

Cover note for Martin Jenkins Report Summary:

This analysis was modelled for the proposed Northland multi council-controlled organisation. Capital investment for each council was included at a level that would make that council financially sustainable in its own right. For Kaipara this means the investment level modelled within this report is reduced from the \$240 million we need to plan for to \$113 million.

Council requires a minimum of \$240 million dollars investment over the next ten years. Under options 2 and 3 (as shown in the consultation document) this exceeded our debt to revenue borrowing capacity as defined by the Local Government Funding Agency (our Funder). In order to stay within the guidelines of debt to revenue, a scenario of \$113 million dollars was modelled, however this level of investment is insufficient to ensure Council continues to meet its water and wastewater service obligations for renewals and compliance.

The further scenarios will be considered as we prepare our Water Services Delivery Plan (to be delivered by September 2025).



# Northland WSCCO opportunity - Key findings

Financial assessment – Whangārei District Council, Kaipara District Council, Far North District Council

Summary findings – Kaipara District Council






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March 2025

Commercial in Confidence



# Introduction and purpose

-  Joint Councils engaged MartinJenkins to undertake a high-level financial assessment of a possible Joint Water Services Council Controlled Organisation – Whangārei District Council, Kaipara District Council, and Far North District council
-  Local Water Done Well requires councils to demonstrate their delivery of water services is financially sustainable
-  A Water Services Council Controlled Organisation offers additional financial benefits compared to in-house delivery options
-  This report assesses how a joint WSCCO delivery modes could benefit participating councils, collectively and individually, through enabling greater efficiencies and more efficient capital structures.
-  We have relied on council inputs and an agreed set of assumptions

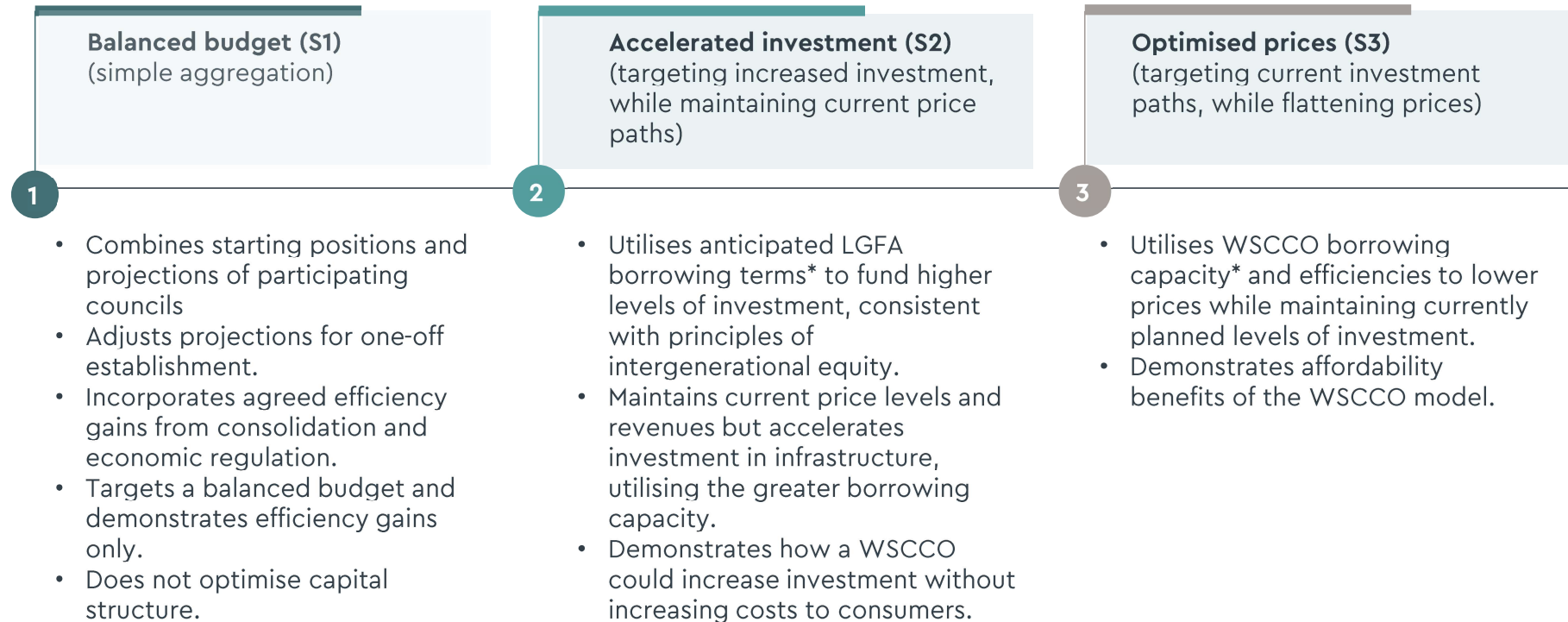


# Scenario overview

+ target capital structure and key assumptions



# Three scenarios have been modelled



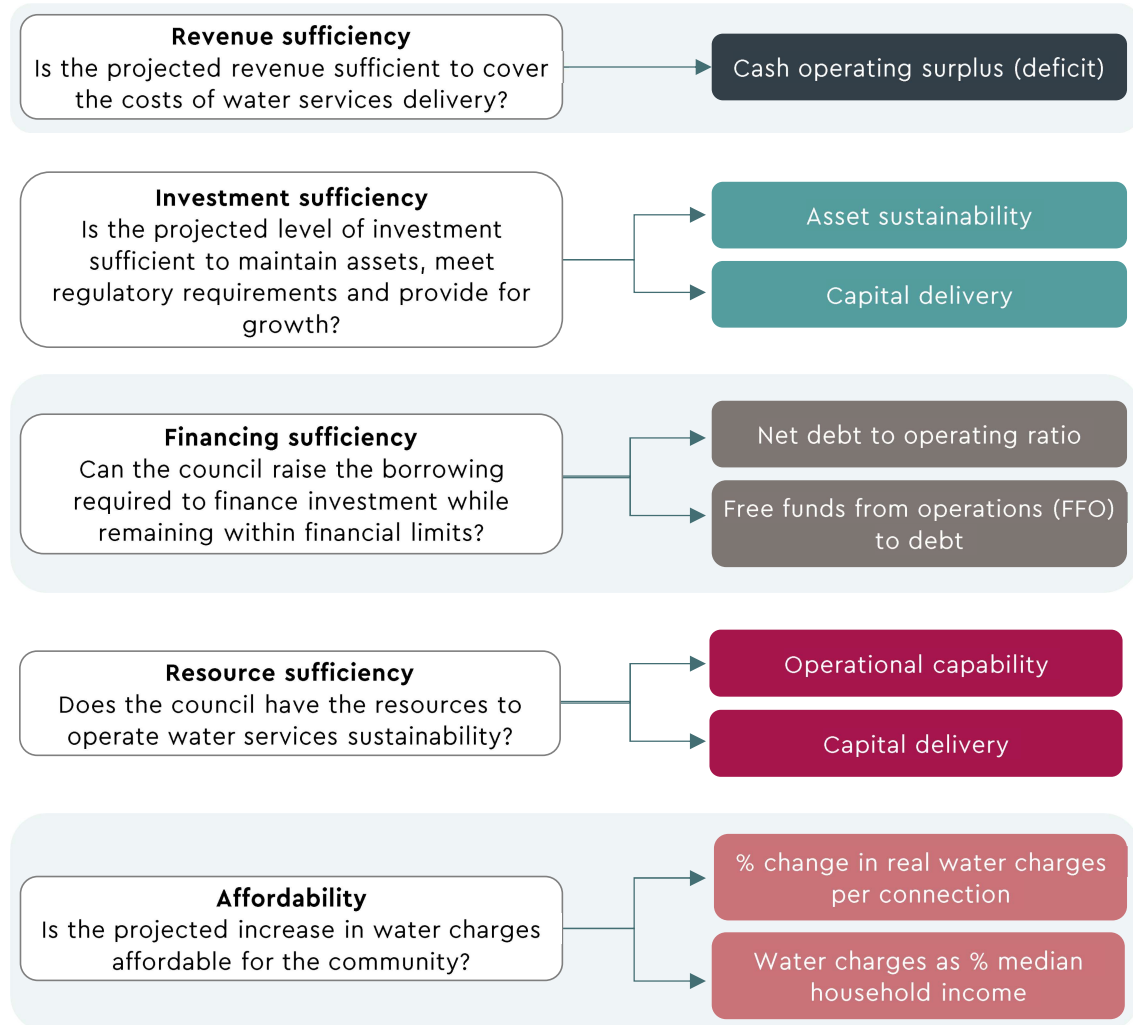
## Additional considerations:

- A status quo comparator is used as the benchmark for comparison, aggregating the financial positions supplied without adjustments or efficiency assumptions applied.
- Harmonised pricing is presented for scenario 3



# Target capital structure

- **DIA guidance sets out key financial principles** that underpin the requirement for financial sustainability. Under Local Water Done Well.
- **LGFA has set out a number of credit criteria.** A critical component of the 'prudent credit criteria' is that a 'funds from operations' ('FFO') to debt covenant would be required, with an **expected minimum 'FFO to debt' ratio likely to fall between 8% and 12% depending on individual circumstances for the CCO.**
- By **targeting an efficient capital structure** through a WSCCO, it is possible to **optimise revenues, expenditures and debt** that meet prudent credit criteria. This creates opportunities to:
  - Increase investment while maintaining current price levels or
  - Maintain investment while lowering price levels or
  - A combination of these scenarios.
- **Our modelling targets FFO to debt at the mid-point of 10%** as a conservative assumption. This means cash surpluses in any year are equal to 10% of the WSCCO's net borrowings.



# Key assumptions

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

Additional information on the underlying assumptions and basis of efficiencies are found in the report supplied to councillors.

Note, adjustments to the base debt and capital profiles were made with agreement from KDC and FNDC.

Assumption	Commentary
<b>Efficiencies:</b> <ul style="list-style-type: none"> <li>Operating 0.6% - 1.1% p.a.</li> <li>Capital 0.7% - 1.3% p.a.</li> </ul>	<p>We have modeled the upper range of possible efficiency assumptions, following workshops with council officers.</p> <ul style="list-style-type: none"> <li>Peak operating efficiency is achieved in FY44 (~15%).</li> <li>Peak capital efficiency is achieved in FY44 (~17%).</li> </ul>
<b>Establishment costs</b> <ul style="list-style-type: none"> <li>capitalised</li> </ul>	<p>Establishment costs are assumed to be:</p> <ul style="list-style-type: none"> <li>\$9 million for three council entity scenarios</li> </ul> <p>This covers transition activities, including legal, commercial and other due diligence, and staff IT costs. <b>The model is not sensitive to this assumption.</b></p>
<b>Incremental cost</b>	<p>Additional opex associated with a WSCCO include additional management costs, board fees, audit and other costs. These are assumed to be around \$1.5 million p.a.</p>
<b>Establishment date</b>	<p>The entity is established on 1 July 2027.</p>
<b>Three waters</b>	<p>Water supply and wastewater are transferred to the entity. Stormwater has not been included in the analysis.</p>



# Key findings

Joint WSCCO opportunity (WDC, KDC, FNDC)





# Key findings

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

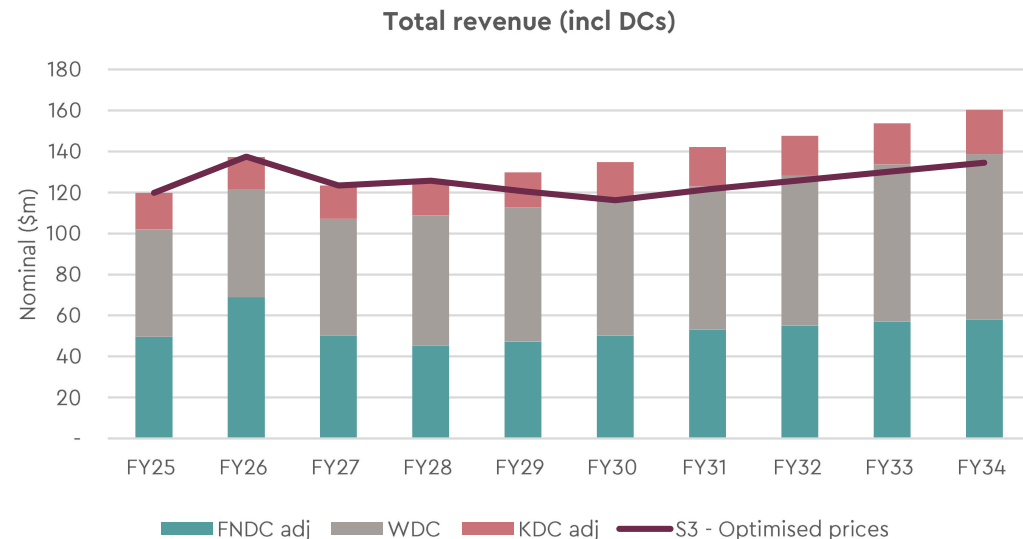
A WSCCO could deliver:

- **Up to \$213 million** in additional investment (+23% compared to the status quo) by FY34.
- **Reduce price increases to consumers by up to \$450** (-19%, relative to current price paths) – note the differences in these figures compared to the table reflects rounding.
- **Operating efficiencies peak at 15% relative to initial opex by FY44**, and generate around \$3.5 million in annual savings by FY34.
- **Capital efficiencies peak at 17% relative to initial capex by FY44**, and generate around \$5.5 million in annual savings by FY34.
- **The current investment profile could be delivered for around \$11 million less between entity establishment and FY34.**

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

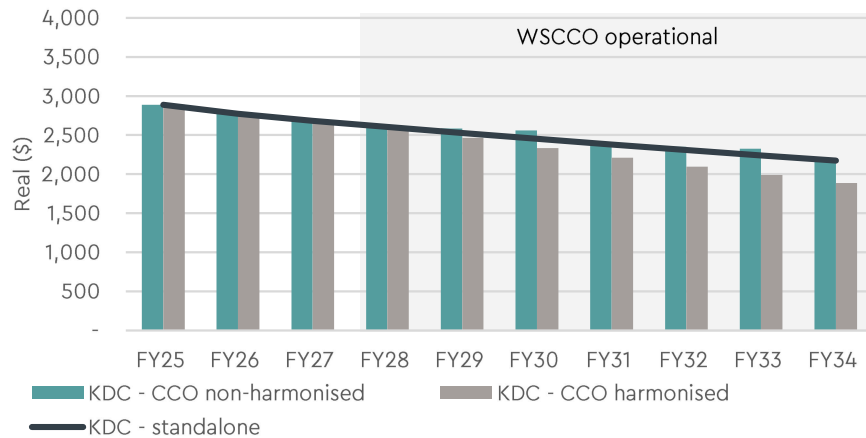
- **Immediate uplift in access to borrowing.**
- **Better cost distribution** by funding and financing assets over their useful lives.
- **Increased investment capacity** and financial flexibility.

Scenario	FY25 cost per connection (\$ real)	FY34 cost per connection (\$ real)	Total capex (FY25-FY34) (\$m nominal)	FY34 FFO-to-debt (incl. DCs)
<b>S1 Balanced budget</b>	~\$1,900	~\$2,200	\$912	18%
<b>S2 Accelerated investment</b>	~\$1,900	~\$2,400	\$1,135	10%
<b>S3 Optimised prices</b>	~\$1,900	~\$1,900	\$912	10%
<b>Comparator (status quo)</b>	~\$1,900	~\$2,400	\$922	24%

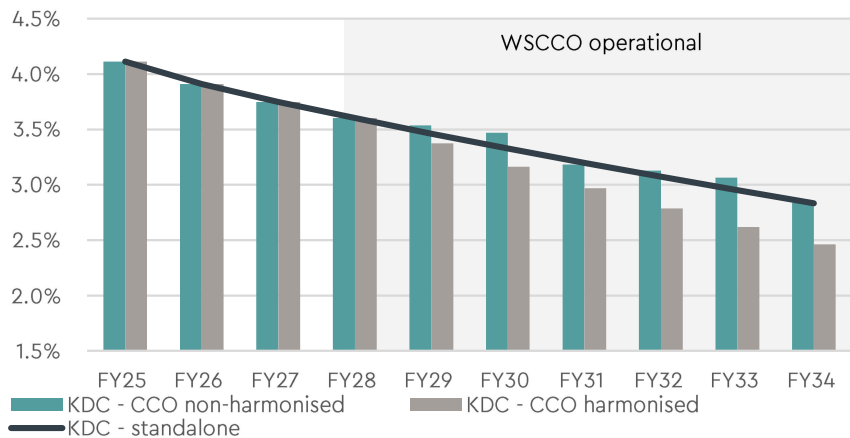


# Kaipara District Council findings – Optimised prices (\$3)

Water rates per connection (\$ per annum)



Water rates % of median\* household income



\*Median household income is derived from the latest census data, and projected forward

## Water charges per connection

Under current council arrangements, average water charges are projected to reach around **\$2,200 per connection annually** (in today's terms). A **WSSCO could reduce this to as low as \$1,900 per connection**, reducing the required increases by up to 14%.

KDC is forecasting significant growth in connection numbers. This is the primary driver of the reducing average cost per connection over the forecast period. We note there does not appear to have been adjustments to the opex projections to reflect higher costs associated with an expanded network. Together, these may present some downside risk to cost per connection projections.

## Affordability of water charges

Affordability of water charges could improve for the KDC community by FY29, compared to the status-quo. Efficiencies would build over time, likely generating further savings for your community.

Council	Δ (cumulative) to current price path - Harmonised	Δ (cumulative) to current price path - Non-harmonised
A	+ve	+ve (strongest)
KDC	~\$1,100	~\$(280)
C	+ve	-ve



# WSCCO B

Whangarei District Council  
*and*  
Kaipara District Council

## WSCCO B

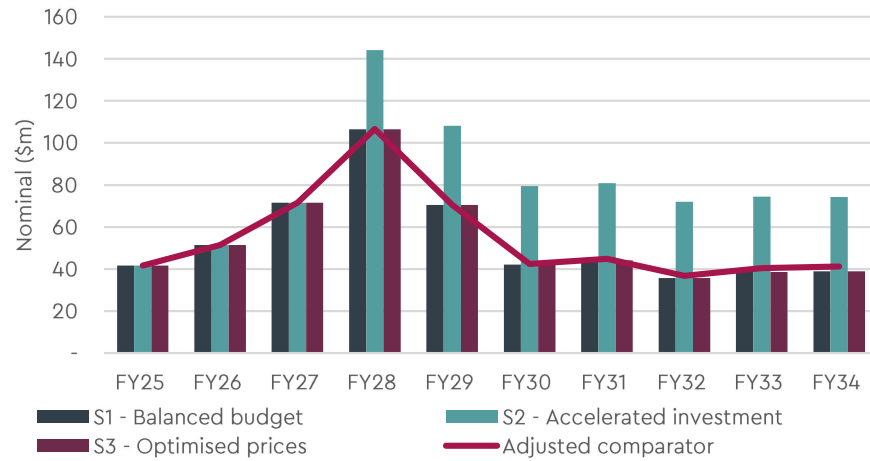
WDC 80%

KDC 20%

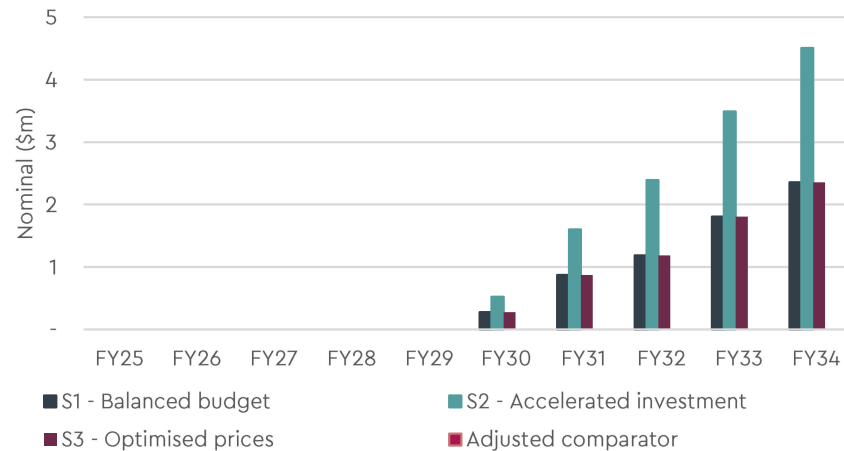


# WSCCO B – Capital expenditure and debt

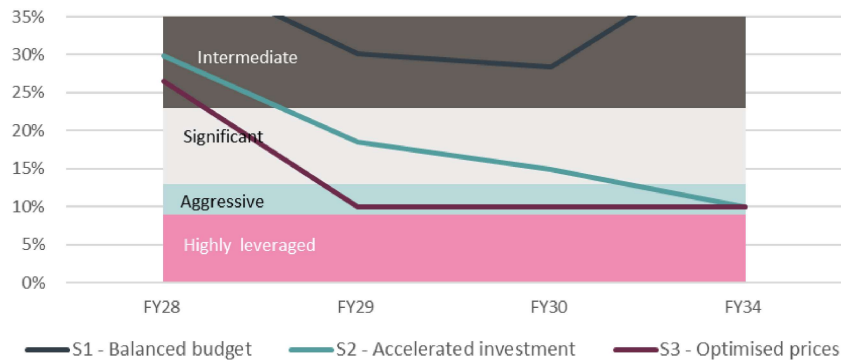
Capital expenditure (net of efficiencies)



Capital expenditure efficiencies FY25-FY34



Funds from operations (FFO) incl DCs to debt



Scenario	Total capex (FY25-FY34) (\$m)	Capex efficiencies p.a. (FY34) (\$m)
<b>S1 Balanced budget</b>	\$541	<b>\$2.4</b>
<b>S2 Accelerated investment</b>	\$798	<b>\$4.5</b>
<b>S3 Optimised prices</b>	\$541	<b>\$2.4</b>
<b>Comparator (status quo)</b>	\$548	<b>\$0</b>

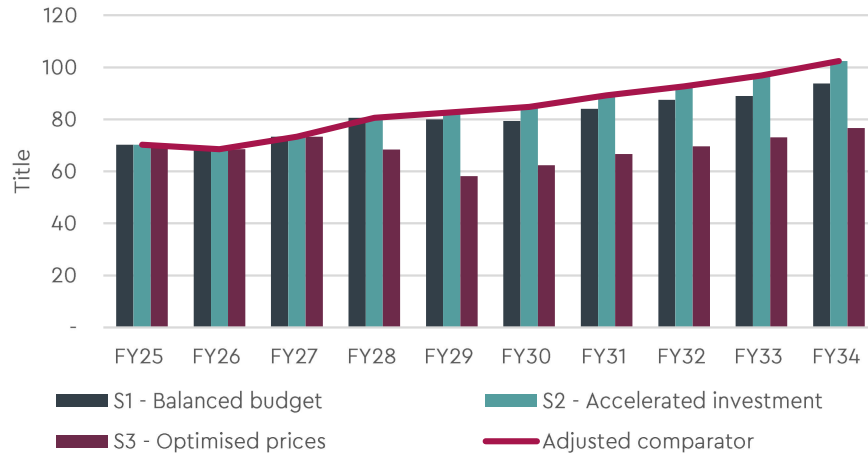
  

Capex efficiency	Cumulative efficiency (FY34)	Peak efficiency (FY44)
1.3% p.a.	5.7%	17.3%

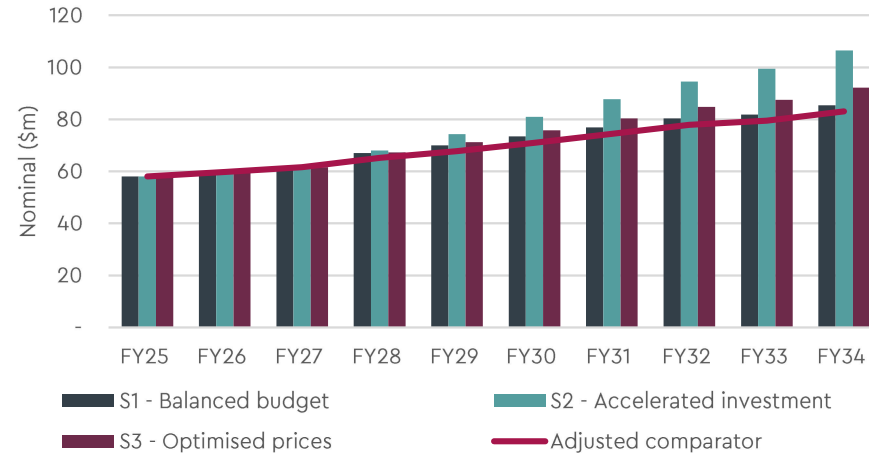


# WSCCO B – Operating revenue and expenditure

Total revenue (incl DCs)



Operating expenditure (net of efficiencies)



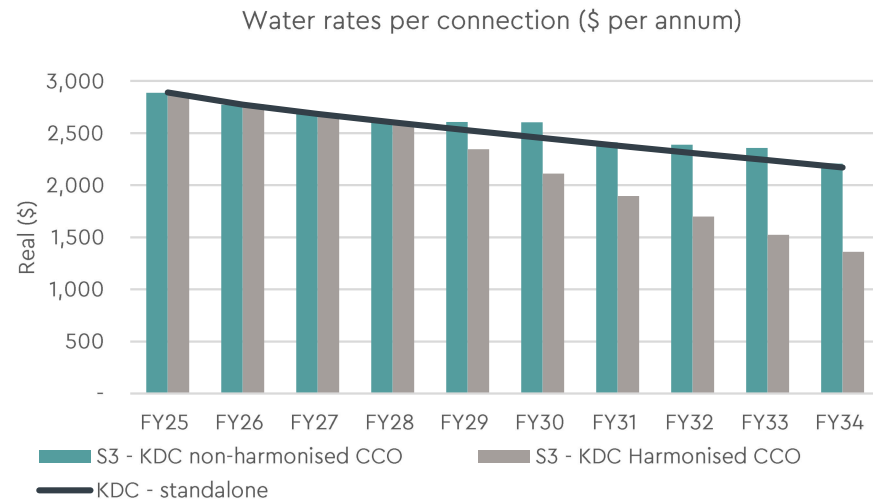
Scenario	Total revenue, incl. DCs (FY25-FY34) (\$m)	FFO-to-debt(FY34)
<b>S1 Balanced budget</b>	\$806	44%
<b>S2 Accelerated investment</b>	\$841	10%
<b>S3 Optimised prices</b>	\$687	10%
<b>Comparator (status quo)</b>	\$841	104%

Scenario	Total opex (FY25-FY34) (\$m)	Opex efficiencies p.a. (FY34) (\$m)
<b>S1 Balanced budget</b>	\$715	\$2.0
<b>S2 Accelerated investment</b>	\$791	\$2.2
<b>S3 Optimised prices</b>	\$739	\$2.0
<b>Comparator (status quo)</b>	\$698	\$0

Opex efficiency	Cumulative efficiency (FY34)	Peak efficiency (FY44)
1.1%	4.9%	14.8%

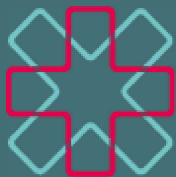


# WSCCO B – Price paths



Council	Savings (cumulative) to current price path - Harmonised (FY25-FY34)	Savings (cumulative) to current price path - Non-harmonised (FY25-FY34)
<b>WDC</b>	+ve	+ve (strongest)
<b>KDC</b>	~\$3,150	~ (\$500)





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