option against the criteria to arrive at a score.

The importance of the Te Rohe o Rongokako Joint Redress Act 2022 was included under the Strategy area of the worksheet as an important district-wide initiative that needed to be supported by any new entity.

The Outputs

Preliminary results of the MCA process resulted in the following scores and rankings:

Original results:

| | Financial | Levels of Service | Operational | Relationships & Trust | Strategic | Legislative Requirements | Weighted Score TOTAL | RANK |
|------------------------|-----------|-------------------|-------------|-----------------------|-----------|--------------------------|----------------------|------|
| Weighting | 25% | 20% | 15% | 20% | 10% | 10% | 100% | |
| Regional (10 councils) | 57% | 33% | 46% | 23% | 37% | 63% | 42% | 6 |
| Wai + T | 56% | 68% | 67% | 92% | 70% | 75% | 70% | 2 |
| MDC alone | 29% | 66% | 68% | 35% | 76% | 81% | 54% | 3 |
| CDC alone | 29% | 66% | 63% | 35% | 76% | 81% | 53% | 4 |
| SWDC status quo | 26% | 38% | 45% | 34% | 38% | 60% | 38% | 7 |
| TDC alone | 26% | 66% | 67% | 35% | 76% | 81% | 52% | 5 |
| Wairarapa only | 54% | 71% | 70% | 88% | 76% | 75% | 71% | 1 |

The difference between the Wai + T and Wairarapa three council group option was marginal, but clearly those options ranked significantly higher than the Wellington Regional option. Key drivers of this result were the following:

- The view of Iwi, including recognizing the importance of the Te Rohe o Rongokako Joint Redress Act 2022 for the Wairarapa

- The ability to influence key strategic initiatives such as Water Resilience and Storage
- Ability to influence culture and deliver accountability locally
- The logic of a spatially similar sub-region being able to have a coordinated response to emergencies and standardized solutions for assets
- Right sized, fit for purpose systems and processes means innovation and cost efficiencies
- Less complexity and risk in establishment
- The ability to have strategic options in the future

The reasons for the rating of each option against the criteria made by the moderating team were recorded in the framework which can be seen in Appendix 5.

Sensitivity Analysis

Questions were raised in the workshop sessions about the weightings for each criteria area used by the project team, and if they were different would the results materially change.

A series of sensitivities were run to show how the rankings would change if the weightings were adjusted to say, for example, increase the financial weighting and decrease the Relationship and Trust weighting. The results can be seen in the following series of tables where the ranking for the Regional (10 Council) Option only becomes the highest ranking when the single consideration is financial criteria, and then only marginally by 1% point (5th option below).

Option 1: Enhancing the weighting for Levels of Service

| | Financial | Levels of Service | Operational | Relationships & Trust | Strategic | Legislative Requirements | Weighted Score TOTAL | RANK |
|-------------------------------|------------|-------------------|-------------|-----------------------|------------|--------------------------|----------------------|----------|
| Weighting | 25% | 30% | 15% | 15% | 10% | 5% | 100% | |
| Regional (10 councils) | 57% | 33% | 46% | 23% | 37% | 63% | 41% | 6 |
| Wai + T | 56% | 68% | 67% | 92% | 70% | 75% | 69% | 2 |
| MDC alone | 29% | 66% | 68% | 35% | 76% | 81% | 54% | 3 |
| CDC alone | 29% | 66% | 63% | 35% | 76% | 81% | 53% | 4 |
| SWDC status quo | 26% | 38% | 45% | 34% | 38% | 60% | 37% | 7 |
| TDC alone | 26% | 66% | 67% | 35% | 76% | 81% | 53% | 5 |
| Wairarapa only | 54% | 71% | 70% | 88% | 76% | 75% | 70% | 1 |

Option 2: Highest weighting on Financial and level of Service

| | Financial | Levels of Service | Operational | Relationships & Trust | Strategic | Legislative Requirements | Weighted Score TOTAL | RANK |
|-------------------------------|------------|-------------------|-------------|-----------------------|------------|--------------------------|----------------------|----------|
| Weighting | 30% | 30% | 10% | 10% | 10% | 10% | 100% | |
| Regional (10 councils) | 57% | 33% | 46% | 23% | 37% | 63% | 44% | 6 |
| Wai + T | 56% | 68% | 67% | 92% | 70% | 75% | 67% | 2 |
| MDC alone | 29% | 66% | 68% | 35% | 76% | 81% | 55% | 3 |
| CDC alone | 29% | 66% | 63% | 35% | 76% | 81% | 54% | 4 |
| SWDC status quo | 26% | 38% | 45% | 34% | 38% | 60% | 37% | 7 |
| TDC alone | 26% | 66% | 67% | 35% | 76% | 81% | 54% | 5 |
| Wairarapa only | 54% | 71% | 70% | 88% | 76% | 75% | 68% | 1 |

Option 3: 50% weighting for financial

| | Financial | Levels of Service | Operational | Relationships & Trust | Strategic | Legislative Requirements | Weighted Score TOTAL | RANK |
|-------------------------------|------------|-------------------|-------------|-----------------------|-----------|--------------------------|----------------------|----------|
| Weighting | 50% | 25% | 5% | 10% | 5% | 5% | 100% | |
| Regional (10 councils) | 57% | 33% | 46% | 23% | 37% | 63% | 46% | 3 |
| Wai + T | 56% | 68% | 67% | 92% | 70% | 75% | 64% | 2 |
| MDC alone | 29% | 66% | 68% | 35% | 76% | 81% | 46% | 4 |
| CDC alone | 29% | 66% | 63% | 35% | 76% | 81% | 45% | 5 |
| SWDC status quo | 26% | 38% | 45% | 34% | 38% | 60% | 33% | 7 |
| TDC alone | 26% | 66% | 67% | 35% | 76% | 81% | 44% | 6 |
| Wairarapa only | 54% | 71% | 70% | 88% | 76% | 75% | 65% | 1 |

Option 4: Remove Relationships and Trust area from weightings

| | Financial | Levels of Service | Operational | Relationships & Trust | Strategic | Legislative Requirements | Weighted Score TOTAL | RANK |
|-------------------------------|------------|-------------------|-------------|-----------------------|------------|--------------------------|----------------------|----------|
| Weighting | 50% | 25% | 5% | 0% | 10% | 10% | 100% | |
| Regional (10 councils) | 57% | 33% | 46% | 23% | 37% | 63% | 49% | 5 |
| Wai + T | 56% | 68% | 67% | 92% | 70% | 75% | 63% | 2 |
| MDC alone | 29% | 66% | 68% | 35% | 76% | 81% | 50% | 3 |
| CDC alone | 29% | 66% | 63% | 35% | 76% | 81% | 50% | 4 |
| SWDC status quo | 26% | 38% | 45% | 34% | 38% | 60% | 35% | 7 |
| TDC alone | 26% | 66% | 67% | 35% | 76% | 81% | 48% | 6 |
| Wairarapa only | 54% | 71% | 70% | 88% | 76% | 75% | 63% | 1 |

Option 5: Only weight Financial

| | Financial | Levels of Service | Operational | Relationships & Trust | Strategic | Legislative Requirements | Weighted Score TOTAL | RANK |
|-------------------------------|-------------|-------------------|-------------|-----------------------|-----------|--------------------------|----------------------|----------|
| Weighting | 100% | 0% | 0% | 0% | 0% | 0% | 100% | |
| Regional (10 councils) | 57% | 33% | 46% | 23% | 37% | 63% | 57% | 1 |
| Wai + T | 56% | 68% | 67% | 92% | 70% | 75% | 56% | 2 |
| MDC alone | 29% | 66% | 68% | 35% | 76% | 81% | 29% | 4 |
| CDC alone | 29% | 66% | 63% | 35% | 76% | 81% | 29% | 5 |
| SWDC status quo | 26% | 38% | 45% | 34% | 38% | 60% | 26% | 6 |
| TDC alone | 26% | 66% | 67% | 35% | 76% | 81% | 26% | 7 |
| Wairarapa only | 54% | 71% | 70% | 88% | 76% | 75% | 54% | 3 |

Supporting Evidence for Evaluation

At the time of the evaluation workshops the project team had the benefit of the following to inform the scores given for each option against the set of criteria:

- Financial Sustainability – draft chapter from the Wellington Region project team
- Water Infrastructure Reform Planning report commissioned by the four councils prepared by Matt Townsend utilising the DIA created and peer reviewed Pricing and Funding Path model
- Local Government (Water Services Preliminary Arrangements) Bill post committee of the whole house version
- Wairarapa Regional Hub discussions for Entity C / G design from the water reform process in 2023
- Local Water Done Well Fact Sheets released 8 August by DIA, and
- Discussions with iwi representatives

Post the initial evaluation, the following was available:

- Local Government (Water Services Preliminary Arrangements) Act passed 2 September 2024
- Wellington Region Water Services Delivery Planning - Recommended regional approach to a joint Water Services Delivery Plan and delivery model draft report released 4 September 2024

Further, there were one-on-one discussions with the DIA, presentations by the Wellington Regional Group in a Combined District Forum and Elected members briefing, workshops with iwi, webinars with DIA on WSDP and potential council entities, and finally, the release of the full Wellington Regional Group report on 4 October 2024.

The report excludes any analysis presented by DIA after the report's preparation.

Peer Review of MCA Framework and Process

To provide more surety to the decision makers Castalia (external strategic infrastructure advisors) were approached to peer review the decision-making framework and assessment criteria that were developed as part of the scope. This included appropriateness of the multi-criteria approach, completeness and appropriateness of the criteria selected, the criticality assignment to each criterion, and the weightings of criterion areas.

Castalia agreed to prepare a targeted review of the multi-criteria framework and assessment criteria by fully reviewing the materials, understanding the framework, and comparing it to international and local best practice for water sector reform of this type. Their feedback is based on their global experience, personal familiarity with "Local Water Done Well" and advice given to transition New Zealand's council-owned water utilities into better-performing, regulated, and financeable utilities.

Castalia's letter can be seen in Appendix 6.

Castalia concluded that Wai + T are following a robust policy process and their evaluation criteria support sound decision making. They also went on to suggest some improvements for the next stage.

Interpretation and Discussion

Affordability – the ‘Elephant in the Room’

Moving away from a rates-based local government approach to collecting revenue and managing debt to an economic regulation regime similar to that used by the Commerce Commission for electricity providers (utilities) and Auckland Airport (for example) means a fundamental shift is required by council when considering their role in determining affordability for the water consumers.

Councils will need to start thinking in terms of the Regulated Asset Base (RAB) and the Building Blocks Model to determine revenue¹. The new entities will be required to show that their capital expenditure / operating expenditure plan is ‘just right’, colloquially known as the Goldilocks Rule, and will have to accept an independent party (the regulator) certifying the ‘least cost’ to deliver the right services.

Overlaying all of this will be the legislative requirements for Financial Sustainability by 30 June 2028, Investment Sufficiency and Revenue Sufficiency tests, and the yet to be released Economic Regulation regime to be implemented through the Commerce Commission.

What all this means is that we cannot with certainty predict what the prices, known as the ‘tariff’, will be to our customers in the future. We can make assumptions, receive advice, model, and intuit based on what we have seen in other regulated industries, but it will be the Board of these new entities and the executives they appoint that will be required to deliver to the regulatory regime, prepare the right-sized capital expenditure / operating expenditure plans, negotiate with the regulator, access funding, and implement for the communities they serve. Councils' role under a Water Services CCO model will be limited to a shareholder and what that entails under the constitution and shareholder agreement, for example, issuance of an annual Letter of Expectations. Emphasis will need to be placed on capability and infrastructure experience of the new entity CEO and Executive Team.

The Wai + T project has access to two models that can predict a pricing path; however, each model approaches the future tariffs in a slightly different way. Each model has its assumptions and limitations as can be seen by the disclaimer included in the Wellington Regional report:

- *Forecasts almost always turn out incorrect, especially over a 30-year horizon.*
- *There is great difficulty in estimating investment requirements over the next 30 years, given poor information on asset condition, lack of detailed engineering assessment of what is required to address water quality to match the proposed water quality standards, and uncertain growth investment.*
- *Choices need to be made over a myriad of modelling approaches, inputs, and assumptions that reasonable minds may disagree with over some decades.*
- *There is a range of decisions yet to be made and legislation to be enacted to give effect to reform of water services.*

¹ Presentation by Andreas Heuser at Water NZ Conference September 2024

- All modelled network economics figures should assume to have a +/-20% accuracy, such as in relation to revenue, investment and debt over the 30-year period, which is considered a sufficient level of accuracy for strategic decision-making purposes at this stage. Some of these, such as the available asset condition metrics, are known to be weak.

And:

This report is not intended to fulfil the requirements of a WSDP nor provide the basis for investment decisions or future pricing. Development of a full WSDP will need to be completed by councils during late 2024 and 2025 based on the confirmed approach.

We also note that there are always broader environmental factors that will shape future forecasts, such as political, social, economic and technological changes, and the physical environment e.g. climate change affecting growth/migration and service delivery, and other high impact/low frequency events.

An explanation of each of the models and the underlying strategic approach to Asset management is described in the sections below.

The information used in the MCA process was extracted from the reports available at the time and indicated the following:

| Criteria | Wellington Regional | Wai + T |
|--|--|--|
| Price uplift required on day 1 for all consumers | 25 – 40% based on options presented | None, however, there is a suggested negotiation of starting positions on day one for a win-win situation (see below) |
| Price trajectory years 5-10 | 9% real | 9.4% nominal (with inflation) |
| Price trajectory years 11 - 30 | 9% real | Not assessed |
| Establishment Costs | Not included in pricing but estimated to be from \$75M to >\$125M ² | \$5M included in price calculations |
| Transition Costs | Assumed to fall on each council | Assumed to fall on each council |
| Time and complexity of transition | High due to number and complexity of councils joining (see comments on Implementation, Feasibility and Complexity below) | Medium |

The Wai + T option report referred to can be seen in Appendix 7.

² From Wellington Regional report

Note: Vulnerable Customer assistance is allowed for as additional operational expenditure in the Wai + T financial modelling. This allowance is 1% of total domestic service revenue each year. This expense is not subject to any efficiency.

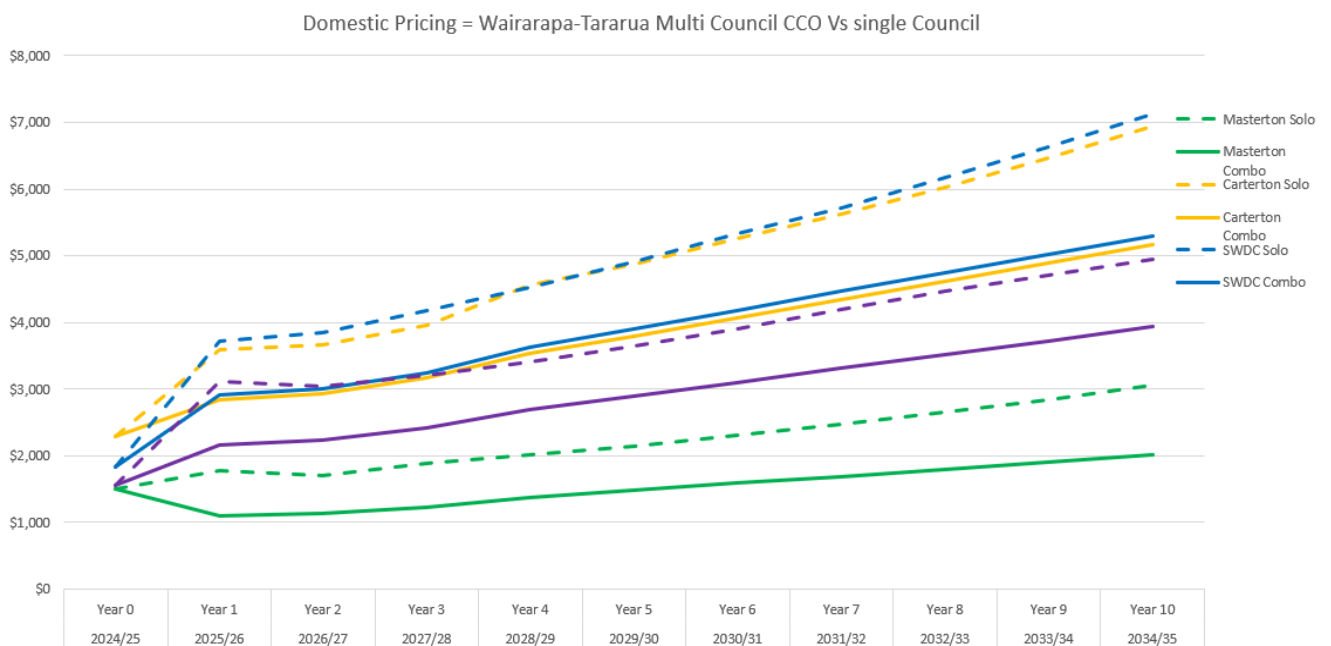
Affordability Tests

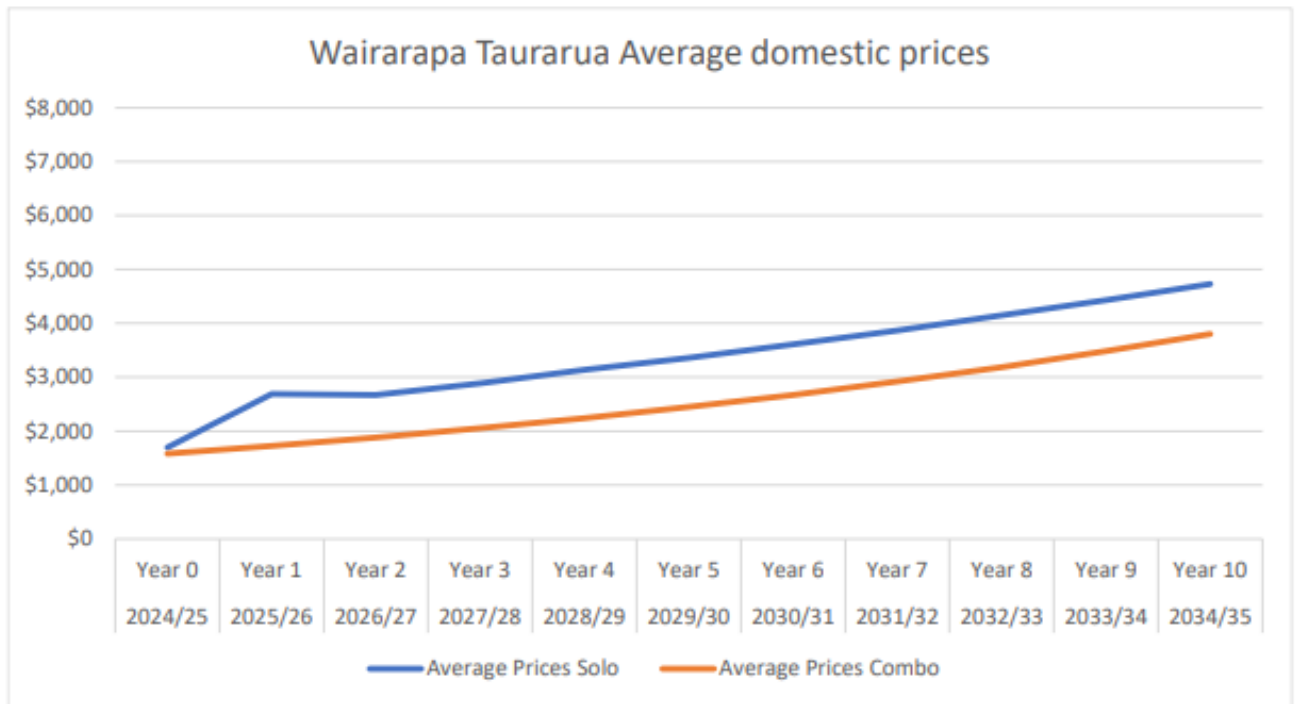
The tests of Financial Sustainability, Revenue Sufficiency and Investment Sufficiency as judged by DIA in their WSDP templates were published after the MCA evaluation was completed. The Wai + T team have addressed Financial Sustainability in the report commissioned from Townsend Consulting, however, that report has not yet been rewritten to explicitly address the three areas.

Price Path Graphs

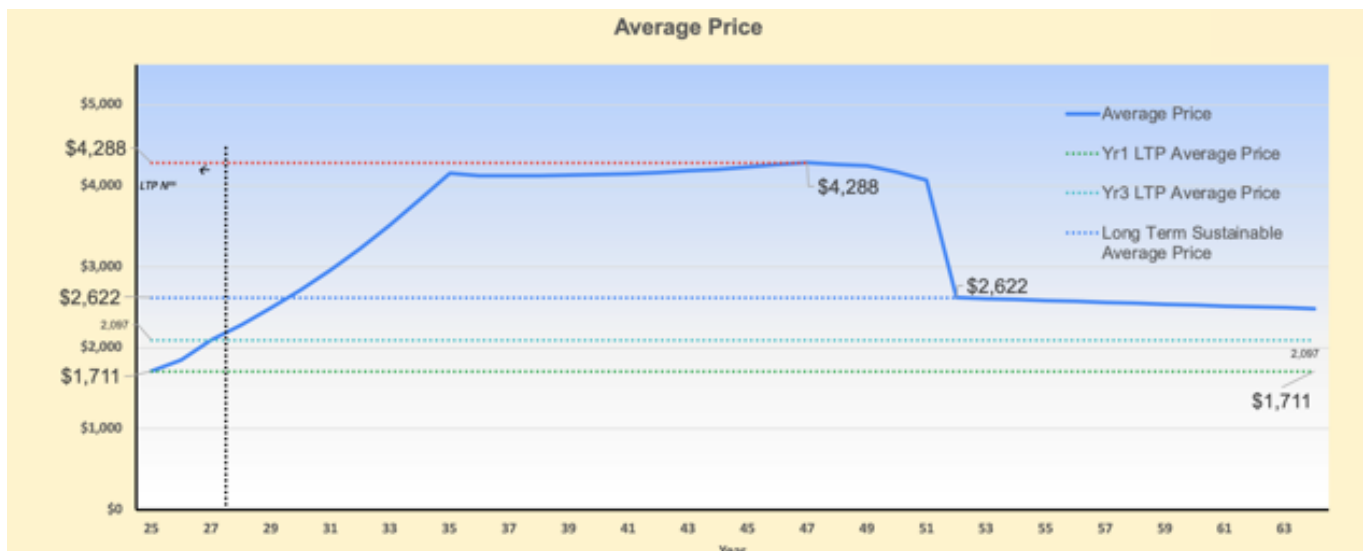
Under the Wai + T modelling each council was assessed as a stand-alone business unit under the new regulation requirements, and then modelled as a joint arrangement (Combo) with a starting adjustment to compensate for inputs and a sharing of efficiencies (operational and leverage) amongst the participants.

The average price path for the councils was then presented in the below graph as solo versus a combination (Water Services CCO), and then averaged over the four to allow a comparison to the Wellington Regional prices:





The Wellington Regional model employs an averaging approach across the region (detailed more in the Wellington Regional Report under Network Economics). The average price for the three Wairarapa councils developed using the network economic approach is described in the specific modelling done by Gravel Road for the three Wairarapa councils as included in Appendix 8 and is as follows:



Taking year 10 of any new future entity as a comparison point under the respective models, the average tariff for a domestic user under the approaches above would be:

- Water Services CCO Wai + T by council: From \$2,429 to \$5,550
- Water Services CCO Wai + T averaged: <\$4,000
- Network Economic Model for Wairarapa councils averaged at Year 2037: \$4,960

- Network Economic Model for Regional Entity averaged at year 2037 (noting a lower average starting price for a regional group): approx. \$4,200 (see note on harmonization and cross subsidisation below).

The key differences that drive the price results are the starting prices currently paid by Wairarapa councils³, the starting asset base, the assumed amount of debt transferred into the entity, the investment needs strategy, and the active management of debt and investment. The differences in approach are explained in the following sections.

It is important to remember however, that there will be 'cycles' for the economic regulator and by year 10 it will be the second or third tariff cycle which will no doubt differ from the modelling done today (refer previous disclaimers and notes in the Wellington Regional report).

This pricing also does not consider how the new entities will be thinking like a utility and will be optimising their debt and investment levels for intergenerational equity and smoothing of price paths⁴.

Price Harmonisation and Cross Subsidisation

The regulator will assess the cost to service by region and will impose their regulatory tests to sign off on any proposed tariffs.

Any cross subsidisation or harmonisation of tariffs will need to be decided by the Board of the WSCCO, it is not expected this will be included as mandatory in any future economic regulation.

Economic Regulation and the Regulated Asset Base

On day one of any new entity there will have to be an agreement by the joint parties as to the starting value of the asset base that will be a key driver for the economic regulation rules applied by the regulator and to justify the forward tariff pathway. The RAB drives the return on capital which drives tariffs.

There are many ways that councils can negotiate the agreed RAB however, it is likely that this could be a point of tension between parties to any arrangement. Options include:

- Book value of assets
- Back calculation to justify a set tariff pathway
- Depreciated replacement value of assets
- Zero?

We have assumed the Wai + T councils will use the latest valuation of their assets as the starting point for the RAB for a new entity.

³ Wairarapa councils, on average, currently pay a higher price for water services than the Wellington metro councils by approx. \$200 per year according to the Gravel Road report

⁴ As suggested by Andreas Heuser of Castalia in his Water NZ presentation

“Win - Win – Win - Win” Approach

A joint entity will require negotiations to take effect on day one to accommodate what each council is individually bringing into the entity. These factors include:

- Starting debt
- Investment needs
- Tariff expectations

It is possible that choices about debt in the CCO, tariff pathways and capex programme can be used in negotiations between councils to reach an optimal “win, win, win, win” solution.

In the Water Infrastructure Reform Planning Report commissioned by the project from Townsend Consulting, a partial “win, win, win, win” solution has been suggested to compensate each council for their starting position and this flows through into the price path presented and discussed in that model.

This suggested approach calculates adjustments (premiums and discounts) to each council’s starting average households’ prices. This suggestion attempts to recognise the debt and capital investment needed between the different council groups.

We have assumed the Wai + T councils will all agree that the starting debt position should be the amount calculated and agreed with DIA as part of the Water Reform programme, updated to reflect the 2024-26 financial year positions.

Investment Needs – the Strategy

The Investment Approach used for the Wai + T option is based on the asset managers from each council looking at their existing Asset Management Plan (AMP) and revising it to better align with new and potential legislation for quality standards.

The following table totals the first 10 years (of 30) investment per region estimated by council staff to achieve Local Waters Done Well compliance.

| | 10 years of projects (\$millions) | | House Holds | Actual Dollars |
|---------------------------------|-----------------------------------|------------------------------------|---------------|---|
| | Real 2024 Dollars | Nominal (delivered with Inflation) | | Nominal 10 yr capital Spend per household |
| Masterton | \$135.90 | \$171.61 | 9,684 | \$17,721 |
| Tararua | \$148.99 | \$187.50 | 6,552 | \$28,615 |
| Carterton | \$97.11 | \$122.62 | 3,485 | \$35,177 |
| SWDC | \$177.94 | \$224.69 | 4,007 | \$56,073 |
| Wairarapa-Tararua Region | \$559.94 | \$706.41 | 23,729 | \$29,770 |

Looking only at the three Wairarapa councils, in real terms, an investment of \$424M was modelled.

For comparison, the investment in the Gravel Road report is \$450m in real terms for the three Wairarapa Councils for investment in the first ten years using the Network Economic strategy,

recognising that the Gravel Road model contemplates a remediation strategy that would not be complete for 22 years and does not include the full costs of compliance by project.

The infrastructure investment approach suggested by the Wai + T project is, in general, to rehabilitate or replace assets when justified by:

- Risk: The risk of failure – Risk is assessed through the Risk Management Framework and existing artefacts such as Water and Wastewater Safety Management Plans.
- Economics: Investment are programmed with the objective of achieving:
 - the lowest life-cycle cost for the asset (the point at which it is uneconomic to continue repairing the asset), and
 - a sustainable long-term cash flow by smoothing spikes and troughs in renewals programmes based on the estimated economic lives of asset groups, and
 - efficiencies, by co-ordinating renewal works with capacity upgrade work or other planned works in the area.

The above strategy is achieved by combining strong asset management capability, fit for purpose systems and institutional knowledge and experience of an in-house operational team of experts that knows their assets and how their plants and networks operate. These contributing factors, makes prioritising of investment realistic and practical instead of a theoretical desktop exercise. Focus is placed on methodologies, such as asset criticality, condition assessments, leak detection exercises and the adoption of key tools like asset management systems, hydraulic models etc. Expertise in programme management will be essential for successful rationalising of work and optimised systems and processes.

Risk consideration

Risk is closely linked to consequences and likelihood of failure. Failure can be defined as when an asset can no longer deliver the planned levels of service. The infrastructure intervention strategy is to assess assets in relation to its consequence and likelihood of failure.

Likelihood of failure of an asset is derived from the condition and performance of the asset. Critical assets have been defined as an asset where failure could have significant consequences, either in the ability of the system to provide services to customer or the effect on the environment.

Assets that exhibit both high consequence, and high likelihood of failure carry the highest risk of failure and have been the primary focus for the investment program. Noting that a critical asset can still be run to failure as long as the mitigation to react is in place, i.e. fast availability of the replacement asset or items kept in stock. Use of this method enables capital expenditure to be pushed out to 'just in time' rather than spending on a 'what if' basis.

Economic Consideration

The strategy is to maintain levels of service through timely and effective planned and reactive maintenance interventions until the age or condition of the asset makes it uneconomic to continue to maintain. Within this, striking a balance between the frequency of planned maintenance and the incidence of reactive maintenance, is key.

The renewal program includes projects which will have an economical benefit such as reducing operational maintenance burden. For these projects Cost/Benefit analyses are completed to support prioritisation.

Evidence based investment

Quality data and information is pivotal to understanding the performance and capacity of the assets and driving optimal investment decisions. The strategy includes the continuous building and refining of the information base by integrating new and existing asset information from all assets. The plan is to generate data and information through modelling the capacity of our networks and capturing real-time operational data through monitoring systems. Collectively this information steers the strategic and operational decision making. Data quality improvement is included in the investment program.

Modelling

Network Economics Approach

The Wellington Regional Group has taken a Network Economics Approach which is described in their project report and summarised in Appendix H The Wellington Regional report to explain the strategic approach that underlays their modelling of Investment Sufficiency that will drive analysis of Financial Sustainability and Revenue Sufficiency.

Funding & Pricing Path (FPP) Model

The report evaluates the pricing of Local Waters Done Well services for contributing councils. It compares standalone delivery with a combined multi-council water services CCO operating at its best. The evaluation includes the impact of new economic and environmental regulators, as well as new financing tools for water service organizations.

It concludes that aggregation could result in significant savings.

Key Findings:

1. **Investment and Pricing:**
 - a. The report estimates the network investment required for each council to meet new water quality standards and anticipated wastewater and storm resilience standards.
 - b. Increased investment correlates with higher prices for households.
2. **Legislative Changes:**
 - a. New financing tools align debt servicing with infrastructure investment.
 - b. Councils can aggregate with neighbouring councils, unlocking operational and capital investment efficiencies.
 - c. Pooling credit risk between councils can enhance credit profiles and finance availability, potentially minimizing bill shock.
3. **Financial Assessment:**
 - a. The report assesses financing tools for standalone business units and a multi-council CCO using S&P's corporate methodology.
 - b. Aggregation could result in significant savings: residents would pay 25% less, and businesses 20% less, compared to standalone units.

4. Operational and Capital Efficiencies:

- a. Estimations of operational, back-office, capital investment, and CCO setup costs show potential efficiency gains through aggregation.

Other Considerations:

- Elected members must balance various factors and stakeholder perspectives when deciding on the structure for delivering local water services.
- The right structure is crucial for unlocking the potential of new financing tools and ensuring sustainable water infrastructure.

Network Investment:

- Robust water infrastructure is essential for public health, economic prosperity, and environmental sustainability.
- Many networks across New Zealand, including Wairarapa and Tararua, are near capacity and require increased investment.
- New governmental water reforms introduce an environmental regulator with enforcement powers to ensure compliance with minimum standards.

Project Recommendations:

- The report includes a costed project list to be completed within the first 10 years of the water services delivery plan, ensuring compliance with legislated water quality standards, addressing end-of-life renewals, and expanding capacity to attract residents and businesses. The following summary provides an overview of the report's findings and considerations, assisting councils in decision-making regarding the structure and pricing of water services.

The indicative totals of projects for the Council regions have been estimated to be:

| | 10 years of projects (\$millions) | | House Holds | Actual Dollars |
|-------------------------------------|-----------------------------------|---|---------------|--|
| | Real 2024 Dollars | Nominal (delivered with inflation) | | Nominal 10 yr. capital Spend per household |
| Masterton | \$135.90 | \$171.61 | 9,684 | \$17,721 |
| Tararua | \$148.99 | \$187.50 | 6,552 | \$28,615 |
| Carterton | \$97.11 | \$122.62 | 3,486 | \$35,177 |
| SWDC | \$177.94 | \$224.69 | 4,007 | \$56,073 |
| Wairarapa-Tararua Region | \$559.94 | \$706.41 | 23,729 | \$29,770 |

Scale and Scope – Limitations and Opportunities

Economies of scale and scope must be considered when assessing the possible joint arrangement options, scale being a driver for achieving efficiency through shared consumer use of networks. The Wai + T project has chosen to expand the analysis of some of the efficiency assumptions, particularly for implementation of a new entity and in the approach to climate change and resiliency. We have also considered our Regional Councils, and whether they have a view of the appropriate entity to deliver services across their regions. Finally, we discuss the efficiencies incorporated into the Wai + T financial modelling and the uniqueness and opportunities for scale and scope for the four rural-

based councils. Noting however, that if Financial Sustainability of any option was dependent on efficiency gains at day one, it was marked lower on the operational efficiency criteria, that is, of greater risk to achieve the required sustainability in the MCA evaluation.

Implementation Feasibility and Complexity

The project team called upon Rebecca Chenery, the former Head of Customer and Digital for the Water Reform National Transition Unit (and Watercare Services Ltd Chief Information Officer), and now an independent consultant to comment on the MCA process and set of criteria being used by the team in general terms (not specific to the Wai + T or Wellington Regional options).

Rebecca advised that it would be important for us to consider implementation feasibility and complexity when assessing any joint arrangement options and suggested the following criteria be added to our framework:

| Criteria | Risk to be Addressed |
|--|---|
| Timeline for Completion: Time to complete the amalgamation and achieve operational stability. | Increased time and cost to establish new model, delayed efficiencies |
| Technology Integration: Complexity of migrating data and establishing technology platforms. | Implementation can't be delivered within the approved cost/time constraints |
| Resource Availability: Availability of the necessary skilled capacity & capability to deliver implementation programme. | Implementation can't be delivered within the approved cost/time constraints |
| Change Management Complexity: The complexity of managing organisation change activities including transfer of resources | Skilled resources will leave, increasing operational risk |

Further, on the question of economies of scope and scale, Rebecca provided the following comments in the critical areas involved in establishing an entities systems and processes:

1. Data migration:

- Data migration is one of the biggest areas of complexity and risk for any IT project, particularly one that involves the migration of numerous data sets, all of which will be in varying formats and of varying quality and completeness.
- Scale and complexity of data migration is influenced by both the number of source organisations and the quality/volume/complexity of historic data that needs to be migrated. This will directly influence the cost of data migration activities.
- Data migration is more complex the more 'source' organisations. This is simply due to the increase in source systems from which data needs to be extracted and standardised.
- An amalgamated organisation formed of a small number of organisations may choose to limit the amount of historic data to migrate given that is likely to be practical to 'swivel chair' back to the original organisation to source additional historic on a 'needs' basis. Where the amalgamated organisation is formed through the merger of a larger number of organisations, the extent to which you can rely on swivel chair activity without impacting day to day operations would be less therefore it may be necessary to migrate sufficient data to reduce/remove reliance on the original organisation.

2. Digital Capabilities/Systems (solution selection):

- The extent and sophistication of digital capabilities required by an organisation will be influenced by key drivers such as transaction volumes, size of the customer base, size of the workforce, geographical service area.
- Generally speaking, the larger and more complex an organisation, the higher the dependence on sophisticated integrated digital systems and tools to operate efficiently and meet operational business requirements as well as workforce and customer expectations.
- In the case of a smaller organisation, while digital systems and tools will still be required, the level of sophistication and integration of those tools may not be as great as a larger organisation. This is really about 'right-sizing'. For example, a large organisation may require a specialist CRM capability to manage a large volume of customer interactions efficiently, a smaller organisation may opt for a customer management capability that sits within a billing system.
- The difference in digital capability requirements between a smaller vs. larger organisation is also likely to see some variation in potential digital solutions and potentially the price point for those solutions.

3. Architecture Technical Complexity (linked to solution selection):

- The more technically complex and integrated the digital landscape, the more complex and likely higher risk the implementation will be.
- A smaller organisation is likely to have a simpler technical landscape with lower implementation costs and a different implementation risk profile to that of a larger organisation.

4. Implementation resourcing:

- A significant portion of implementation cost for digital solutions is implementation resourcing.
- Implementation resourcing requirements will primarily be a product of scope, technical complexity, solution selection decisions and implementation timeframe.
- The larger the scope, more complex the technical landscape and the more solution elements, the greater the implementation resourcing requirement and in all likelihood, the greater the specialist resourcing requirement.

5. Standardisation vs. retaining current variation:

- Decisions regarding process standardisation will heavily influence system design therefore implementation cost. Higher levels of standardisation are likely to be lower cost than an implementation approach that retains current local variation across common business processes.
- It may be more challenging to achieve standardisation in an amalgamated organisation comprised of a larger number of original organisations. An example of this would be a decision to retain current tariff structures and billing arrangements – the more variations of tariff structures and billing arrangements the more impact on implementation costs.

Operational/Licensing Considerations:

6. License Costs:

- Smaller number of FTE's may mean that per FTE license cost is higher than a larger organisation (who can achieve a better price point due to scale), however the total aggregate annual license cost is likely to be lower than that of a larger organisation.
- A smaller organisation is likely to have a smaller footprint of digital solutions (i.e. right-sizing) and therefore the license cost per FTE may be lower than that of a larger organisation who has a larger digital footprint.

7. Digital landscape technical complexity:

- The extent of the digital footprint and its complexity will directly influence the operational support requirements and associated costs.
- It is reasonable to expect a smaller organisation with a less complex technical landscape to have different support requirements than that of a larger organisation.

8. Digital/IT Operating Model:

- Operating model decisions will influence the operational cost profile. The primary driver will be sourcing choices – what support is procured from vendors vs. internal resourcing.
- It is highly likely the operating model will be different for a smaller organisation vs. larger organisation. A smaller organisation may choose to engage managed services from vendors in preference to building inhouse capability.

9. Standardisation vs. retaining current variation:

- Decisions made during design and implementation (e.g. the extent of standardisation) will impact the ongoing costs to operate, maintain and support digital solutions. A more heavily standardised digital solution is likely to cost less to maintain and support than a solution that has a high degree of variation across standard processes. (e.g. multiple billing regimes which need to be updated annual when prices change.)

10. Workforce

- The size and geographic spread of the workforce will influence the number of Digital/IT staff required to support the workforce, operating model for an IT team and associated costs.

Clearly, from these comments, the larger the organisation and the number of entities combining into the new organisation, the higher the complexity, longer implementation period and risk. There are opportunities for a smaller organisation to right size the solution and reduce implementation risk. Rebecca's generalised comments support the ratings that the moderating team applied to each option in the MCA framework.

Climate Change and Local Waters Done Well

The Wairarapa-Tararua region has similar climate and coastline, facing common challenges. However, when there is a mix of geographical and climatic conditions, this can limit levels of service (LOS), resilience, and emergency response. This issue is critical for alignment decisions regarding who councils align with to establish a joint CCO. In major events, high population areas may be

prioritised for response, weakening local response and through loss of local understanding and options.

Climate change trends are influenced by geological features and weather patterns. This will affect service availability during droughts, storms, and coastal erosion. Local knowledge can provide bespoke solutions, while scale allows standardised solutions and coordinated responses. Individual councils, by themselves, may struggle with localised events, by limited capacity and spreading resources too thin. Recognition of Te Ao Māori and involvement of Iwi in Local Waters Done well will help interpret Climate Change and inform the CCO response.

Consolidating service delivery into a multi-council water services CCO can also enhance climate change management by:

- Resource Optimization: Pooling resources for advanced, resilient technologies and infrastructure.
- Improved Efficiency: Reducing redundancy and enabling strategic investments for better climate adaptation and mitigation.
- Enhanced Expertise: Attracting specialized staff in climate science and environmental management.
- Stronger Financial Position: Improving credit profiles to secure funding for climate projects.
- Coordinated Response: Facilitating efficient regional responses to climate events.
- Policy and Advocacy: Strengthening advocacy for supportive regional and national policies.

These advantages help a multi-council CCO scaled to a moderate size and in a similar climate, manage and adapt to climate change effectively.

All these factors were considered when assessing each joint arrangement option against the MCA criteria.

Regional Council View

GWRC have no operational bulk water provision reasons to have a vested interest in which way the Wai councils go on a WSDP. They have expressed a minimum viable product they want to see, which would be that Greater Wellington is at least in an entity with the Wellington Metro TAs they currently supply, as their only other alternative would mean they have to create a bulk water CCO which would be pricey.

In addition, from a regional leadership perspective, they have stated a broader interest in advocating for rate payers to get the best solution/outcome for the wider region over the longer term and that this is achieved on the largest possible scale that is practicable to ensure everyone benefits from it in terms of affordability, growth and investment in infrastructure and security of supply.

[Horizons Regional Council view is currently being sought by TDC]

Operational Benefits

It is obvious that with economies of scale comes benefits, however, one should also consider the cost of achieving scale, hence the need for a positive benefit cost ratio (BCR). It is therefore

imperative to get the right size that is fit for purpose to achieve the most favourable BCR. The project team is of the view that the Wai+ T CCO will be very similar to that of the Wellington Regional approach, however there is a significant difference in estimated establishment and anticipated overhead cost. Therefore, it is realistic assumption that the Wai + T CCO will have a better BCR than the Wellington Regional Approach.

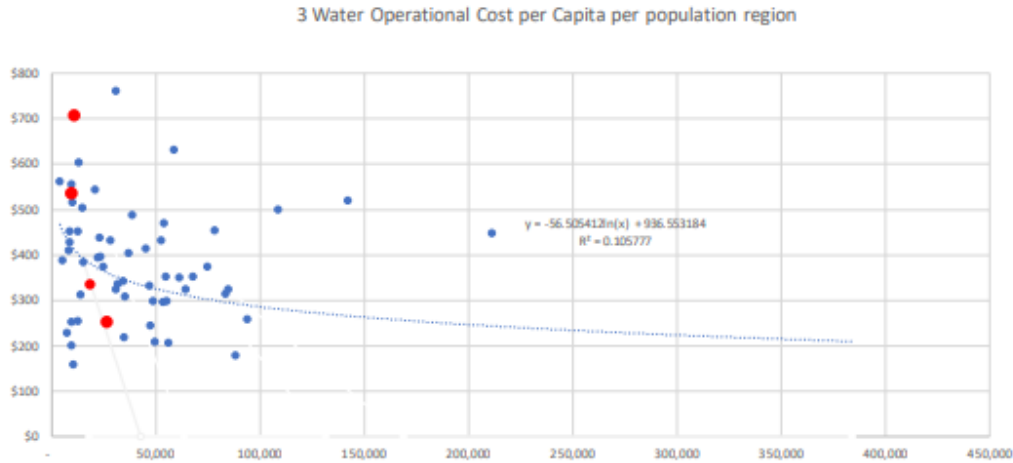
Benefits that will be achieved through a Wai + T CCO:

- Resilience – Resilience will be created in having multiple subject matter experts in critical roles. Key staff depth is currently a significant risk to stand alone councils due to cost and perception of number of FTEs.
- Critical Staff attraction and retention – A Regional CCO will be more competitive in remuneration as well as providing growth potential to staff. Staff will also be able to work on larger and exciting projects. Attracting highly capable and experienced staff will be necessary for any new entity to achieve success. It is well known the 3waters sector is currently under resourced and needs to build resilience within teams to enable succession planning for future generations.
- Procurement – The Wai-T CCO will be able to let large maintenance and renewal contracts that will attract tier 1 contractors to the region whilst creating an economic environment that is conducive for growth of local contractors.
- Procurement – Standardisation of treatment plant equipment and construction materials will see result in long term financial benefits.
- Culture – Having a Wairarapa/Tararua local head office will have a significant impact on the culture of the organisation.
- Capability – The Wai + T CCO will be able to build on and expand on the current capability development in councils. There will be capacity to develop our own subject matter experts.

Because these benefits are hard to monetise, we did consider a very conservative efficiency in the modelling.

The modelling performed for the Wai + T council option has estimated this multi-council CCO could unlock 2.17% of operational cost savings cumulative per annum, capping out after a 15-year period at 28%. Noting that there is no operational savings factored in for the first 3 years allowing time for staff to become engaged, staff hirings, data sources to become cleansed and suppliers to readjust.

The estimation was derived from an analysis of 3 Water Operational Cost per Capita per Population Area where the cost of water network operations for NZ councils trends lower when there is a larger number of households in those councils. The four Wai + T councils are presented in red in the below graph indicating some will benefit more from the efficiencies than others.



Ability to Deliver

Capability

The Wairarapa and Tararua has historically been able to attract Tier 1 contractors like Downer NZ, Higgins, City Care and Fulton Hogan for the delivery of maintenance and renewal contracts. Most of these businesses have a local presence with staff living in the Wairarapa and Tararua. We have also been able to secure the services of some of New Zealand's finest consulting engineering firms such as WSP, Tonkin & Taylor, Egis NZ, Lutra, Stantec and Beca.

Add to those, local businesses like G&C Diggers, PCL, Pope and Gray and CF Projects with the relevant skills and experience to deliver water maintenance and renewal contracts.

The Wai + T CCO is expected to be able to develop an aligned long-term program of works and attractive contracts that will give service providers the ability to develop further capacity and grow the local economy.

A joined-up entity of this size is able to produce consistent, ongoing, rationalised programmes of work, offering long term contracts and is expected to attract competitive contractor rates.

Availability

CDC, MDC and TDC currently hold multi-year maintenance, renewals and professional service contracts that will be novated into the new entity.

Standardisation and processes

Developing fit for purpose Standards and processes will improve quality, efficiency and help the entity deliver value for money. This will be one of the workstreams focused on during the implementation phase. The level of process and workflow complexity and sophistication required in a Wai +T entity will be far less than in a large-scale organisation. Rather than start from scratch, we will leverage off existing council processes and any areas of standardisation in place with a view to adopting the most appropriate.

Uniqueness of the Wai + T Networks

There are similarities and aspects of the four Wai + T councils that are unique and bespoke that will not naturally lend themselves to any economies of scale or scope with metro-based councils. These include the following:

- A fragmented, small-scale network of assets, i.e. not interconnected or subject to network runaway
- Mostly already served by water meters and volumetric charging in place in some form
- Mostly drainage and race stormwater assets as opposed to pipes
- A Wairarapa Combined District Plan in place
- Use of financial rather than development contributions
- Irrigation of treated effluent onto land as opposed to treatments such as sludge driers
- Climate challenges

On the last point, in the Wellington region egress of saltwater has been discussed as an important issue of climate change, however in the Wairarapa, of concern is the projected weather patterns and the need for water security through the application of a Water Resilience Strategy. The three Wairarapa Councils and Greater Wellington are already working in this area including consideration of what future water storage may look like for this region to include rural and urban consumers⁵.

Implementation

The enduring project team

Following a decision to proceed with a possible joint arrangement, a dedicated project team will be established along with a Project Steering Group and a Project Advisory Group to work through Phase 2, this core team will endure through to the Go Live date of the entity.

Early thinking is that the functional leads will be seconded in on a part-time basis from each of the 4 shareholding councils. An Establishment Director will be engaged full time alongside a fulltime Programme Manager. Contractors and Consultants will enter the programme on an as required basis for discrete pieces of work that require subject matter expertise or where the project team is insufficiently resourced. Additional council resources may be required for the establishment period (post consultation). A team of this size will be able to work with agility, focusing on specific areas whilst being cost effective. They will have the ability to both lead and deliver.

Next Phases of Work

Phase 2 – ***Pre-Establishment (preparing the runway)*** - is made up of the high-level components of work that are required before the project moves to Phase 3. Pre-Establishment will run from 1st November 2024 until end of August 2025, when we joint WSDP will be submitted to the DIA for approval. This will include public consultation on the proposed options, proposed governance

⁵ Wairarapa Water Resilience Strategy approved May 2021

arrangements, revenue and debt agreements along with proposed staff and organisational arrangements and structures.

Phase 3 – ***Establishment (on the runway)*** - is the implementation of the project encompassing all work required post consultation and the resolutions to stand up an entity. Establishment is expected to start in September 2025 and continue on until the new entity Board takes over operations. This timeline has not yet been agreed but may be between 12 and 24 months.

Phase 2 - Pre-Establishment

The Commitment

Before the project moves into the next phase, each Council needs to confirm their commitment to continue working together. The form of this will be shaped once a final decision has been made, however, it is imperative that each potential shareholding council understand as early as possible who they may be partnering with. The final number will impact the delivery timeframe, costs and the scope and make-up of the project team as work proceeds. It will also impact what options Council wish to publicly consult on.

Water Services Delivery Plan (WSDP)

A decision on the options councils wish to consult on must occur before Phase 2 can commence as Phase 2 will include the development and delivery of the WSDP. Water Services Delivery Plans are a way for councils to provide transparency about the costs and financing to deliver water services that meet regulatory requirements, support growth and urban development, and legislative requirements of revenue sufficiency and financial sustainability. Councils are required to prepare WSDPs by 3 September 2025.

Through the development of Plans, councils will provide an assessment of their water infrastructure, how much they need to invest, and how they plan to finance and deliver it through their preferred water service delivery model. The key components to the WSP will be:

- asset condition information and a related AMP,
- funding, financing and revenue requirements to achieve financial sustainability,
- the anticipated or proposed model or arrangements for delivering water services, including how these will meet compliance requirements, and
- an implementation plan for the WSDP including timeframes and milestones.

The Department of Internal Affairs (DIA) have provided material to assist with the development of WSDPs. This lends itself to single council owned entities. They have requested joined up councils to work directly with them on the development of a suitable WSDP.

Implementation Plan (within the WSDP)

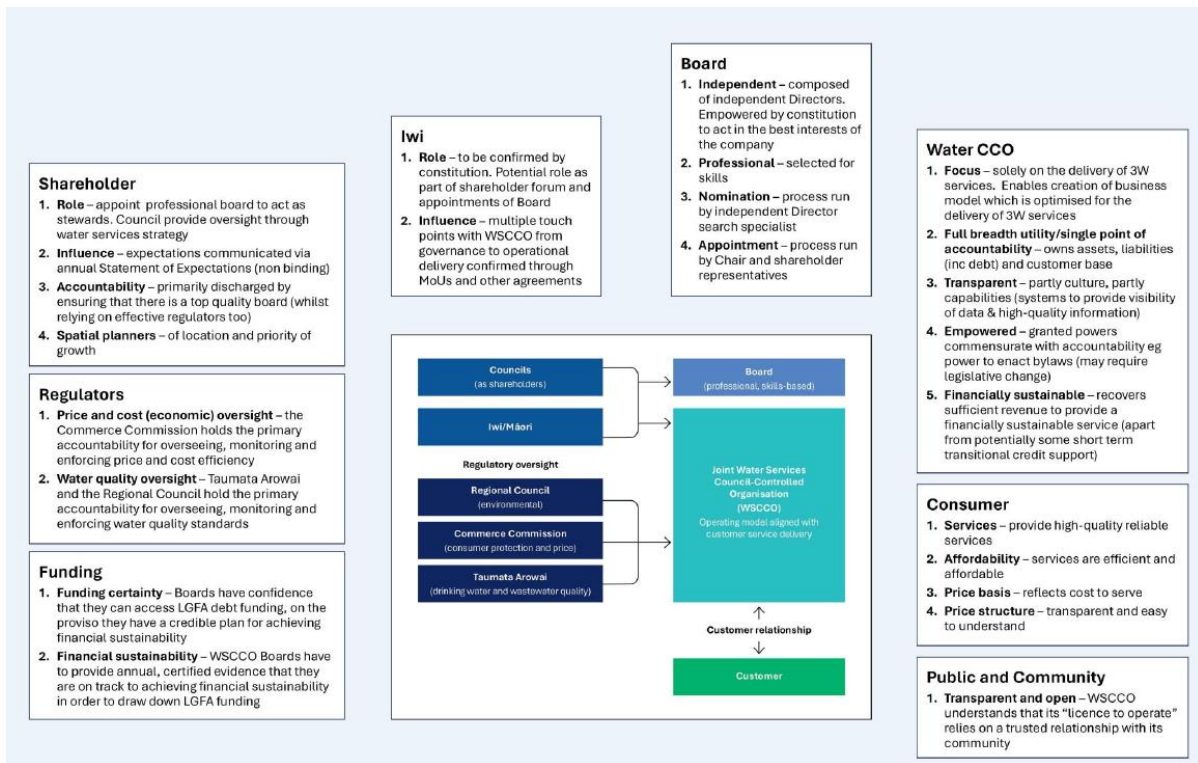
WSDPs must include an implementation plan that sets out the process for delivering the proposed model or arrangements identified in the WSDP. The implementation plan will be a key feature within the WSDP. It will outline how a future delivery model will be established in Phase 3. This detail will be derived from the final model selected. However, in order to maintain momentum, until confirmed by a further MCA process, an assumption will be made that the selected model will be a

Council Controlled Organisation (CCO). Upon release of Bill 3 in December 2024 the details on its powers and funding arrangements will be evident.

The implementation plan is likely to include:

- The preconditions that need to be met before the establishment of the entity can commence.
- Governance arrangements during both the establishment period and steady state, including arrangements for establishing an appointments panel, the role of Iwi/Māori, a Board constitution, shareholder agreements, and clear timelines and decision points for the establishment and transfer of decision-making rights to the establishment Board and Chief Executive.
- Entry and exit rights of shareholders and the timing and process for this including, potential review points after X years.
- The structure, accountabilities, decision-making rights and resourcing for an establishment entity (potentially comprising a Chief Executive, selected functional leads and specialist support). This may include clear handover points from the project team and the establishment entity.
 - The strategy, processes and principles for: debt and asset transfer
 - Financing for new WSCCO
 - Pricing detail
 - Contract transfer
 - People transition
 - Customer experience and billing.
- A high-level operating model and organisational design.
- Service delivery model and local service locations.
- Change process and strategy.
- Information systems requirements.
- Legal requirements, including merger and acquisition, incorporation, banking and tax.
- Costs, budget and funding.
- Procurement strategy.

The key design principles established through work with the regional project team on the governance are likely to be relevant, as below:



Consultation

Councils must consult on the anticipated or proposed model for delivering water services in its Plan. Under the Act, a council must consult on its anticipated or proposed model or arrangement for delivering water services in its Plan and ensure that its consultation and decision-making process complies with the Act. Consultation must occur on the current model the council has adopted to deliver its water services, i.e. on its own or in part of a CCO (including changes to comply with legislation) and at least one other alternative option.

Following consultation on the plan the project team can start preparing the runway for establishing the new entity.

Preparing the runway for establishment

Prior to entering the establishment phase the team need to develop a runway which will encompass a full programme of work to stand up the entity. This need to at a task level and will include resources, work effort and duration and a more detailed budget. At this point there will be options to consider based on the pace elected to move at, i.e. an entity can legally be formed relatively quickly but will be influenced by the financial strategy adopted and LGFA funding approval, i.e. If the preferred option is for the entity to pay for the establishment of the organisation, then what are the minimum tasks required to enable this to happen – transfer of debt & assets, funding mechanism in place, board appointed etc. A set of principles will need to be developed and agreed on to provide the necessary direction for the project team. The principles will be established by the project team, PSG and AOG.

There will be several activities that can commence in parallel which will be required regardless of the final model adopted that do not need to wait until the Establishment Phase commences. As much of

this work as possible will be undertaken or commenced during this phase once the programme has been approved. This will enable the team to plan accordingly, continue to move with momentum and maintain focus.

The key deliverables from this component of work for sign off by the AOG and the PSG will be:

- Programme principles
- Governance structure (roles and responsibilities) of the AOG, PSG & Project Team
- Budget
- Work programme (at appropriate level)
- Contract engagements of the project team

Project Implementation – Establishment Phase (on the runway)

The establishment phase will encompass all the work required before the entity goes live based on an agreed set of principles.

To stand up an entity at pace there will be a minimum viable product sought. This will be what are the absolutes (stage 1 tasks) that need to be in place before Go Live, i.e. constitution, board appointments, letter of expectations from shareholding councils, ability to pay vendors and so on. Whilst there will be key stages in the establishment phase that need to occur quickly, there will be others than can transition over a period of months, i.e. transition of staff, systems integration, premises set up, vendor contract novation's etc.

Costs to Date

The Wai + T project team was allocated a budget by the four councils of \$140,000 with a forecast spend to end of October at \$110k.

Funding of \$81.5k has been paid to the regional project team from the three Wairarapa entities as part of the regional project costs of \$1.15M.

Both above sets of numbers exclude the cost of the internal resources and executive leadership contributions on both projects.

Indicative Time and Cost for Phase 2 & 3

This section has been prepared on the assumption that the approach outlined in the Pre-Establishment and Establishment phases is accepted with a projected go live date of 1 July 2026.

Indicative high-level costings using high end of the scale have been based on previous external views that establishment of a four-council entity will be circa \$5M spread across the four councils, the likely breakdown is:

- Pre-establishment phase (up to 30 June 2025) - \$1.51M – equates to \$378k per council
- Establishment phase (1 July 2025 – 30 June 2026) - \$3.48M – equates to \$871k per council

It is to be noted that the funding may move from one financial year to the other depending on the work undertaken within each period. The actual cost split across shareholding councils is yet to be determined.

Indicative costs for a **regional entity** for the Wairarapa councils are as follows (noting this is the high end of the scale):

- Pre-establishment phase - \$3M – equates to \$213k in total for SWDC, CDC & MDC
- Establishment phase - \$125M – equates to \$8.9M in total across SWDC, CDC & MDC

Note the regional numbers assume that 10 councils for the regional entity. Less councils will mean greater costs for those remaining.

To achieve the development of a joint WSDP by the legislated deadline and the work outlined in Next Phases section, a decision to proceed by all Councils is required by 30 November 2024.

Risk Assessment and Mitigation Strategies

It is inherent on the project team to ensure that the decision makers have sufficient and unbiased information to reach a properly informed view to make their own assessment of the advantages and disadvantages of the different options.

Making this decision should enable the councils to commit to the development of a joint WSDP with either the Wellington Regional Group or the Wai + T Group or to take another approach with as much confidence as possible within the tight timeframes and set of assumptions provided.

As described in this report, an evaluation of the available options has been undertaken in relation to a set of key criteria including the ability to meet new regulatory requirements, affordability and cost to establish, ongoing operational costs and level of service, and relationships.

The evaluation has been performed under a Multi-Criteria Analysis (MCA) Framework developed in-house by the project team and subsequently reviewed and peer reviewed by independent experts.

For each factor and the framework, the risks need to be identified, evaluated and mitigated in order to give the decision makers confidence in the process employed.

This risk assessment and mitigation section is intended to help support and inform:

- Councils to undertake a comparative analysis of the respective models against a set of criteria, and
- That the project scope of Wai + T has been satisfactorily delivered upon.

For clarity, it is not this project's scope to assess the existing delivery method, or what is sometimes called the status quo, or single council Stand Alone Business Unit (SABU) against the criteria. Each council will be required to consult with their communities on at least one option against the existing method before their Water Services Delivery Plan is adopted or submitted to government.

The key risks to the project scope are presented in the below table along with the mitigations employed or proposed.

| Risk | Evaluation | Mitigation |
|---|--|---|
| <p>That the Wai + T option has not been sufficiently developed to enable it to be assessed against the criteria</p> | <p>Without mitigation this is a high risk because it is fundamental to the project scope.</p> | <p>The three Wairarapa councils already work together in several areas such as libraries, roads and emergency response and understand the Wairarapa culturally, spatially and operationally.</p> <p>Work had previously been undertaken on a Wairarapa depot model under water reform that could be called upon.</p> <p>Much of the Wellington Regional Group work reflects the legislation and proposed legislation and this could also be incorporated into the Wai + T option.</p> <p>Getting too far into design was a conscious decision as critical issues such as the role of Iwi needs to be jointly worked through once the joint arrangement partners are known.</p> <p>In order to have an unbiased assessment process an assumed organisation was agreed and tested against the criteria before the MCA was employed.</p> |
| <p>That the decision-making framework employed by the project team is not robust or appropriate meaning that elected members would be</p> | <p>Without mitigations this is a high risk due to the potential consequences of a poor decision; however, with the mitigations the risk is reduced to Low.</p> | <p>The framework and criteria have been peer reviewed by Castalia.</p> |

| Risk | Evaluation | Mitigation |
|--|---|--|
| deciding based on biased, incomplete or inappropriate information | | <p>The PSG and AOG have been involved in acceptance of the framework.</p> <p>Iwi were involved in developing the Iwi criteria and rating those criteria.</p> <p>An expert provided comments on the Implementation Deliverability and Complexity aspects as a review of criteria.</p> <p>Workshops were held with all councils to explain the process and framework throughout the project.</p> |
| That the project team has not identified the best set of criteria for the factors being considered in the framework meaning elected members would be making a decision based on the wrong criteria leading to a sub-optimal decision | Without mitigations this is a high risk due to the potential consequences of a poor decision; however, with mitigations the risk is reduced to Low. | See mitigations above. |
| That we have not set the weightings of the respective factors to consider appropriately resulting in Incorrect weightings could skew the outcome of the evaluation inappropriately. | Without mitigations this is a high risk due to the potential consequences of a poor decision; however, the sensitivities show this is a Low risk and it is being further mitigated. | <p>Sensitivities have shown that the results are consistent with a number of variations to the weightings and move appropriately.</p> <p>The weightings have been peer reviewed by Castalia.</p> |

| Risk | Evaluation | Mitigation |
|--|---|---|
| That we have not incorporated all important factors to consider, for example, we did not consider the structure of any new entity as a factor | This risk is Low as missing a factor when 6 are already considered will not create a large bias. | The factors are being peer reviewed against best international practice by Castalia. |
| That the models used to assess a future price path are incorrect, incomplete or inappropriate and do not align with the future regulated view | This is Low risk because more than one model has been assessed in the project therefore not relying on a single source of information. | Use of multiple models. Use of independent financial consultants using in one case a DIA approved and PWC peer reviewed model from Water Reform. Checked with DIA to align the approach. |
| That we have not brought our key decision makers along on the journey sufficiently or transparently | This is a medium risk as ensuring all elected members and Iwi / mana whenua from four councils are fully informed is a large task particularly with complex information under time constraints. | This has been mitigated as well as possible through the use of the project structure (AOG membership), multiple workshops and hui as well as email updates and individual project team members working in their individual council and Iwi representatives. |
| That the Iwi / Māori view has not been sufficiently captured in the process we have been following which will result in a loss of confidence by our partners | This is a high risk if not mitigated sufficiently to ensure all Iwi authorities, mana whenua and hapu are as informed as possible on the decision being made as a result of this project. | Mitigation has been through appointed Iwi representatives to the AOG, presentations and information sharing to Iwi along the journey, workshops and hui, as well as involving Iwi in the MCA process. |
| That councils have not been sufficiently informed or apprised of the risks for LWDW meaning it is not on their risk register | The ramifications of the decision to go with a joint arrangement is High for councils. | LWDW should be on councils Risk Register and considered by their Audit, Risk and Finance committees. |

| Risk | Evaluation | Mitigation |
|--|--|---|
| Wellington Water Limited biased the view of the Wellington Regional Group option. | This is a medium risk to create a bias to the outcomes if not mitigated. | <p>In order to have an unbiased assessment process an assumed organisation was agreed and tested against the criteria before the MCA was employed.</p> <p>The assumption was that either new entity would be fully resourced or funded.</p> |
| That the data going into the modelling is not based on actual projects leading to a reduced confidence in the numbers by the decision makers | This is a medium risk because ultimately the new entity will build their own AMP and prioritisation of projects, and all scenarios today are built on a set of assumptions | <p>The mitigation the project team has used to use local knowledge and existing AMPs and plans to build up the project information, rather than a top down, theoretical approach as taken by Network Economic modelling.</p> <p>The team then has a 'low tide' and 'high tide' option to ensure a fulsome analysis.</p> |
| That the model has overestimated the ability of the shareholding council to set expectations or have an influence in the future | This is a Low risk as the weighting for the criteria judging influence is only 10% and sensitivities have shown it doesn't unduly impact on the results | Weighting of this area being appropriate to the importance. |
| That the model has not recognized the risk of not entering a larger CCO today and there will be restrictions on entering in the future | This is a Low risk as agility, adaptability and future optionality was considered in the criteria | Any decision made now is a decision for today but does not preclude good business decisions being made in the future by the future entity. Additional joint arrangements or shared service arrangements are assumed to be possible in the future. |

Alignment with legislative intent

The Local Water Done Well legislation is designed to recognise the importance of local decision making and providing flexibility for communities and councils to determine how their water services are best delivered now and into the future. The points of focus are on meeting economic, environmental and water quality regulations whilst considering growth.

New economic regulation for water service providers is due December 2024 and will be implemented by the Commerce Commission. The Commerce Commission will have a range of regulatory tools to promote efficient practices and protections for consumers. This will ensure entities collecting revenue through rates or water charges is being spent on the level of water infrastructure needed.

The intent of the legislation is to enable entities to be focused on 2/3waters in its entirety and to empower these entities to operate as stand along organisations where they make their own decisions, set their own strategies with typical company reporting mechanisms such as a board of directors, shareholder letter of expectations and so on.

Whilst the legislation is written in such a way that councils are given decision gateways on the size and type of organisational model they elect, there is support for councils to join up to achieve a level of scale that will drive efficiencies and economies of scale. The ultimate decision on the size is up to each individual council.

The legislation allows for an increase in oversight by central government and access to funding through the LGFA based on a qualification criterion of being a Council Controlled Organisation.

The Act requires Councils to promote the long-term benefit of water services, not exclusive to financial.

Conclusion – How do we feel?

The Wai + T project team's scope was to develop a Wai + T joint arrangement option, an assessment tool, and evaluate that option against the larger Wellington Regional joint arrangement option comprising ten councils. We are satisfied that we have delivered on this defined scope of work in a way that is sufficiently detailed and robust enough to assist elected members to make an informed decision on the joint arrangement options of Wellington Regional and Wai + T.

At project commencement, elected members were apprised of the agreed process adopted to assess and evaluate the options and the results of the analysis.

During the process feedback from sought on the appropriateness of the criteria and input was sought from Iwi to ensure their views were reflected.

At the end of the process, we have sought independent advice from experts on the framework and on the opportunities and limitations of economies of scale and scope. This independent advice was sought to supplement the expertise of the internal project team tasked with developing this scope of work and concluded that Wai + T are following a robust policy process and

their evaluation criteria support sound decision making. They also went on to suggest some improvements for the next stage.

After the evaluation, a three or four Wairarapa or Wairarapa + Tararua joint arrangement option ranked highest. The key drivers for this outcome were:

- The view of Iwi, including recognizing the importance of the Te Rohe o Rongokako Joint Redress Act 2022 for the Wairarapa
- The ability to influence key strategic initiatives such as Water Resilience and Storage
- Ability to influence culture and deliver accountability locally
- The logic of a spatially similar sub-region being able to have a coordinated response to emergencies and standardized solutions for assets
- Right sized, fit for purpose systems and processes means innovation and cost efficiencies
- Less complexity and risk in establishment
- The ability to have strategic options in the future

Sensitivities on the weightings of criteria were performed and showed that only if there was a single set of criteria around financial projections would the larger regional ten council option rank highest, and then only marginally.

This report therefore concludes that the Wai + T joint arrangement ranks higher than a Wellington Regional ten council option at this time, noting that within the criteria assessed, strategic optionality, i.e. joining up with others in the future, or procuring shared services from others, is an important criterium and assumed to be possible in the future.

Ultimately, the project team feels that the following Māori proverb sums it up best:

**Waiho i te toipoto,
kaua i te toiroa**
Let us keep close together,
not far apart.

Appendices

1. Council snapshots
2. Project Team Biographies
3. Criterion – definition, priority and risk assessment
4. Blank MCA Framework
5. Evaluated MCA Framework
6. Peer Review Letter from Castalia
7. Water Infrastructure Reform Planning Report
8. Gravel Road modelling for Wairarapa councils