

Wai Tāmaki ki Te Hiku

Initial Funding and Pricing Plan 2024 - 2035

***DRAFT** prepared for Wai Tāmaki ki Te Hiku by the Chief Executive of the Department of Internal Affairs, pursuant to the Water Services Entities Act 2022*

13 October 2023

Foreword

Aspirational Statement from the Chief Executive of Wai Tāmaki ki Te Hiku, to be prepared for the published version of this plan

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Note on Process

This draft initial funding and pricing plan developed for Wai Tāmaki ki Te Hiku (the Entity) by the Department of Internal Affairs drew heavily on the existing territorial authorities’ planning for the delivery of water services as a starting position.

The plan was developed by reviewing water reform objectives and the new legislative framework to reset investment programmes and charging tools, while introducing efficiencies considered appropriate within the new structures and arrangements.

An updated draft for adoption by the Entity as a final initial funding and pricing plan will incorporate feedback from stakeholders including the Commerce Commission and relevant local authorities. It is anticipated this will be available in early 2024.

Future funding and pricing plans prepared by the Entity, after a date to be confirmed, will be required to follow an economic regulation framework. This framework produced by the Commerce Commission will regulate the price and quality of water infrastructure services and provide consumer protection.

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Executive summary

Water services reform

This draft initial funding and pricing plan for the Wai Tāmaki ki Te Hiku (The Entity) is a transitional arrangement to implement Water Services Reform in New Zealand. The delivery of water services is undergoing major reform to meet the needs of New Zealanders in the present and over the long-term.

This multi-year reform process is a once-in-a-lifetime opportunity to implement a uniquely New Zealand approach towards building a world-class water services system, guided by Te Mana o te Wai. The transition phase of this reform unlocks significant transformational benefits and opportunities for communities across New Zealand to prosper and grow, while protecting the environment.

Under the reform, delivery of our country's water services (drinking water, wastewater and stormwater) operated by 67 councils are being combined into 10 regional Water Services Entities. The 10 entities will be established, in a staggered approach, by 1 July 2026. The first Entity to proceed on 1 July 2024 encompasses the districts of Auckland Council, Far North District Council, Kaipara District Council, and Whangarei District Council.

The goal of the reform is to significantly enhance the safety, quality, resilience, accessibility, performance, and affordability of water service delivery in New Zealand. To meet pressing challenges of ageing water infrastructure, long-term climate change and a growing population, the reform will increase investment into critical water infrastructure while ensuring water services remain affordable for New Zealanders.

Initial funding and pricing plan

Better access to long-term funding for increased investment in services, as well as more efficient operations, underpin the reform programme. The initial funding and pricing plan is a pivotal mechanism for enabling this. The role of the plan is to identify the costs to deliver intended services and how these will be funded, while finding efficiencies and showing how consumers will be charged. Spreading financing and charging for services over the long term supports affordability in a way that is equitable for all New Zealanders.

This initial funding and pricing plan shows how the Entity is to deliver on the reform outcomes through:

- reduced pricing set on a more harmonised basis across the region;
- efficiencies to be achieved in both operational and capital expenditure;
- increased and more focused investment over 10 years; and
- effective use of debt to enable reprioritisation of investment.

This future-focussed plan is complemented by (and should be read with) our initial asset management plan which outlines how assets will be invested in to achieve the improved outcomes of reform in our service area. It identifies where improvements are needed, where additional capacity to support growth is required, and how the existing asset base will be optimised, maintained and renewed.

Under the legislative process for water services reform, these initial plans covering at least 10 years are prepared as drafts by the Department of Internal Affairs and, after consultations with councils and the Commerce Commission, adopted by each entity establishment board as a final initial plan. Water Services Entities are required to replace these final initial plans within a three-year period.

Improving value and investing in our future

Although Watercare and Auckland Council have projected Auckland water bills to almost double over the next 10 years, the Entity will be able to keep Aucklanders' water bills at a lower level, and, at the same time, bring Northlanders' water bills down to the average Auckland cost. Fairness and equality will be assured across the Entity's area with a new legislated approach to funding and pricing that will protect vulnerable customers.

There will be a \$18b programme (costing \$14.3b after efficiencies) of investment in water services infrastructure within the Entity over 10 years. This is an additional \$5.2b in investment compared to local authorities' 2021-31 long-term plans.

For communities in Northland and Auckland, and across New Zealand, greater capacity to fund investment into critical water infrastructure means better healthier waterways, environments and ultimately people. The Entity is playing a leadership role in implementing a step change in water services that will benefit generations of New Zealanders.

In delivering safe, reliable and efficient water services that stay affordable, we are also working to improve customer experience. This encompasses greater transparency in our operations, making it simpler and easier to interact with us, and exploring new ways to involve customers in our decision making.

In a new transparent water services system guided by Te Mana o te Wai, all New Zealanders will come to know their role in the water system and the value of water. Our families will stay safe, our communities will grow, and we will prosper through investment that unlocks housing and economic development.

Te Tiriti o Waitangi and Te Mana o te Wai

Water Services Reform aims to give Iwi/Māori a greater role in the new system, including pathways for enhanced participation by whānau and hapū as these services relate to their Treaty rights and interests. A transformed system will improve outcomes for Iwi/Māori in relation to water service delivery.

The Water Services Entities Act 2022 requires Water Services Entities to give effect to the principles of Te Tiriti o Waitangi and Te Mana o te Wai. To achieve this, genuine participation and engagement is required with mana whenua. Te Tiriti underpins the fabric of Te Mana o te Wai.

In line with these principles, we will uphold and implement Te Mana o te Wai, which is recognised and developed as a fundamental driving force behind this initial funding and pricing plan. We will ensure that Te Mana o te Wai is integrated as we develop and mature as an entity and is applied to the relevant duties, functions, or powers to the fullest extent possible.

The National Policy Statement for Freshwater Management 2020 defines Te Mana o te Wai as a concept that refers to the fundamental importance of water and recognises that protecting the health of freshwater protects the health and well-being of the wider environment.

Purpose of plan

The Water Services Reform establishes a new approach to funding and pricing to enable a more effective and efficient water service system. This draft initial funding and pricing plan will ensure that the required levels of investment can be undertaken, while keeping services affordable and protecting vulnerable consumers.

The plan encompasses the approach to funding revenue and pricing for at least 10 years, the intended approach to pricing services and charging consumers, and the financial strategy for the entity.

A major part of this approach is ensuring equity and fairness to communities across the entity and respecting the rights and interests of Māori under Te Tiriti o Waitangi. This initial funding and pricing plan outlines how the entity will achieve that to achieve the goals of the Water Services Reform Programme.

Approach

Establishing a 10-year operational intention: A funding and pricing plan is a way of showing what a Water Services Entity is intending to invest in infrastructure to deliver water services to consumers over at least a 10-year period. The level of investment will be used to determine the amount of debt and revenues required to support the entity's operation.

By planning for a period of at least 10 years, the Water Services Entity can better signal to its consumers its longer-term intentions and set expectations as to what will proactively occur within the region.

Initial funding and pricing plan: This plan sets the initial strategic direction for how consumers will be charged for water services by the entity. This is a fundamental element to achieving the affordability, equity and fairness objectives of the water services reforms.

Equally, it is critical that this initial plan sets our entity on a sustainable path for delivery of water services to prevent future price shocks to consumers. The competing challenges of keeping prices low for consumers while also having sufficient revenue to invest sustainably is the core issue this plan must balance.

The Water Services Reform is a significant transition from an existing model to a new targeted model that will take time to achieve. In seeking to enhance the capital investment programme, deliver equitable services and achieve price reductions, this initial funding and pricing plan aims to embed efficiencies while utilising additional debt capacity.

Proposed approach: This initial plan draws heavily on the long-term planning of the four territorial authorities as a base for the 10-year timeframe covered. These are adjusted with a more extensive level of capital investment (around 41% more than the council's baseline on a nominal extrapolated basis) and recognising expected efficiencies for both capital and operational expenditure, which increase over time and are supported by "spend to save" initiatives.

Efficiencies: Achieving efficiencies is a key component and product of the transformation that will be required to reform water services. The efficiencies incorporated into this initial funding and pricing plan will be further refined and extended beyond the initial 10-year timeframe. The efficiencies to be delivered through this reform are aligned with what has been observed from other regulated water infrastructure companies internationally, where costs and performance are benchmarked to assess what should be achievable in the New Zealand context. Efficiencies are expected to be achieved through the following transformational initiatives:

- National procurement strategy and manual, incorporating contemporary procurement models.
- Integrated approach to the industry supply chain, and connecting with other infrastructure providers.
- Standardised construction, design, product and engineering specifications.
- Establishment of a central innovation centre.
- Implementing consistent technology, including a fully integrated technology stack across all entities.
- Building capability in our people, improving productivity and developing our innovation capacity.

Future Price Path: The pricing pathway for the Entity under this initial plan is built off the harmonisation of charges from day one of operations, 1 July 2024. The intent is to bring the Northland residential customers down to the prices consistent with Auckland residential customers. The benefit for Auckland residential customers is that the Entity intends to hold residential pricing (as opposed to significant projected increases). The overall intention is to moderate increases, with the proposed future pricing pathway including annual increases over the subsequent nine years of 2%.

As an example, current forecasts for Northland show average domestic charges ranging from around \$1,400 to around \$2,400 for the 2024/25 year, dependant on council. For the first year of this plan, after harmonisation and moderation, this average is residential charge is now expected to be between \$1,200 and \$1,300. For more detail, refer to Appendix A – Schedule of proposed water services charges.

Finding the Right Balance: The financial strategy within this initial funding and pricing plan seeks to find the right balance between demand and supply.

Demand, driven mainly through asset management planning, includes consumer expectations, prudent management of existing assets and additional assets to deal with growth and development. Supply, driven through the funding and pricing plan, is about the resources available to deliver on those demands, assessing costs and efficiencies and determining who and how much consumers and others should be charged to meet those costs. In summary this approach is about delivering equitable services at an affordable price.

Financial strategy

This initial funding and pricing plan recognises that the water services reform creates opportunities to reset how services are delivered especially when it comes to the long-term nature of water infrastructure. Using debt to finance the creation of growth-related assets enables the costs of construction to be spread over time, so that there is a direct relationship between those consumers gaining the benefits to ensure they fund those costs.

A key benefit of the reforms is the ability for Water Services Entities to access additional borrowing capacity, while continuing to act prudently within acceptable credit limits. This enables a balance sheet expansion phase, whereby the Water Services Entities can use debt to advance growth-related infrastructure programmes, leading to a more efficient delivery of services. It is expected that normal operating tariffs will fund the required level of renewals as growth funding starts to recoup growth-related investments.

The strategy also recognises the opportunity to achieve efficiencies in both operational and capital expenditure (in line with observations from international best practice), building up over the initial 10 years, with further efficiencies possible in later years.

- In the 2033/34 year capital expenditure is expected to deliver over \$2.2b worth of investment for a cost of around \$1.4b after efficiencies
- In the 2033/34 year operational costs of around \$820m are expected to be reduced to around \$460m thanks to achieved efficiencies

For day one, the financial strategy will ensure the working capital needs of the Entity are met. In the longer term, the focus is managing the credit rating and financial viability of the Entity.

Protecting and supporting vulnerable consumers

For this initial funding and pricing plan for the Entity, an overall general allowance to revenues has been made for the reduction or waiving of charges at the discretion of the Entity.

It is up to a Water Services Entity upon establishment to determine how it defines a vulnerable consumer. Entities also need to determine the appropriate tools to protect vulnerable consumers, on top of access to existing relief under the Rates Rebate Act 1973.

Under legislation, the Commerce Commission, as the economic regulator, will make a service quality code, after consulting with interested persons. In making this service quality code the Commerce Commission must take reasonable steps to identify classes of vulnerable consumers and take the interests of those consumers into account.

Supporting our communities

Through this plan more funding will be put into upgrading, improving and future proofing water services so that communities across Northland and Auckland can thrive and be sure of safe and reliable drinking water, wastewater and stormwater.

Our financial strategy means that water bills will stay affordable over the next 10 years, and we will ensure transparency over how customers will be charged throughout this transition and ongoing. Greater transparency will mean greater involvement by consumers in key decision making processes. A focus on localism will ensure communities remain connected to the Entity.

Costs for customers across the Entity's area will be lower in the long term because scale and specialisation are catalysts for efficient and well-maintained systems. Because costs to improve water services infrastructure will be spread across the entire Entity area, much needed improvements can happen sooner, and, in the long-term, costs will reduce and services will improve for customers across the area.

Along with more affordable water services for Northland and Auckland customers, the Entity will also have greater capacity to fund investment into critical water infrastructure, improving outcomes for people, water, and the environment across the Entity area.

Growth is a significant contributor to the cost of services. The initial asset management plan has growth related projects of approximately \$4.9b (33% of total asset investments over the 10-year horizon). The revenue received from growth related activities amounts to 22% of the Entity's total revenues. Given its significance there is an expectation that those that contribute to growth should pay for growth. We will work closely with the development community to transition costs based upon this principle over time.

Under our structure, any profits are invested back into the Entity towards continuing to improve operating water services infrastructure and delivery (in an efficient, productive and financially sustainable manner).

From a community perspective, access to higher levels of debt means that the Entity can better support growth, which means more housing for people. As the Entity must follow Territorial Authority growth plans, the development of suburbs, towns and cities will meet the needs and aspirations of growing and diverse communities. The Entity is dedicated to creating a new standard of water services for Northland and Auckland that will improve the wellbeing of our waterways, environments and people for decades ahead – Ka ora te wai, Ka ora te whenua, Ka ora te tangata.

1. Introduction

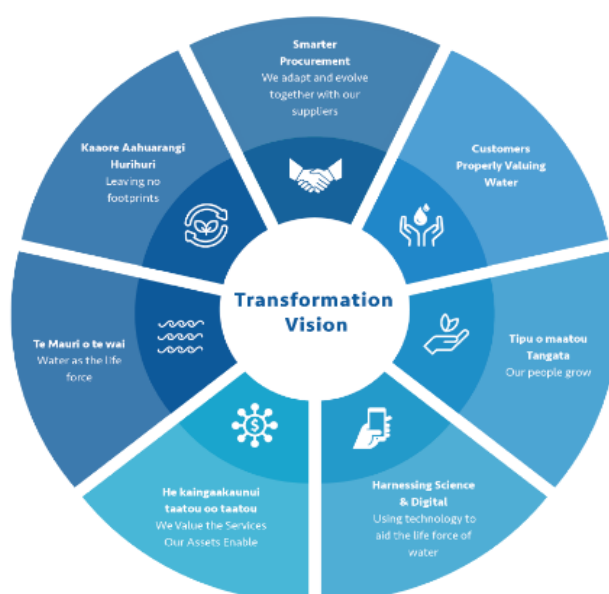
1.1 Context for this plan

1.1.1 Transformation vision

Water Services Reform in New Zealand is realising an ambitious vision. Our country is implementing large-scale change to significantly raise the standard of our water infrastructure along with building a world-class water services system.

This once in a lifetime opportunity to transform how we deliver our water services will address the compounding impact of decades of under-investment in water infrastructure overlaid with new demands into the future from accommodating population growth and mitigating climate change and natural disasters. This step change is about:

- A uniquely New Zealand approach to building a world-class water system guided by Te Mana o te Wai.
- Leveraging the scale and other structural changes that will enable the significant investment required in water infrastructure that is out-of-reach of individual councils alone.
- Creating the conditions to build and sustain a highly skilled and adaptable water workforce that can innovate and collaborate to drive outcomes for New Zealand and is seen as world-leading.
- Being customer-focused, leveraging new technologies, while also building customer awareness of their role in the water system and the value of water.



The Water Services Reform Programme aims to significantly improve the safety, quality, resilience, accessibility, and performance of water services, in a way that is affordable for New Zealanders now and into the future. The purpose of the entities is to provide safe, reliable and efficient water services. High-level objectives include:



The Government needs to ensure it delivers on Treaty-related obligations, including by improving outcomes for iwi/Māori in relation to water service delivery and upholding Te Mana o te Wai. Integral to this is effective infrastructure delivery, underpinned by an efficient, high-performing, financially-sustainable, and transparent water service system. At the centre is increased investment in critical water infrastructure while ensuring water services remain affordable for New Zealanders.

1.1.2 Waters services challenge

In many parts of the country, communities cannot be confident that their drinking water is safe. The campylobacter outbreak in Havelock North in 2016, and more recently the cryptosporidium outbreak in Queenstown, have brought into sharp focus the challenges in water services, and the risk to public health if left unaddressed.

The condition of water infrastructure across New Zealand too often causes poor environmental outcomes related to water services, such as discharge of treated and untreated wastewater into water bodies and large volumes of drinking water lost through leaks in pipes. Current water infrastructure is generally unfit to accommodate growth in population and housing, or to manage the impacts of climate change and natural hazard risks

The nationwide cost of addressing the issues facing water services, from repairing and replacing outdated infrastructure to investing to deliver equitable access to more communities has been estimated at between \$120b and \$185b across the country over the next 30 to 40 years¹. Individual councils, even those representing large metropolitan areas, are not able to finance these costs.

From 2023 there are a number of challenges to address across Northland and Auckland, with significant growth and a large number of consent renewals required as well as recent flooding revealing the need for more investment into water infrastructure. Climate change and the need for greater resilience is a long-term issue that is already impacting suburbs and towns in the Entity area.

More frequent extreme weather events mean we need to invest into strengthening our water services infrastructure to make it more resilient. Recent flooding across the Entity area has devastated communities with extensive damage done to people's homes and properties and essential infrastructure like roads.

Ageing water pipes have struggled under unusually heavy rain, making harbours not safe to swim at or gather kai. Stormwater infrastructure has worked as designed (at the time it was constructed) but it could never consider the extremes being experienced today.

¹ Cabinet minutes from June 2021 **CAB-21-MIN-0226**

With the population of the Entity area expected to grow from around 1.9 million to more than 2.1 million people by 2034, planning for climate change is essential. Increased investment into our drinking water, wastewater and stormwater networks will help to meet population growth, minimise climate change impacts and improve our environment. A large number of resource consents for water treatment plants are about to expire within the next five years. There are several 'red zones' occurring across Auckland and Northland that are impacting the ability to meet expected population growth.

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1.1.3 Stronger community representation

The review of water services began in mid-2017 and with ongoing consultations the process for change evolved to a regionally led 10-entity model in 2023. A model based more closely around existing regions recognises the importance of water services entities having clear and direct links with their communities, to ensure New Zealanders have confidence that the entities will listen and respond to their needs.

The new system that the entity is part of has the rigour of strong local governance that combines strategic representative oversight with diverse skilled management. Iwi/Māori rights and interests in water are protected with provision for mana whenua to make Te Mana o te Wai statements, which prioritise the health of water, people and the environment. Local people can have their say on how water services entities operate too, through Community Priority Statements. These statements are distinct from each other yet are complimentary.

1.1.4 Long-term benefits and opportunities

Water services are essential building blocks for communities. The transition to Water Services Entities is not just fixing the status quo of ageing infrastructure. It is a foundation for significant transformation opportunities.

Increased investment into our drinking water, wastewater and stormwater networks will help to meet population growth, minimise climate change impacts and improve our environment. Over time we are building a world class water system and this delivers significant advantages for communities, cities and regions.

The entity is leading the charge in working toward a whole different way of managing our water services, including long-term infrastructure investment and more integrated ways of doing things such as taking a catchment-based interconnected view of the water system instead of a fragmented approach that can lead to inconsistencies and adverse outcomes.

A Te Mana o te Wai partnership-based approach helps drive Water Services Entities to be responsive to the diverse communities we serve, bringing benefits not only for customers but also for the water workforce in terms of the new opportunities and the organisational cultures created. Water sector professionals will benefit through upskilling, career pathways, innovation, and creating a world standard we can all be proud of.

As highlighted above, transformation is about bringing a stronger customer focus and New Zealanders knowing their role in the water system and the value of water. Technology-driven and data efficiencies will improve the service experience we deliver, and we want our customers to feel they are able to participate in change as appropriate.

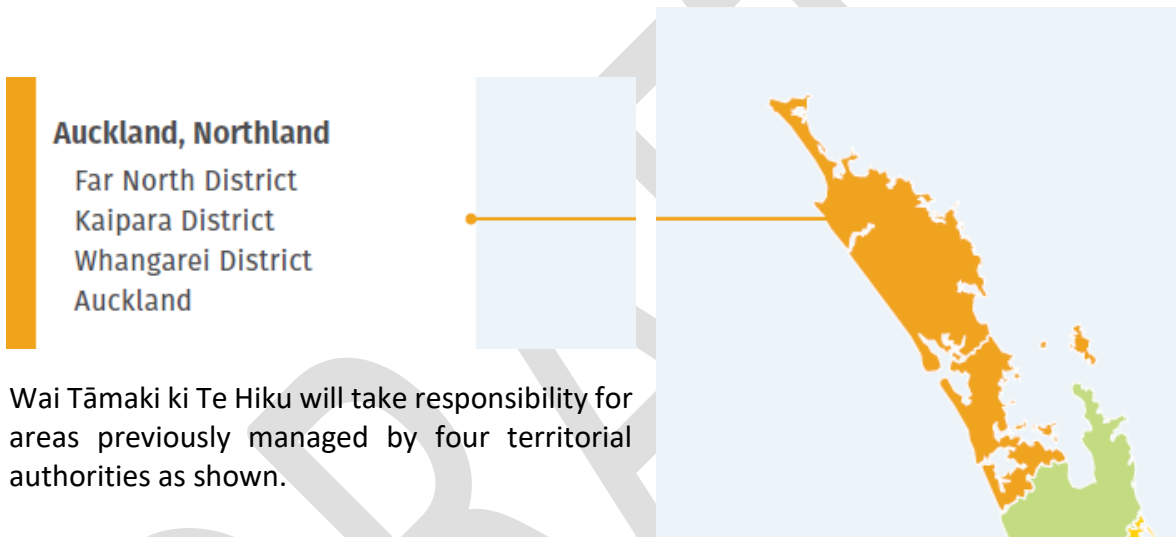
Through system reform, together we can look forward to greater wellbeing. Our cities, towns and rural areas will grow and prosper through investment that unlocks housing, employment and economic development.

1.2 Wai Tāmaki ki Te Hiku

Wai Tāmaki ki Te Hiku is responsible for the water services being provided to consumers within the districts of Auckland Council; Far North District Council; Kaipara District Council; and Whangārei District Council.

For the Entity it is estimated that currently around 87% of the population (1.68m people) and the properties (550,000) receive water services. There are around 750,000 dwellings and non-domestic properties that receive services across the region, receiving around 140 million m³ of water in a year.

This is forecast to increase to around 890,000 dwellings and non-domestic properties receiving around 170 million m³ in 10 years' time. This includes a wide range of types of properties from private dwellings in a city environment serviced by large metropolitan systems, to extensive commercial users, to villages and towns served by small scale systems, to agricultural and horticultural premises.



Wai Tāmaki ki Te Hiku will take responsibility for areas previously managed by four territorial authorities as shown.

With a total existing population of around 1.9 million spread across an area of around 17,500 km², there is a vast range when it comes to the nature and scale of the services required.

Key Stats Entity A

Natural 	5,000km Coastline	> 150 Rivers & Streams	93 Major Lakes	13 Main Harbours
Built 	29,434km Pipelines	88 Treatment Plants	1,005 Pump Stations	530,997 Water Meters
Built 	18 Water Supply Dams	417km Stormwater Channels	16 Wells	45 Surface Water Intakes
Demographics 	1.9 million Estimated Population (2020/21)	710,000 Properties & Businesses	220 kilolitres per year Water Supply Use	80% - 90% People Receiving Services
Spend (Nominal) 	\$18.0 billion 10 Year CAPEX (pre-efficiencies)	\$3.9 billion CAPEX Efficiencies	\$7.2 billion 10 OPEX (pre-efficiencies)	\$1.9 billion OPEX Efficiencies
Asset Values 	\$18.17 billion Current Total Book Value	\$4.82 billion Water	\$6.28 billion Wastewater	\$7.07 billion Stormwater

1.2.1 Scope of Water Services Entities' services

Water Service Entities will provide services relating to water supply, wastewater, and stormwater:

- Water supply – those being served are primarily identified as those actually connected to a water supply system but can include those within close proximity to a water supply network, and so therefore deemed serviceable.
- Wastewater – similar to water supply those being served are primarily identified as those actually connected to a wastewater system but can include those within close proximity to a wastewater network, and so therefore deemed serviceable.
- Stormwater – determining those receiving stormwater services is different than water supply and wastewater as in many cases it does not require a connection as such. So those being served are those connected or within 100m of a stormwater network.

As a general rule those not serviced by Water Services Entities are those outside of a stormwater network, and those not connected to a water supply or wastewater system. A possible exception is those within 100m of the network or system, as in some cases they may be deemed to be serviceable.

Water drinking supply has a wider interpretation under Water Services Act 2021 as this has a focus on healthy and safe water, and so includes stand-alone water operators, beyond domestic self-supply. However, for funding and pricing purposes these stand-alone water supply consumers are excluded.

Another generic exclusion is stormwater consumers in rural areas, as they fall outside of the services being provided by a Water Services Entity, unless connected to an urban system.

1.3 Objectives of plan

Funding and Pricing plans enable the goal of Water Services Reform to increase investment into critical water infrastructure while ensuring that water services remain affordable for New Zealanders.

The plan is a legislative requirement under the Water Services Entities Act 2023 and is required to set out:

- the source and approach to funding revenue and pricing for at least 10 years,
- the intended approach to pricing services and charging consumers, and
- the financial strategy for the entity.

Together, these elements provide information to people within the entity about the prices they will pay for water and how this represents savings compared to the previous council-run water services. This is complemented by the asset management plan which outlines how quality, access and maintenance of water infrastructure will be improved.

The requirements of the financial strategy element of the plan are outlined in section 155(2) of the Water Services Entities Act. The financial strategy outlines:

- the factors expected to impact the entity, including population and land use change, actions for specific geographic areas, and expected capital expenditure,
- the policy for giving security for its borrowing, and
- the objectives for holding and managing financial investments and equity securities.

As this is an initial plan it focuses on the first 10 years of operation and it is expected that subsequent plans with a focus beyond this period will assess additional efficiencies, as well as further work on equity of services and pricing. Future funding and pricing plans will include more substantial engagement with a regional representative group, and be required to follow an economic regulation framework, produced by the Commerce Commission.

The funding and pricing plan will be reviewed by the Commerce Commission, an Independent Crown Entity, which will regulate the price and quality of water infrastructure services and provide consumer protection from 1 July 2027. This is to ensure the best possible economic outcome for consumers is achieved.

1.4 New charges

There are currently over 400 tariffs across the Entity service areas and a significant level of rationalisation will take place prior to day one to enable greater transparency over how customers will be charged. The transition of charges from Councils to the Entity will also be made as transparent as possible.

Will the new charges generally replace existing ones?

While the Water Services Entity is introducing new charges for the services it provides, in most cases consumers have been already receiving and paying for these services. Most often this is as part of the rates charged by their local authority, either identified as a water related charge or as part of more general rates. The new charges identified in this funding and pricing plan replace those old charges, and in doing so should generally make the charges more transparent to consumers.

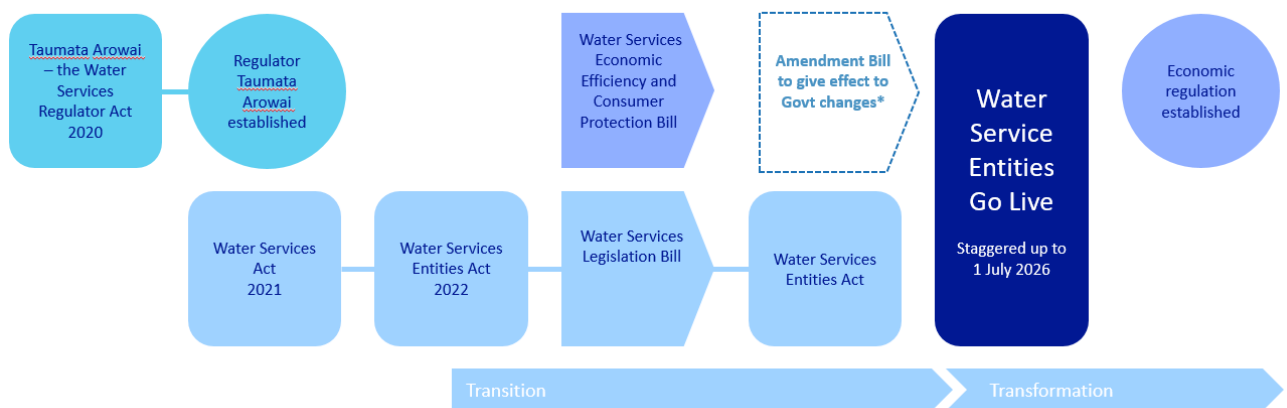
Who is the liable for the new charges?

Generally, the owner of the property is liable to pay water services charges, unless there is a lease exceeding 10 years. In the case of Māori land, it will depend on factors such as multi-ownership, occupation orders, and leases.

1.5 Legislative framework

A suite of legislation sets in place the reform of water services regulation and service delivery in New Zealand.

Legislative process



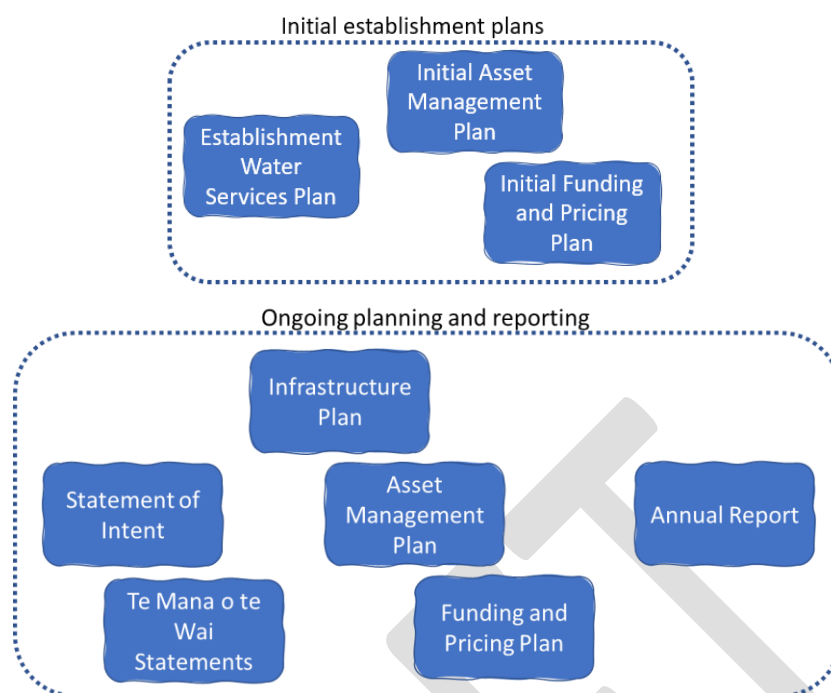
Editor note: Create an updated version of this diagram or similar visual for draft initial FPP; update it in 2024 for final FPP

This initial funding and pricing plan is one of a series of planning and reporting tools required by the Water Services Entities Act 2022.

The vast majority of water services are delivered through infrastructure, and therefore the majority of costs relate to the construction, maintenance and operation of infrastructure. In developing a funding and pricing plan, it is critical that the nature, scale, location, condition and costs of infrastructure assets are known and quantified, which is the purpose of an asset management plan.

Along with this initial funding and pricing plan, an initial asset management plan is also being produced, primarily based off the relevant local authorities' plans for existing assets and updated to incorporate the Water Services Entity's forecast capital expenditure programme. Entities must replace these initial plans within a three-year period.

These two initial plans are supported in legislative requirements by an establishment water services plan which takes the place of a statement of intent for a transitional period. The establishment plan outlines how the entity will be established, as well as details around the processes, policies and guidelines for the first year of operation. The establishment plan also includes the processes and timing for the development of the initial asset management plan and initial funding and pricing plan. Shown below is the initial suite of three establishment-related plans and the ongoing key planning and reporting cycle for accountability.



Summary of key planning and reporting documents:

- **Statement of Intent** – this sets out the strategic intentions, setting a base for performance to be assessed, so public accountability can be promoted.
- **Establishment Water Services plan** – this replaces the statement of intent for the initial year of the entity, identifying key factors around the establishment and transfer of functions, staff and assets to the Water Services Entity.
- **Funding and Pricing Plan** – this identifies the costs to deliver intended services and how these will be funded, while finding efficiencies and showing how consumers will be charged.
- **Asset Management Plan** – this outlines how assets will be invested in to deliver the intended services and meet strategic outcomes. It identifies where improvements are needed, where additional capacity to support growth is required, and how the existing asset base will be maintained and renewed.
- **Infrastructure Plan** – this identifies significant infrastructure issues and the main options for managing them, outlining how existing assets will be managed and new assets developed for at least a 30-year period.
- **Annual Report** – this is the opportunity to inform the public as to the entity's performance over the last financial year, showing how well-planned strategic outcomes are being met.
- **Te Mana o te Wai Statements** – Accountability matters include Te Mana o te Wai Statements for water services. Mana whenua may prepare and submit statements. Water Services Entities are required to acknowledge receipt of the statements, engage with mana whenua who provided the statements and respond to the statements with a plan that sets out how the entity intends to give effect to Te Mana o te Wai.

Water services legislation also provides for processes with respect to regulation, monitoring and possible Ministerial intervention should it be required.

A Government department will be appointed by the Minister as the monitor of the water services system. This monitor will act as steward to provide oversight from a whole of government perspective, will assist the Minister to carry out their role, and perform various other functions.

The Governor-General may make regulations for a variety of purposes including a model constitution, financial and non-financial disclosure requirements, and transitional reporting obligations.

The Minister may also intervene if deemed appropriate, through the appointment of an appropriate ministerial body. To do so requires the Minister to publish a list of matters outlining the principles and processes to be followed. The Minister must also notify the Water Services Entity and its regional representative group of the intention and give the entity an opportunity to satisfy the matters. The nature of the intervention through a ministerial body can take three forms:

- Appointing a Crown review team – to investigate and report on the nature and extent of the problem and make recommendations on whether the Minister should take further action.
- Appointing a Crown observer – to assist the entity or regional representative group to address the problem, monitor progress, produce a final report, and make recommendations on whether the Minister should take further action.
- Appointing a Crown manager – to direct the entity, its board, or the regional representative group to act to address the problem, produce a final report, and make recommendations on whether the Minister should take further action.

1.6 Te Mana o te Wai

To recognise and respect the Crown's responsibility, an overarching requirement in the Water Services Entities Act 2022 is that all persons performing or exercising duties, functions, or powers under the Act must give effect to the principles of Te Tiriti o Waitangi/the Treaty of Waitangi. They must also give effect to Te Mana o te Wai, to the extent that Te Mana o te Wai applies to those duties, functions, or powers.

The concept of Te Mana o te Wai is not a new concept for Māori. For generations Māori have continued to hold the principle of restoring and protecting the mauri (life force) of water at the forefront of decisions. The development and architecture of Te Mana o te Wai was purposeful and deliberate. Therefore, its application should be purposeful and deliberate in our decisions.

Te Mana o te Wai is a guiding principle for us to make decisions (and report) on how best to deliver water services to our communities. Under the Act, Te Mana o te Wai has the meaning set out in the National Policy Statement – Freshwater Management².

² <https://environment.govt.nz/publications/national-policy-statement-for-freshwater-management-2020-amended-december-2022/>

1. Te Mana o te Wai is a concept that refers to the fundamental importance of water and recognises that protecting the health of freshwater protects the health and well-being of the wider environment. It protects the mauri (life force) of the wai. Te Mana o te Wai is about restoring and preserving the balance between the water, the wider environment, and the community.
2. Te Mana o te Wai is relevant to all freshwater management and not just to the specific aspects of freshwater management referred to in this National Policy Statement.

Te Mana o te Wai reflects a hierarchy of obligations, firstly to the health of the water, secondly to the health needs of people and thirdly the wellbeing of communities. Achieving the balance of all three obligations will better advance a collective advancement of Te Mana o te Wai.



Figure 1 Te Mana o te Wai obligations and principles

Water Services Legislation sets out the process for tāngata whenua to make Te Mana o te Wai statements and for entities to respond to such statements. We will engage with tangata whenua to develop our response to any Te Mana o te Wai statements and develop how these are integrated and implemented in future.

Our efforts to give effect to Te Mana o te Wai are essential for ensuring the protection and sustainable management of water resources and assets and therefore integral to this plan.

The following are a few examples of practical initiatives that aim to uphold Te Mana o te Wai:

- **Collaborative decision-making:** Engaging in meaningful partnerships with mana whenua, indigenous communities, and relevant stakeholders to incorporate Māori perspectives, knowledge, and values into water management decisions. This involves recognising and respecting the role of Māori as kaitiaki (guardians) of water and involving them in governance processes.

- ***Incorporating tikanga Māori:*** Integrating traditional Māori knowledge systems, protocols, and practices into water management approaches. This includes incorporating concepts like mauri (life force), wairua (spiritual essence), and whakapapa (genealogy) into decision-making frameworks, ensuring a holistic and interconnected view of water resources.
- ***Implementing holistic monitoring and assessment:*** Adopting comprehensive monitoring and assessment frameworks that go beyond conventional water quality measures. This involves considering ecological health, cultural values, and the interconnectedness of water bodies to assess the overall well-being of water resources.
- ***Restoring and protecting waterways:*** Undertaking active measures to restore and protect degraded water bodies, including river clean-up initiatives, riparian planting, and the removal of invasive species. These actions are aligned with the principle of restoring the mauri of waterways and supporting their ability to sustain diverse ecosystems and cultural practices.

Te Mana o te Wai provides the overarching guiding principle for Water Services Entities to make decisions (and report) on how best to deliver water services to all communities.

1.7 Giving effect to Te Tiriti o Waitangi and Te Mana o te Wai in the plan

The development of this initial funding and pricing plan has incorporated (and in some cases looking forward will need to incorporate) the requirement to give effect to Te Tiriti o Waitangi and Te Mana o te Wai in the following steps:

- Recognising that the legal and economic status of Māori Land is important when it comes to identifying the liability for water services charges and how the charge itself is calculated.
The legislation specifically outlines the varying status of Māori Land, especially when it comes to multiple ownership, and so gives clear guidance as to who is to be held liable, between owners, leases and trustees. It also recognises that where Māori Land has multiple ownership with no lease and no occupation order then the owners, or if vested in a trust, then the trustees are liable, but only up to the extent of money derived from the land and received by the trustees.
- In assessing possible charges for serviceable land (i.e., properties not connected but within 100m of a system or network), where the ability to be serviced is deemed to increase the value of the property, Māori Land is excluded due to its different nature.

1.8 Content in this plan – and how to read the plan

- **How we will fund our water services and infrastructure** – the key concepts of funding water services, including what sources there are and when they might best apply, before explaining the approach that has been taken for funding and pricing.
- **What prices will consumers pay for our services** – the principles applied in determining pricing, who is liable to pay, and what is intended to protect vulnerable consumers.

- **How will we charge consumers** –the actual charges being put in place for different services and different consumers.
- **Our financial strategy** – draws together the various components into context outlining how investments create costs that flow into revenues and debt, and how together over a ten-year timeframe this requires a strategy as to what is prudent and affordable for our consumers.
- **Appendices** – technical elements and elaboration on specific aspects of funding and pricing.

Taken together the sections in this Plan enable a consumer to understand not just what the applicable charges are that may apply to them but also how those charges were determined and what they will fund.

How to read this draft initial funding and pricing plan:

- Information outside shaded boxes broadly relates to all Water Services Entities under the reform. This is critical context for determining the approach to funding and pricing that is to be adopted as a final initial funding and pricing plan by the establishment board of Wai Tāmaki ki Te Hiku.

Information inside shaded boxes relates specifically to Wai Tāmaki ki Te Hiku. This covers the approach to funding and pricing that is to be adopted as a final initial funding and pricing plan by the establishment board of the entity.

This content is subject to change as part of the consultations with relevant councils and the Commerce Commission on this draft that are required by water services legislation.

2. Funding of water services and infrastructure

This section addresses the question: how are we funding water services and infrastructure?

2.1 Sources of funding

There is a wide range of possible funding and financing tools available to meet the costs of delivering water services, with the appropriate source and its use being determined by the nature of the costs and the outcomes being sought.

The possible funding sources applicable for a Water Services Entity are:

- Water services charges
- Water Infrastructure contributions
- Other fees and charges (such as inspection and connection fees)
- Subsidies received
- Grants received
- Interest received
- Vested assets
- Water levies (if applicable under the Infrastructure Funding and Financing Act 2020)

Ultimately, all costs need to be funded in some way, but where appropriate the funding may be deferred or spread through financing. A good example of this is borrowing, where it is deemed appropriate to spread the funding over a period to match where benefits are accessed over time. Growth investment and funding of it is the best example of this.

Some of the funding sources are driven by availability. This includes grants and subsidies, where they are reliant on a scheme existing and the Water Services Entity being eligible to apply. Another is that vested assets are dependent on infrastructure that has been built by others being appropriate to pass to a Water Services Entity as part of a development.

The two core funding sources available for a Water Services Entity to utilise are:

- **Water services charges** – these are charges to meet the ongoing costs of delivering water services to consumers, and include water supply, wastewater, stormwater, and trade waste charges. They can be applied as a fixed cost, or on a variable basis, and are the most common charge that consumer will see.
- **Water Infrastructure Contributions**– these are charges to meet the costs of providing infrastructure to meet additional or increasing demand and are charged to those that create the need for that demand.

2.2 The legislative basis

Under water services legislation, the Board of a Water Services Entity has the ability to set a range of charges.

In determining which funding sources will be utilised and how they will be applied, the Board must consider a set of principles, including reflecting the costs of service provision, as well as being simple, transparent and easy for consumers to understand.

The legislation also enables charges to be discounted where consumers reduce the burden on water services, for charges to be averaged geographically, and for pricing within existing contracts to be renegotiated.

In addition, local authorities may be authorised to collect charges on behalf of Water Services Entities.

2.3 Determining appropriate sources

Costs incurred by a Water Services Entity can generally be classified into two types:

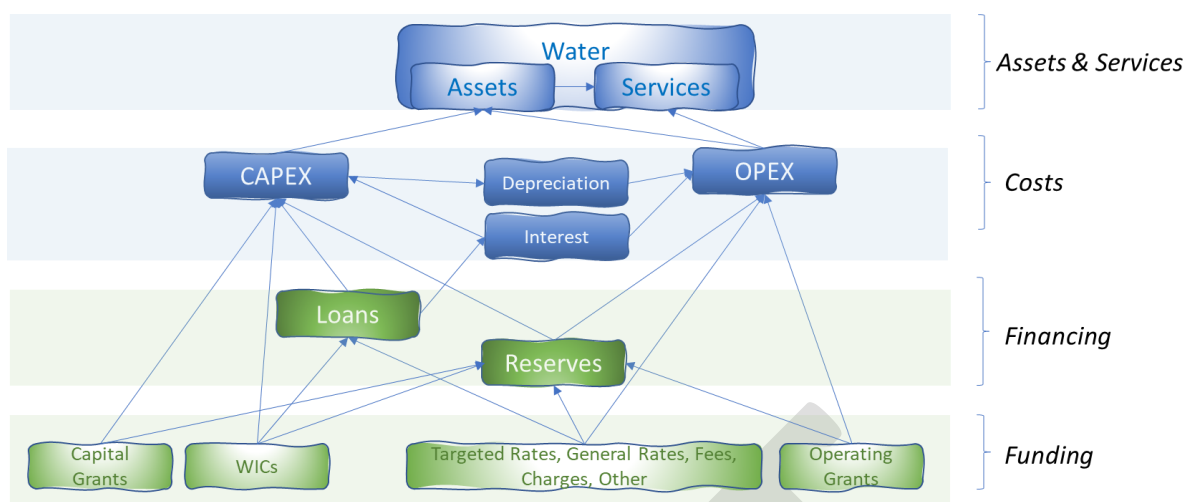
- **Capital costs** – these are costs incurred to build or purchase an asset, which is something that will provide services or benefits for more than 12 months. For example, a piece of infrastructure such as a pump station or length of pipe network.
- **Operational costs** – these are costs incurred on a more every day or ongoing basis and reflect where the service or benefit provided is more immediate, or at least lasting for less than a year. This can include paying staff salaries, electricity, regular maintenance, and fuel costs.

As well as the timing of services and benefits as identified in capital versus operational costs, there is also a distinction between the nature of those receiving the service or benefit:

- **Specific consumers** – this is where a specific consumer can be identified as creating the need for the cost and usually is also the specific beneficiary of the services. An example is the applicant for a trade waste permit or owner of a connection for water or wastewater services.
- **Generic consumers** – this is where it is harder to identify the exact recipient or precise magnitude of the service or benefit being provided. This can include costs incurred for stormwater infrastructure works, where benefits can be provided upstream or downstream, and wastewater treatment where the amount and nature of sewage can't be matched to specific consumers.

The distinction between capital and operational costs, along with the nature of beneficiaries can then assist with the identification of potential funding sources. In general terms, the following gives an indication of how the appropriate funding source may be considered:

	Capital costs	Operational costs
Specific consumers	Water infrastructure contributions	Fees and more variable charges
Generic consumers	Loans repaid by more general charges	More general charges



2.4 Application of funding and financing tools

Considering the nature of each source and the legal or policy constraints attached within the context of a Water Services Entity, the following applications are most likely applicable, moving from generally the most restrictive to the more open uses:

- **Water levies** – if a proposal under the Infrastructure Funding and Financing Act 2020 is approved then the collection and use of those levies are clearly defined and must be forwarded to the applicable special purpose vehicle established to facilitate the approved project.
- **Subsidies received** – if subsidies are received there will most likely be conditions attached as to how they can be used.
- **Grants received** – if grants are received there may be conditions attached as to how they can be used, depending on where they have come from.
- **Water infrastructure contributions** – must be used for the purposes and applied to the area as defined with the water infrastructure contributions policy to meet the costs of capital works undertaken to meet additional capacity demand.
- **Vested assets** – vested assets may be provided to mitigate the demands being created by a development and therefore in those cases may replace the need for infrastructure contribution charges.
- **Borrowings** – should generally only be used to finance capital expenditure, so as to match the long term nature of assets and the services they provide. In particular, growth related capital expenditure, which should be funded over multiple generations.
- **Other fees and charges** – fees and charges (outside of water services charges) are levied for specific purposes and so should be applied for those purposes on a commercial basis, such as connection charges or trade waste charges.
- **Water services charges** – should be applied within the applicable area for which they were taken, namely water supply services, wastewater services or stormwater

services. However within these areas they can be applied wherever needed, including general operating and maintenance costs, financing costs, loan repayments, salaries and wages, etc.

- **Interest received** – any interest received on investments held fall into general revenues and can be applied wherever needed.

2.5 Water infrastructure contributions

Water Infrastructure Contributions are a cost recovery tool that enables a Water Services Entity to meet the additional demand of infrastructure and other assets, based on the principle that “growth will pay for growth”. These charges replace the development contributions and financial contributions that territorial authorities may have otherwise levied for infrastructure and assets now held by the Water Services Entities. Under water services legislation, local authorities must stop levying contributions for water services.

A water infrastructure contribution may be levied where two key criteria are met:

- **Meets a need** – the effects (or cumulative effects) of the developments must create a requirement for the Water Services Entity to provide new or additional assets or assets of increased capacity.
- **Meets a cost** – the person charged should pay a proportionate share to cover the costs of the capacity, without enabling the Water Services Entities to over-recover.

The Water Services Entity will assess the costs of providing capacity in its assets for growth demand and apportion this over the estimated new developments or increased demand that is expected to be served by this capacity.

The cost of providing the capacity may be new or also already have been incurred, with capacity still available in the completed assets for future demand.

A water infrastructure contribution policy must be set or adopted by the Board of a Water Services Entity, after consultation through engagement with territorial authorities, consumers, mana whenua, communities in the service area and other interested parties.

This policy must include the total cost of capital expenditure expected to be incurred to meet increased demand, the proportion of these costs expected to be funded by water infrastructure contributions, a schedule of applicable charges, including a summary of the methodology of how those charges were determined, and a statement of any discounts available.

Discounts (including no charges) may be set where on-site mitigations are made to reduce the additional demand, and the Crown is exempt from paying water infrastructure contributions.

Rather than a water infrastructure contribution being calculated for each individual property or connection, the schedule of charges is to be based on groupings of geographical areas or categories of land use. This is to balance practical and administrative efficiencies with considerations of fairness and equity. This also means that any charges collected must be used in the same area of benefit.

As part of the transition, the Water Services Entity may adopt as part of its water infrastructure contributions policy the respective development contribution or financial contribution policies of the respective local authorities or the infrastructure growth charges policy of Watercare Services Ltd. However, this option if taken, will expire on 30 June 2027 at the latest.

There are several trigger points as to when an infrastructure contribution charge will be invoiced including:

- Granting of a building or resource consent
- Connecting to a water service
- Increasing commercial demand
- Receiving approval at one of the three stages of infrastructure connection

From current modelling it is anticipated that Water Infrastructure Contributions of around \$343m will be recovered in the first year, rising to around \$354m by year ten. This increase reflects the building up of the capital expenditure programme over time, including the growth-related works, which are expected to be 33% of the total programme.

Water Infrastructure Contributions are around 22% of total revenues, and therefore an important component to enable development in the Entity area. Territorial Authorities had a range of methodologies in calculating how much developers should pay by way of contributions, including one authority that didn't charge contributions.

The proposed methodology will combine the best components of the Development Contribution regimes of Territorial Authorities with the Infrastructure Growth Contributions regime of Watercare. For more details see Appendix D – Water Infrastructure Contributions Policy.

2.6 Debt

The debt created by borrowing from others creates a long-term obligation. As a financing tool, it spreads the funding requirement from the current year to a number of future years, usually to better match the service being provided by a long-term asset.

A key consideration is not just current borrowing levels, but also future expectations based off capital expenditure programmes, revenue levels and overall market movements, including leaving room for additional borrowing for unexpected events.

The cost of the borrowings imposed by lenders will ultimately be determined by the price that those lenders place on the borrowings, driven by perceived risk within the current financial environment. A key guide to the risk of an entity is the credit rating that it is given by credit rating agencies.

To ensure that the Water Services Entity acts prudently, various ratios or measures can be adopted. The Water Services Entity will plan to operate within these, and thereby maintain its credit rating, and associated risk profile within the financial markets, recognising the support of the Crown Credit Facility.

The primary metric used by the capital markets and credit rating agents to assess the capital structure of an entity like a Water Services Entity is the ratio of funds from operations (FFO) to debt. This ratio gives an indication of the percentage of debt that could theoretically be repaid in a year.

Another metric used by banks to determine debt capacity is the ratio of Earnings before Interest, Tax, Depreciation and Amortisation (or EBITDA) to interest costs, which shows an entity's ability to service the costs of debt.

Analysis of comparable international entities shows a FFO to debt ratio of 3% to 8%. As these entities have established regulatory environments and operating track records, it is considered appropriate that for the initial years at least the Entity takes a slightly more conservative approach towards the higher end and has a target ratio of 7% to 9%.

A FFO to debt ratio therefore suggests that 7% to 9% of debt could be repaid in any one year, or alternatively in simple terms the current debt balance could be fully repaid in around 11 to 14 years.

For the other EBITDA to interest metric, it is considered that a ration of not less than 2 is appropriate, meaning that from cash based net profits the Entity can cover its interest costs twice over.

2.7 Approach for initial plan

Extensive modelling has been undertaken to prepare the initial funding and pricing plan, consisting of two key parts:

1. **Financial model** – to reflect the needs to be met, in the form of net costs. Heavily reliant on the initial asset management plan to identify the appropriate delivery programme, the costs are offset by indicative efficiencies in both the capital and operational costs , based on observations of savings in Scottish Water
2. **Pricing model** – to reflect the individual domestic and non-domestic charges, and how they will accumulate to provide the required funding.



As with any such modelling, the results are highly dependent on the inputs and assumptions underpinning the calculations and various scenarios have been run for the model to assess the implications of options and sensitivities of the assumptions.

In any constrained environments where financials are limited in some way, trade-offs are required, and in this model the trade-offs are between revenue, borrowing and investments.

These trade-offs are reflected in the many iterations that are needed when running the modelling to reach an optimal balance between the financial model and the pricing model.

From early modelling for the Entity, it was identified that revenue levels across the region did not have to be increased to achieve the general outcomes sought (although the mix may need to change to better reflect cost drivers). Therefore it was decided that a single price path would be modelled under various scenarios.

This price path is based on harmonising Entity wide average prices for domestic consumers in line with estimated Auckland prices from 1 July 2024, then increasing this by 2% each year. This replaces the increase levels previously signalled in the long-term plan (9% per annum to 2030).

With revenues on a single price path, scenario modelling can then focus on capital investment levels and the resulting borrowing required. A range of scenarios were modelled with differing capital investment levels for ten years and longer timeframes, different assumed levels of efficiency savings, and different debt ratios.

2.8 Building new infrastructure

When assessing the actual capital projects to be undertaken within the proposed capital investment levels a transitional decision-making framework for the Entity was developed. This framework considers specific objectives for the transition identifying ten prioritisation drivers that are linked back to Te Mana o te Wai obligations and the initial asset management plan's seven strategic focus areas.

The main objectives of the transitional investment decision-making framework aim to produce a simple and transparent prioritisation of projects and their associated qualitative risks alongside the constraints of deliverability, readiness, and funding.

There is more detail around this transitional decision-making framework and approach to prioritisation in the initial asset management plan.

The table below shows the 10 prioritisation drivers identified to assist with prioritisation:

Driver	Description
Capacity Constraints	Networks that are at capacity and require to be renewed before any new development can take place. Select this one if there are no new network extensions associated with a growth project.
Carbon reduction	Projects that are delivering upon your Council's Climate Change Action Plan or other.
End of Service Life/Renewals	Could include poor condition, no longer meeting required level of service etc.
Environmental	Projects or programmes that will enhance or protect the environment.
Growth	New infrastructure associated with growth; this may also include upgrades to existing networks to enable growth.
Health and Safety	Any projects that protect the safety of staff, contractors, community etc.
Legislative changes	Includes drinking water compliance and any other legislative changes that are driving capital works.

Levels of Service	Projects associated with improving levels of service to the community.
Resilience	Projects that relate to the mitigation of flooding risk and or natural hazards.
Resource consent compliance	Projects required to meet current or future consent requirements

Using these drivers and other tools each project is classified as one of five priority categories:

- Priority 1 (P1) – Projects which are fully funded (externally) or contractually committed and where the project's primary driver for level of service improvement is health and safety.
- Priority 2 (P2) – Projects where the primary drivers are legislative changes or resource consent compliance and critical asset provision or renewals.
- Priority 3 (P3) – All renewal projects (other than for critical assets) are assigned to P3. Also include projects where the primary drivers are achieving existing levels of service, environmental improvements, required land use purchases, growth that is in discussion with developers, within a district plan structure area and current timeframe, supports government growth projects (e.g., urban intensification), and or addressing infrastructure capacity constraints.
- Priority 4 (P4) – All projects driven by growth or level of service improvements not included under P1 to P3.
- Priority 5 (P5) – All projects which have not been assigned to P1 to P4 (e.g., shared services). It should be noted that the P5 category will be reduced and ultimately eliminated as more detailed data on projects becomes available.

Examples of major needs-based and top priority water projects are:

- Paihia Water Treatment Plant Replacement (*Far North – Water Supply - \$15m*)
- Wood / Upper Robert Street Flood Prevention (*Kaipara – Stormwater - \$20m*)
- Ruakaka New Ocean Outfall (*Whangarei – Wastewater - \$60m*)
- Huia Water Treatment Plant Upgrade (*Auckland – Water Supply - \$741m*)

2.9 Rationale for approach

The approach determined for the Entity is considered to best meet the objectives of reform, especially:

- **Economic efficiency** – Finding and incorporating efficiencies
- **Affordability** – Keeping charges affordable
- **Price stability** – Signalling the level of increases in charges going forward
- **Cost-sharing** – Utilising economies of scale

- **Intergenerational equity** – Addressing the capital investment gap

Other approaches, varying factors such as investment levels and savings through efficiencies, were discounted as they were considered not to meet the intent of the reform. In some they did not meet the identified investment gap and therefore will not provide for the additional demand and support level of service enhancement.

In others the resulting financial conditions are deemed to be not viable, and serious questions are asked about the viability of the capital programme to be delivered in the tightly constrained construction market.

The approach contributes to the investment gap identified to be filled, reduces revenue levels to an affordable basis, and signals an appropriate level of efficiencies to be achieved.

There are two key metrics to assess the Entity's debt viability. The first is the ratio of funds from operations to net debt, which gives an indication of an Entity's ability to repay debt and is a key determinate used by credit rating agencies to assess a credit rating. A target ratio of 7% to 9% for this metric is deemed appropriate as it is deemed to translate into a credit rating of around BBB, which is around the lowest "investment grade" credit rating and so set as the minimum credit rating that the Entity is seeking. When combined with the Government Related Entity adjustment this should bring this credit rating up to an A or even AA-.

The second key metric is the ratio of Earnings before Interest, Tax, Depreciation and Amortisation (or EBITDA) to interest costs, and the recommended approach will maintain this ratio at not less than 2.

2.10 Comparison to pre-reform proposals

The approach for the Entity builds on the long term-plans/annual plans developed and adopted by the councils by:

- Increasing the levels of capital expenditure when compared to pre-reform scenario by an estimated 41%* when extrapolated over the 10 years to address some of the investment gaps, recognising that this may need to be phased in as market capacity is increased to deliver on this increase.
- Incorporating efficiency savings into the financials that build up over time to reach around 39.6% for capital expenditure and 42.2% for operational spend by the time that the 10th year is reached. This is on top of a smaller productivity efficiency that is expected to take immediate effect. A budget of \$400m over ten years for “spend to save” initiatives will drive the operational savings.
- Looking to equalise the water services charges by initially bringing them all down to the levels of Auckland consumers, and then only increasing by CPI each year, rather than the previously proposed larger increases.
- Debt levels are maintained at levels consistent with stand-alone credit profiles of BBB- or better, which converts after adding the Government Related Entity adjustment to an A or AA-.

** Explanation of 41% variance:*

The long term plans provided by the territorial authorities end with the 2030/31 financial year and therefore only provide for the first 7 years of our initial funding and pricing plan. Given this FPP is required to span 10 years, a simple extrapolation of 3 years of the LTP to produce a 10 year perspective when compared against the 10 years of the FPP on a simple nominal basis, yields a change in investment of 41%.

3. Prices consumers pay for our services

This section addresses the question: what prices will consumers pay for our services?

3.1 Pricing approach

The following policy objectives for the pricing of water services were considered in the development of the approach to pricing:

- **Economic efficiency** – prices reflect the underlying costs of services and support the financial sustainability of Water Services Entities in the long-run.
- **Affordability** – water is an essential service and people connected to a network should be able to access water services regardless of their financial circumstances.
- **Price stability** – the rates of change in prices are not too high and price changes are clearly signalled in advance and smoothed over time.
- **Cost-sharing** – a key driver of the reforms is to address affordability issues, particularly for customers in smaller communities. Entities could use geographic average pricing to smooth costs across communities, ensuring more affordable services for all.
- **Horizontal equity** – consumers in similar positions pay similar prices.
- **Intergenerational equity** – every generation (which can be thought of as being as small as the annual cohort of ratepayers) should be paying its fair share for assets and not requiring future generations to pay substantially more or less than their fair share through either over or under-investment. Historically, funding and water infrastructure investment decisions have tended to favour current over future generations.
- **Giving effect to Te Mana o te Wai and respecting Treaty of Waitangi principles** – pricing can support Te Mana o te Wai by encouraging efficient usage of water. Pricing can also engage Article 3 of the Treaty, and support equitable water service access and quality of service provision.
- **Consistency with other government goals** – pricing issues should support, or at least not undermine, government goals in other domains. For example, growth charges can have an impact on housing goals, and water services pricing can influence levels of water use which affects climate change goals including resilience and adaptation.

These principles have informed the pricing design in this initial funding and pricing plan.

- **Cost sharing and affordability** has driven the approach of harmonising prices across Auckland and Northland to bring down the cost of services.
- **Economic efficiency** has largely driven the simplification of tariff structures into a single model to reduce the entities IT and organisational complexity as well as the design of water infrastructure contributions to recover capital costs associated with growth.

- The desire to keep **prices stable** for a largest group of customers has driven the alignment to an Auckland pricing model in most cases.
- The use of volumetric charges for both water and wastewater is driven **horizontal equity** where consumers with similar usage will pay similar amounts as well as supporting **Te Mana o te Wai** by encouraging efficient use of water.
- Lastly, **intergenerational equity** has been supported through use of debt financing to spread the cost of major projects over time allowing smooth and consistent price increases over the 10 years of the plan.

3.2 Average price and incidence

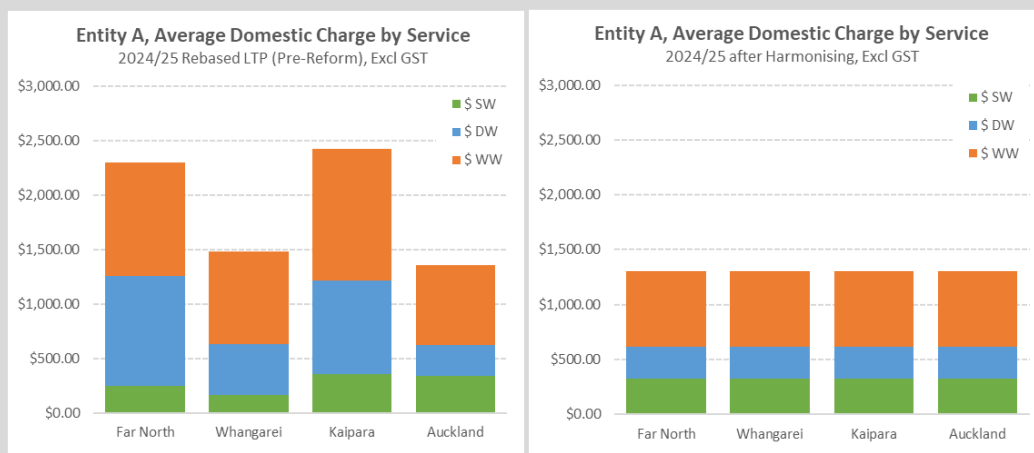
While the average price of a series of charges is important, equally important is the range of individual charges making up that average.

There can be a narrow spread, where the majority of individual charges are quite close to the average, meaning that any changes are usually relatively uniform. Alternatively, there can be a wide spread, where the majority of individual charges are not close to the average, meaning that changes can have a wider range of implications.

This shows that while the average charge identifies how much may be expected at a macro level for all consumers, it is often the incidence at a micro level for each individual consumer that shows the bigger impact.

The plan for the Entity is that future charges for domestic consumers are harmonised to bring Northland down to Auckland tariffs and that future increases are 2% per annum.

The following two charts show the harmonisation of domestic tariffs by the four territorial authorities. The first shows what the domestic tariffs would have been based off the territorial authorities' long term plans. The second shows the proposed tariffs after they are harmonised to match the Auckland charges.



3.3 Levels of service

Each of the three services to be provided to the entity's consumers, being water supply, wastewater and stormwater, can be provided at different levels, with national standards setting a minimum that must be delivered to as a base. Exactly what levels of service will be provided beyond these minimums is something that the entity must determine alongside its communities, as varying the level of service impacts on the costs of providing, and the process to be charged.

For this initial funding and pricing plan, the existing levels of service previously provided to consumers continue as at day 1 – our establishment date.

The Entity's initial asset management plan reflects this, and while it goes on to identify appropriate performance measures to assess the assumed levels of service it doesn't place targets against these measures. Therefore, the initial asset management plan has set up an assessment and monitoring regime to enable reporting of the Entity's performance but leaves it for the Entity to insert targets into a future asset management plan.

The implications of this approach are that for this initial funding and pricing plan, as well as the initial asset management plan, there is no attempt to identify areas that are currently under-served or over-served and therefore no differential pricing is applied on this basis

3.4 Geographical averaging

Under water services legislation, the entity may look to charge geographically average prices for water services, with such averaging able to be at different scales for different services and different classes of consumers.

The entity may decide not to apply geographical averaging under specific circumstances such as:

- where communities receive a higher or lower level of service
- where levies are in place under the Infrastructure Funding and Financing Act 2020
- where it has taken over a failed drinking water supplier
- where the only difference is charged on a volumetric basis

This funding and pricing plan incorporates the highest possible degree of geographic averaging where a single price structure has been applied across all areas covered by the Entity from launch. This improves horizontal equity by ensuring that customers with similar usage profiles pay similar prices and creates efficiencies within the Entity by simplifying its pricing and billing systems. The major exceptions to this averaging are:

- Stormwater – where initially current council prices structures will be maintained.

- Water Infrastructure Contribution's – where, by legislation, a nexus between growth spending and contributions must be maintained.

3.5 10 year pricing outlook for residential customers

The pricing pathway for the Entity under this initial plan is to align average charges for domestic consumers across the Entity with those in Auckland, and then moderating the increases, with the proposed future pricing pathway including annual increases over the subsequent nine years of 2%.

The following table shows the average charges for the spreads identified in earlier charts in a summarised format. The first four rows identifying each of the four territorial authorities shows what the average domestic charge for a SUIP would have been based off the territorial authorities' long-term plans. The last row shows what the proposed equivalent charges will be for the new Entity.

	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
Far North	\$2,296.60	\$2,377.23	\$2,549.13	\$2,659.91	\$2,702.20	\$2,787.57	\$2,855.80	\$2,912.45	\$2,969.98	\$3,032.66
Whangarei	\$1,484.67	\$1,538.29	\$1,582.54	\$1,618.99	\$1,657.52	\$1,699.74	\$1,738.23	\$1,772.67	\$1,807.81	\$1,845.05
Kaipara	\$2,427.94	\$2,416.18	\$2,509.39	\$2,573.91	\$2,703.42	\$2,868.40	\$2,918.76	\$2,976.12	\$3,034.55	\$3,101.02
Auckland	\$1,359.88	\$1,471.90	\$1,600.91	\$1,808.56	\$1,883.58	\$1,951.15	\$2,013.55	\$2,053.38	\$2,094.19	\$2,137.09
Entity	\$1,300.36	\$1,326.37	\$1,352.90	\$1,379.96	\$1,407.56	\$1,435.71	\$1,464.42	\$1,493.71	\$1,523.59	\$1,554.06

This shows that what was likely to have been average domestic charges ranging from \$1,845 to \$3,101 for the tenth year of this plan, after harmonisation and moderation are now \$1,554.

3.6 Key assumptions

Any future focused projections will require estimations to be made based on informed assumptions. Section 6 of this plan outlines these assumptions in more detail, with the following a summary of the key assumptions impacting on pricing:

1. **Growth** – the level of extra capacity to be provided is driven by a variety of factors, starting with increase in population, but also how this translates into increasing connection numbers and also the nature and volume of the use of services.
2. **Interest rates** – changes to interest rates can significantly impact on the overall cost of capital investment, where the initial cost is financed through debt and repaid over a long period of time.
3. **Inflation** – the ongoing change in costs through inflation impacts both capital investment levels and operational expenditure and is dependent on a variety of market driven factors.
4. **Efficiencies** – an important component of the reform programme is the expected efficiencies to be gained, including better procurement through economies of scale,

cheaper operating costs through enabling more proactive capital investment, amalgamation and enhancement of services through fewer entities.

5. **Consequential operating costs** – *these are costs arising from capital expenditure, as once the initial investment is made to build or purchase an asset, there are almost always ongoing operational costs to operate and maintain that asset.*

The assumptions for the Entity built into the current modelling are:

- **Growth** – growth for this initial funding and pricing plan will be based off Stats NZ population estimates, with connection numbers and volumetric use moving in direct proportion to population changes.
- **Interest rates** – estimated based on expert independent advice using current forward 5 year swap rates, adjusted for credit and issuance margins, plus the cost of the Crown standby liquidity facility.
- **Inflation** – uses the Local Government Cost Index as developed specifically by Business and Economic Research Ltd (BERL).
- **Efficiencies** – it is assumed that efficiencies will begin in year 1 with simple productivity efficiencies, which will then be added to by efficiency savings from year 2, increasing out to year 10 to reach 10-year totals of around \$1.9b on operational expenditure and \$3.9b on capital expenditure by 30 June 2034.
- **Consequential operating costs** – operating costs are expected to increase on a compounded basis by 1.5% per annum on the additional costs of capital investment for growth and improving levels of service.

3.7 Economic efficiency and consumer protection

Legislation outlines a key aspect of the Water Services Reform programme, namely the establishment of an economic regulation framework for the sector. This framework will regulate the price and quality of water infrastructure services and provide consumer protection.

Regulations included fall into three categories and are to be implemented in stages through determinations issued by the Commerce Commission (the Commission):

- **Information disclosure** – no later than 1 July 2027 for Entity A (and no later than 1 July 2029 for all other Entities)
- **Quality** – no later than 1 July 2027 for Wai Tāmaki ki Te Hiku (and no later than 1 July 2029 for all other Entities)
- **Price-quality** – no later than 1 July 2030 for Wai Tāmaki ki Te Hiku (and no later than 1 July 2032 for all other Entities)

The Commission must determine input methodologies for *information disclosure* and price quality no later than 1 July 2026 for Entity A and 1 July 2028 for all other Entities. It may also

issue determinations around *quality* at any time. The purpose of input methodologies is to promote certainty for providers and consumers, and they must include:

- Methodologies for evaluating or determining cost of capital, valuation of assets, allocation of common costs, and treatment of taxation.
- Regulatory processes and rules such as specification and definition of prices and identifying when price-quality paths may be considered.
- Methodologies for capital expenditure projects, including scope and specificity of information required, extent of independent verification and audit, extent of consultation, and criteria, timeframes and processes to evaluate proposals.

Out of the three regulatory categories, the price-quality regulation is most likely to have the greatest impact on this funding and pricing plan, as ultimately this will regulate the price, quality and performance of water infrastructure services. The Commission will set a price-quality path which will specify:

- The maximum price(s) that may be charged and/or maximum revenues that may be recovered.
- The quality standards that must be met.
- The key dates applicable to the path.

The price-quality path may also specify penalties, rewards and compensation schemes with regards to meeting the Water Services Entity maintaining or improving the quality of supply.

3.8 Protection for vulnerable consumers

Water services legislation outlines several provisions to protect vulnerable consumers, including:

- Ministers will be able to temporarily regulate prices for residential customers until 30 June 2029.
- Water Services Entities will be able to use geographic average pricing to smooth and share costs across communities.
- the rates rebate scheme will be extended to include water bills from the water services entities.

A rates rebate is a partial rebate, up to \$700, for eligible, low-income ratepayers who pay rates on their home, and is administered by the relevant local authority. The amount of the potential rebate depends on household income, number of dependents and rates payable. As the rates rebate scheme will be extended to include water bills from the water services entities, water services entities will therefore be required to give the relevant territorial authorities all required information to enable this.

For this initial funding and pricing plan for the Entity, a generic allowance has been made for the reduction or waiving of charges at the discretion of the Entity. It will be up to the Entity upon establishment to determine just which of the tools it determines appropriate to protect vulnerable consumers.

Under water services legislation, the Commerce Commission, as the economic regulator will by the 1 July 2027 at the latest, make and adopt a service quality code. This will be after consulting with interested persons, and any future amendments must follow the same process. In making this service quality code the Commerce Commission must take reasonable steps to identify classes of vulnerable consumers. It must also consider the impact of the provision of water services on vulnerable consumers and take the interests of those consumers into account.

3.9 Who is liable for water services charges?

For other than Māori land and trade waste charges, the person liable to pay water services charges is the owner, unless the occupier has a lease exceeding ten years and:

- Lease is registered under Land Transfer Act 2017 on or after 12 November 2018; or
- They are identified as the ratepayer in rating information database, or
- They are officially occupying public conservation land under lease, permit, etc

For Māori land, the liability for water services charges (other than trade waste charges) will depend on specific circumstances:

- Where the land is owned by one or two owners then the owner or owners are liable
- Where the land has multi-ownership and is leased then the lessee is liable (unless the lease states the lessor to be liable)
- Where the land has multiple ownership and is subject to an occupation order from the Māori Land Court then the person in whose favour the order is made is liable (unless the order provides for the owners or trustees to be liable)
- Where the land has multiple ownership with no lease and no occupation order then the owners, or if vested in a trust, then the trustees (only up to the extent of money derived from the land and received by the trustees) are liable
- Where an area is divided from Māori Land then the person using that area is liable

For trade waste, the occupier is liable to pay trade waste charges where a property has a trade waste permit or an application for a permit has been lodged.

Any water services charges or fees that become payable are deemed to be debt due to the Water Services Entity and provided it is communicated beforehand may incur penalties if not paid by the due date.

The Chief Executive of the Water Services Entity may waive all or part of the penalty or the debt itself if deemed appropriate.

For this initial funding and pricing plan the Entity will levy charges against customers deemed to be connected to water services and will not charge properties where the service is available but not connected. For Water supply and Wastewater, connection to the network is defined by physical connection to the Water Supply and/or sewerage networks. For stormwater all properties designated as urban under the entities stormwater management plan are deemed to be connected to the stormwater system.

Note: Depending on the type of development water infrastructure contributions may have charging triggers that differ from the point of connection. See WIC's policy for details.

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4. Our approach to charging consumers

4.1 Types and basis of charges

Under water services legislation a Water Services Entity may set charges for:

- water supply, wastewater (including trade waste) and stormwater services.
- the initial connection to one or more of these services.
- a contribution to the capital costs of infrastructure to service demand on these services
- meeting the costs that the Water Services Entity incurs in performing and exercising its duties, functions, and powers under the Water Services Entities Act 2022.

How the charge is determined and collected is relatively open for the board to determine, with the legislation giving examples of:

- charging a fixed or variable fee.
- requiring a deposit and then further payment.
- requiring full payment at the outset.
- charging on the basis of an hourly rate or any other rate or method of charging.

There are also specific provisions in the legislation regarding the use of volumetric charging for water services, through the use of water meters.

Charges for water services (but not water infrastructure contributions) are able to be averaged geographically, including the ability to be averaged at different scales for different service types and different classes of consumers. The legislation also outlines when it might be decided that geographic averaging will not be used. These include when communities receive higher or lower levels of services, a levy is in place under the Infrastructure Funding and Financing Act 2020, it involves a failed drinking water supplier, or the only difference in charge relates to a volumetric component.

Also under water services legislation are the following specific factors.

Pricing and charging provisions in existing contracts related to water services transferred across from a local government organisation may be changed by negotiation, with those contracts expiring before 1 July 2029, if negotiations can't be agreed.

The Water Services Entity may charge a person who owns (or through a lease is liable) a property that is within 100m of a water supply or wastewater network that has sufficient capacity to service the property, and the property could be connected. Exceptions to this charge are Māori land, and non-rateable land specified in Part 1 of Schedule 1 of the Local Government (Rating) Act 2002. Properties deemed non-rateable in Part 2 of that schedule will be liable for only 50% of those charges.

As stormwater services are different by nature (e.g., does not always require a connection) the charging for stormwater services is treated differently. The Water Services Entity must calculate the total recoverable cost of delivering stormwater services in accordance with any relevant input methodologies for price-quality regulation that the Commission has determined. That total recoverable cost is then apportioned based on each property's capital

value, and whether the property is served or within 100m of a stormwater network that could serve it or within a particular geographical zone.

The liability to pay stormwater charges is on the same basis as that used for water supply and wastewater services noted above.

Regarding the rates payable by the Water Services Entity to a local authority, the Water Services Entity is liable to pay rates. However, the Water Services Entity is not liable where any assets that it owns are located on or run through a property that it does not own.

A very important consideration before charges can be levied, the Water Services Entity must have a service agreement with each person that is liable to pay charges. These service agreements must specify:

- the bill payers, or classes of bill payers, to whom the agreement applies.
- how the Water Services Entity is to communicate with its bill payers.
- the applicable billing and charging processes to be used (including how charges are determined and bills may be paid).
- how the Water Services Entity is to notify its bill payers of any proposed or actual changes to the agreement.
- in the case of water supply services or wastewater services, how bill payers will be notified of any issues or faults, and how the Water Services Entity is to access the properties of its consumers.
- any other terms and conditions of the water services to be provided.

These service agreements do not cover commercial bulk water supply agreements, or trade waste. They may differ for different areas, services, or classes of bill payers.

A trade waste plan is prepared to show the Water Services Entity approach in determining the fees or charges in relation to trade waste permits.

4.2 Transition arrangements

Legislation outlines the option for a Water Services Entity to adopt and use the existing tariff or charging structures of the relevant authorities for a set period to transition to any new arrangements. If this option is used, it can only be used until 30 June 2029, at the latest.

In order to achieve efficiencies and simplicity for day 1 – our establishment date, some charges may be harmonised. This will be fully communicated to customers prior to day 1.

Legislation also outlines the option for a Water Services Entity to authorise local authorities to collect charges on its behalf, through a charges collection agreement providing for reasonable compensation for collecting those charges. If the agreement can't be agreed between the parties the Minister will determine all outstanding terms, and the agreement expires on 30 June 2029, unless agreed to be extended by the parties. A local authority can decide not to collect unpaid charges if it notifies the Water Services Entity.

The Entity will determine and levy water services charges and this plan reflects a alignment of charges across the Entity in the interests of improving outcomes in Northland and increasing operational efficiency. However rollout of aligned services and pricing may take place at differing rates based on the needs in specific geographies and require interim discounting or other pricing arrangements support transitioning between organisations.

4.3 What do we charge for water services?

To best identify how much a consumer will be charged, it must be identified which services the consumer is receiving or benefitting from, and within which area they sit. By allocating a consumer into which of the previous territorial authority areas their property resides and which of the water services is being referred to, the applicable tariffs or water services charges can be identified, and the consumer advised.

The four territorial authorities falling under the responsibility of the Entity had a range of water services charges. In most instances these have now been replaced with a single aligned set of charges for the new Entity that will be applied across all areas the Entity services. Exceptions to this apply for Stormwater, Water Infrastructure Contributions and some fees and charges where the pace of charge and service alignment will differ across regions.

A full schedule of the proposed water services charges is attached as Appendix A and other fees and charges is attached as Appendix B.

These two schedules show the range of charges and fees to be levied across the Entity area, including those replacing what were rates, as well as one off charges, such as connection fees, water meter testing, trade waste discharges, and tanker filling.

While the various other fees and charges will differ, the total average domestic charges (those replacing rates) are to be harmonised and aligned at an expected average of approximately \$1,300 in 2024/25 through to \$1,554 in 2033/34.

4.4 Our method of charging

Once charges are determined, the actual method of charging needs to be determined. This includes administrative matters such as frequency of invoicing, how long a consumer has to pay once invoiced, whether any discounts are available for prompt payment and conversely whether penalties are applied for late payments, and if so on what basis. There may also need to be policies around whether and when estimations may be made between actual meter readings for volumetric charging. All of these matters regarding how charging will be administered will be set by entities upon establishment, so the most effective and efficient arrangements can be put in place based on the entity's resources and approach.

The method of charging by the Entity is based on various factors, including organisational capacities, ensuring efficient and effective administration, and convenience for consumers.

4.5 Charging principles

Legislation prescribes a set of charging principles that must be considered when setting charges.

- Charges should reflect the costs of service provision, which includes promoting the efficient use of resources.
- Charges should be simple, transparent, and easy for consumers to understand.
- Charges should be consistent with the input methodologies and determinations that the Commission issues or makes.

The board may set lower (or no) charges to remedy inequities in the provision of services, including differences in water infrastructure contributions made before 1 July 2027

The Chief Executive of a Water Services Entity may discount set charges, and offer a discount where consumers take measures to reduce the burden on water services.

5. Our financial strategy

5.1 What is a financial strategy and why is it important?

5.1.1 Financial strategy

The Water Services Entities Act 2022 (s. 155(2)) outlines the requirements of a financial strategy that must be prepared by a Water Services Entity. As its purpose is to set a context for the wider funding and pricing plan, this strategy must:

- explain the factors that are expected to have a significant impact on the entity including:
 - costs to maintain existing service levels
 - expected population and land use changes, along with the cost implications of providing for those changes
 - other factors affecting the entity's ability to deliver on the above
 - actions intending to take in a particular geographical area in response to advice from a regional advisory panel
- specify how the entity will provide security for its borrowings
- specify what the entity's objectives are for any financial investments and equity securities it holds, including targets for returns on them

The purpose of the financial strategy is to explain the overall approach to managing the entity's finances, demonstrating prudent financial management. It drives the consideration of trade-offs – the balancing between providing reliable water services through resilient infrastructure while ensuring charges are appropriate.

The operations of Wai Tāmaki ki Te Hiku are funded and financed by a combination of debt and water service charges.

As water infrastructure provides long term inter-generational benefits to consumers it is appropriate to borrow to fund the creation of assets, with the cost recovered through water service charges over the life of the asset. Over the medium to longer term, operational based water service charges should be set at a level that recovers operating expenses – thereby achieving an equitable and sustainable funding model.

Notwithstanding this, benefits of the reform programme include the ability to access higher levels of borrowing while maintaining an acceptable credit rating, and to deliver water services more efficiently than was possible in the pre-reform environment. Observation of overseas experience indicates that New Zealand water services can be delivered more efficiently in a regulated environment, and efficiency gains are expected to be realised progressively over the term of this plan.

Additional borrowing will be used to accelerate infrastructure investment relative to pre-reform levels, while continuing to maintain an FFO to debt ratio of at least of 7% to 9%, and a credit rating of AA-. Additional borrowing capacity combined with efficiency gains will avoid the need for significant price impacts for consumers, with domestic prices projected to increase by 2% per annum over the life of the plan.

5.1.2 Similar to local authorities

The financial strategy for a Water Services Entity is not dissimilar to those required to be produced for a local authority, explaining the expenditure drivers, along with the intended management of investments and borrowings, to set a context for future pricing and decision making.

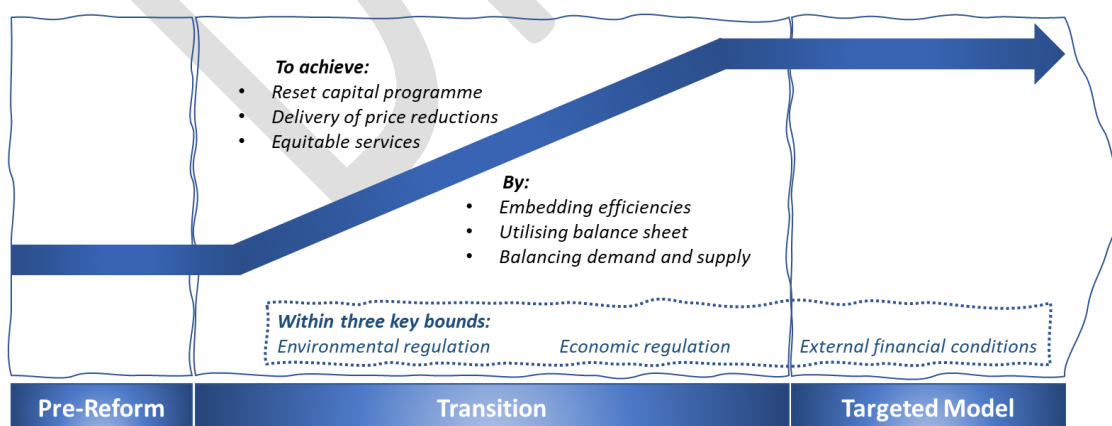
The financial strategy is a public statement requiring consultation. Therefore, it needs to be clear and transparent in how it informs and involves consumers and others of the principle-led approach that the entity is taking, and against which decisions will be made.

If communicated well, then consumers will understand what has driven the specific charges applied to their individual circumstances.

5.1.3 Development of financial strategy

The financial strategy has been developed to reflect the policy objectives and legislative principles as outlined previously.

However, it is also recognised that in achieving a target state based on these principles and objectives, a significant transition will be required from the current state, which is based on multiple and varied individual policies. Therefore, the focus and relative weightings of principles will most likely differ over time, moving from an initial focus on minimising the disruptions through changes, to more of a focus on equity and the target state.



The Water Services Reform is a significant transition from an existing model to a new targeted model that will take time to achieve. This transition seeks to reset the capital investment programme, deliver equitable services and achieve price reductions. These changes will be enabled through embedding efficiencies while utilising additional balance sheet capacity, and balancing expectations and affordability.

The transition is not occurring in an unconstrained environment. The Water Services Reform has established two key roles to significantly improve the safety, quality, resilience, accessibility, and performance of water services, in a way that is efficient and affordable for New Zealanders.

The first is an environmental regulator, Taumata Arowai, to ensure safe drinking water, and the second is an economic regulator, Commerce Commission, to regulate the price and quality of water infrastructure services and provide consumer protection.

In addition, there are external financial conditions that must be monitored if not met, including lending and banking ratios.

5.1.4 Balancing demand and supply

As noted above, part of the transition to a new targeted model is determining the appropriate balance between demand and supply.

Demand is generally driven through asset management planning, considering consumer expectations, alongside prudent management and replacement of existing assets and the need for additional capacity to deal with growth and development.

Supply is more about the resources available to deliver on those demands and so is generally driven through the funding and pricing plan, which assesses the costs of delivering services and determines who and how much consumers and others should be charged to meet those costs.

5.1.5 Efficiencies

Efficiencies in both capital and operational spend have been incorporated, based on the transformational strategy and observations from achievements in best international practice. The transition and then transformation expectations have been identified as fundamental requirements of the reform programme and will be achieved through several themes, or Pou, as outlined in a draft transformational strategy. It is expected that the efficiencies incorporated into this initial funding and pricing plan will be further refined and extended beyond the initial 10-year timeframe.

Efficiencies are expected to be achieved through the following transformational initiatives:

- National procurement strategy and manual, incorporating contemporary procurement models.
- Integrated approach to the industry supply chain, and connecting with other infrastructure providers.
- Standardised construction, design, product and engineering specifications.
- Establishment of a central innovation centre.
- Implementing consistent technology, including a fully integrated technology stack across all entities.
- Building capability in our people, improving productivity and developing our innovation capacity.

5.1.6 Part of the funding and pricing plan

The financial strategy is both a component of and a key contributor to the wider funding and pricing plan as it significantly informs the development of the plan. By understanding what is driving the costs, and where benefits will be delivered, the right charging tools can be put in place to match who benefits to who pays.

It is important that the same assumptions used to assess costs and population growth within the financial strategy, flow through into the assessment of water service charges and infrastructure contribution charges.

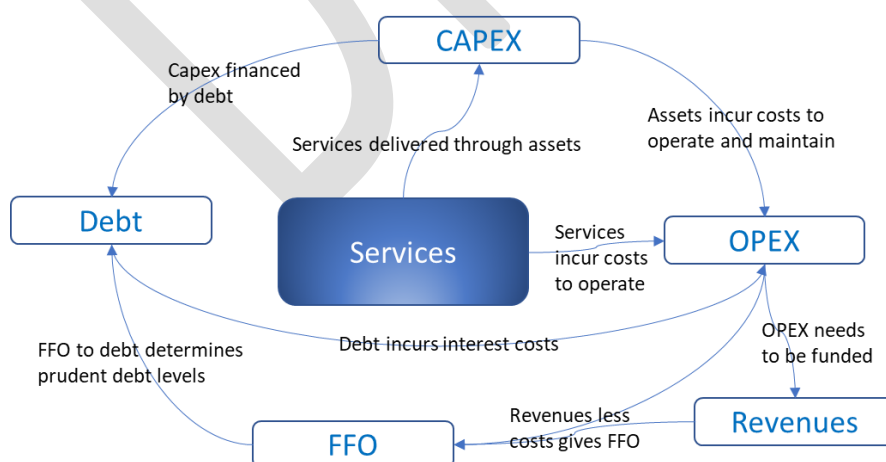
5.1.7 Borrowings

With infrastructure providing long-term inter-generational benefits to consumers, it is appropriate for the costs of building this infrastructure to be funded by those consumers receiving the benefits over the life of the assets. This is most easily achieved by financing the initial costs of building the infrastructure through borrowings and then repaying that debt by charges.

The Water Services Entity must ensure that it is acting prudently, and this includes ensuring that debt levels are appropriate, as they create long-term obligations, both with funding each year's interest costs, as well as repaying the underlying debt over time.

As well as influencing the pricing of borrowings, assessed credit ratings are a key indication of this prudence. The primary metric used by the capital markets and credit rating agents to assess the capital structure of an entity like a Water Services Entity is the ratio of funds from operations (FFO) to debt. The other key metric used by banks is the Earnings before Interest, Tax, Depreciation and Amortisation (or EBITDA) to interest costs.

The following diagram shows the general interplay between the components of funding, financing, and costs to deliver services in a very simplistic way. It indicates the careful balancing needed when determining capital expenditure (to create assets), operational costs to run the entity, revenues (through charges and fees) and debt (to finance long term assets), and how no one component exists in isolation.



Regarding the sources of debt, it is proposed that with the scale of borrowings in total this should be as wide as possible and therefore include:

- NZ domestic market
- Wholesale capital markets
- Debt Management Office and Local Government Funding Agency
- Offshore capital markets

Legislation also enables, if required, the establishment of a Water Services Entities Funding Agency, which is proposed as a back-stop financing mechanism. If established this agency would operate similarly to the Local Government Funding Agency, pooling risk and achieving scale and market access benefits for the water services entities.

An important consideration is that with the substantial opening debt position of the Water Services Entities, how the market is approached, and the level of borrowings undertaken at any single point of time will need to be very carefully managed. This may require Central Government to step in and help with the transition, while the water services entities build up a track record. Long term, the Entity will consider greater diversification and maturity. For a Water Services Entity that has long life assets, there is an opportunity to consider borrowing long term maturities (with a term greater than 15 years) which is not currently considered by territorial authorities.

The scenario being initiated for the Entity reflects reform objectives, setting capital investment at a reset levels, proposing price increases approximating CPI, and increasing debt levels consistent with the Entity's borrowing capacity, when compared to the pre-reform scenario.

The scenario may result in borrowings financing limited operational costs during the initial years as the Entity purposefully resets its financial strategy during the balance sheet expansion phase, utilising options not available to the constrained councils and Watercare. While ultimately borrowings will only be used to finance long-life capital investment, during the transition phase this approach is considered appropriate and prudent as the Entity seeks to maximise the role of its balance sheet and assist to transition between pre-amalgamation council strategies and the new strategy of the Entity.

Current modelling suggests that the Entity will start with debt of around \$4.7b increasing to around \$11.8b by the end of June 2034.

5.2 Growth and place-based planning

Water services are a key enabler of growth, with the provision of infrastructure opening up areas for development, intensification and repurposing.

Where appropriate Water Services Entities can levy water infrastructure contributions to ensure that, those driving the need for additional capacity in the network contribute towards those costs.

Under *proposed* resource management legislation, regional spatial strategies set out a vision and objectives for each region's development over a 30-year timeframe or longer. These

strategies are developed by a regional committee made up of representatives from local government, central government, and iwi, hapū, and Māori, who must consider specific matters including “major existing, planned, or potential infrastructure or infrastructure corridors, networks, or sites”. These *proposed* regional spatial strategies are also accompanied by implementation plans that set out key actions that delivery partners, like the water services entities will take.

5.2.1 Future funding and pricing plans

This initial funding and pricing plan follows a different process than future plans once entities and associated groups are fully established.

For subsequent funding and pricing plans the Water Services Entity must engage with territorial authority owners, mana whenua, regulators and with consumers and communities on its proposal to adopt a funding and pricing plan.

The draft funding and pricing plan will then be presented to the entity’s regional representative group, including the results of the above engagement, and summarising the views received. This group will seek input from any regional advisory panel and consider its feedback.

The Water Services Entity must consider all comments in the draft funding and pricing plan received from the regional representative group, and then present back to that group a final plan before the start of the year to which it relates, including responses to the comments made.

Inherent in the extended levels of engagement for future funding and pricing plans will be a wider range of feedback from a greater spread of consumers and interested parties, which will assist with determining community needs and expectations. This will also significantly assist with finding the right balance between demands and supply.

5.3 Factors expected to have a significant impact over the next 10 years

5.3.1 Expected changes in demand (population and land use)

Changes in demand for water services can arise from a multitude of factors with the most obvious being the expected changes in population within a water service area. It is also important to note that changes are not always increases, with population reductions possible, that can result in surplus infrastructure capacity no longer needed for an area.

To accurately incorporate demand changes into the modelling behind the funding and pricing plan, the following factors can be taken into account:

- **Population** – the overall population changes are probably the key driver and have a strong correlation with the following factors.
- **Connections** – the number of connections can differ from population as there can be existing population who decide or are now able to be connected. Also, the number of residents per household can change over time due to such things as the economy or housing stock numbers.

- **Volumes** – volumes can change for a variety of reasons such as the water supply used per connection changing due to conservation drives, household and commercial use changes, or in response to environmental factors. Similarly, wastewater can be affected by organic waste drives, and stormwater significantly impacted by environmental events.
- **Land Use** – changes to land use, especially in industrial or commercial uses can materially impact on both water in and wastewater out.
- **Development** – stormwater quality and quantity can be impacted by the development of sites especially if it involves changes to the levels of impervious surfaces.
- **Climate Change** – climate change is leading to more significant environmental events, which can have major impacts on stormwater flows, water supply levels, and infiltration into wastewater systems.

For the Entity, detailed analysis has been undertaken to understand the existing relationship between population, property numbers, property values and volumetric use.

For future forecasting within the model the key driver used is population projections over the ten years, obtained from independent sources. Projected properties, values and use are then based off population forecasts to enable expected revenues level to be determined. This means that demand per capita will remain constant over time when estimating usage and revenues.

Other factors such as impacts of climate change, and more detailed understanding of changing development needs and influences will be incorporated into future plans.

Projected population is forecast as per the table below:

<i>Year</i>	<i>Population</i>
2024/25	1,929,800
2025/26	1,946,400
2026/27	1,963,000
2027/28	1,979,600
2028/29	2,000,080
2029/30	2,020,560
2030/31	2,041,040
2031/32	2,064,520
2032/33	2,082,000
2033/34	2,101,280

The average household occupancy rate and proportion of connected properties as a proportion of the total population are assumed to remain constant, as is average drinking water consumption per capita.

5.3.2 Demand drivers

In planning for capital investment, the initial asset management plan breaks down demand drivers into three basic types, with each consisting of a range of sub-drivers, referred to as primary and secondary demand drivers:

- Level of Service Demand Drivers
 - Capacity Constraints
 - Carbon Reduction
 - Environmental
 - Fluoridation
 - Health & Safety
 - Legislative Changes
 - Level of Service Improvement
 - Resilience
 - Resource Consent Compliance
- Growth Demand Drivers
 - Population & Land Use Change
 - Demographics
 - Consumer Behaviour Change
 - Seasonal Demand
 - Economic Change
 - Capacity Constraints
 - Legislative, Regulatory & Policy Change
 - Climate Change Adaptation & Carbon Reduction
- Renewals Demand Drivers

The initial asset management plan works through each of these drivers and the challenges attached to each to assess an appropriate investment programme, to produce forecast operational and capital expenditure, that feeds into this initial funding and pricing plan.

5.3.3 Capital costs and operating costs of providing services

Many of the costs incurred for the provision of water services involve infrastructure, which means long-term implications. This relates to the capital investment that is needed to build significant assets, with any associated interest and repayment of related borrowings, as well as the ongoing operating and maintenance costs.

The modelling assumes that capex in addition to previous LTP levels will incur 1.5% opex costs for things such as energy and maintenance.

Current modelling for the Entity and assumed scenario shows operational costs for the first year of \$645m. Although costs are expected to increase year on year due to inflation and additional capital investment, the efficiency savings will also take effect, building year on year, meaning that operational costs for year ten which were anticipated to be \$817m are now expected to be only \$456m.

Capital expenditure is expected to be around \$1.38b in year one, with the level of investment holding at around this level for the ten year period. It is important to note that these levels of capital investment are enabled through forecast efficiencies, with the \$1.4b otherwise costing \$2.0b to \$2.2b without these savings.

Overall, in nominal dollars these levels of capital expenditure (before allowing for efficiency gains increase the pre-reform scenario levels by an estimated 41%* when extrapolated over the 10 years.

** Explanation of 41% variance:*

The long term plans provided by the territorial authorities end with the 2030/31 financial year and therefore only provide for the first 7 years of our initial funding and pricing plan. Given this FPP is required to span 10 years, a simple extrapolation of 3 years of the LTP to produce a 10 year perspective when compared against the 10 years of the FPP on a simple nominal basis, yields a change in investment of 41%.

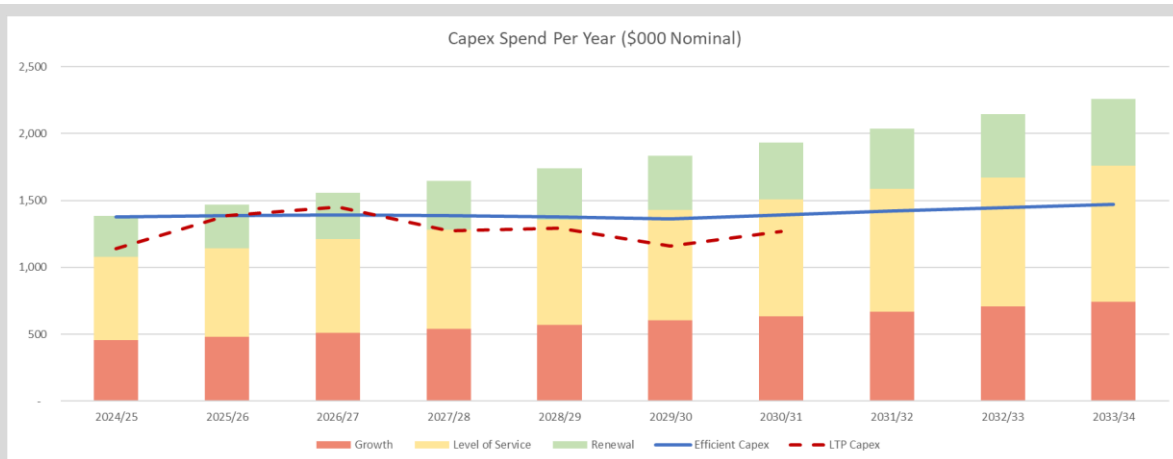
5.3.4 Drivers of capital expenditure

There are three basic reasons why capital expenditure is undertaken to build assets:

- **Meet demand** – this is to provide capacity for new or additional demand, as population and the number of connections increase.
- **Improve services** – this is where service standards increase, quite often to meet higher expectations.
- **Replace or renew** – this is to replace an asset or part of it, where it has reached the end of its useful life.

In many cases a single project will incorporate more than one of these reasons. Replacing a pipe that has reached the end of its useful life may also involve increasing capacity to allow for future demand. Increasing a treatment plant for future capacity may at the same time include more advanced treatment for better services for existing consumers as well.

The following chart shows the capital expenditure (after efficiencies) for the Entity broken down by the primary driver into the three types of expenditure noted above.



Over the ten years, there is a split between the three drivers with 22% of the total capital expenditure spend relating to renewals, 33% relating to growth and 45% relating to improving the levels of service.

The columns on the chart show total expected spend before any efficiencies are allocated, with the dark blue line showing how much costs are expected to drop after efficiencies are included.

5.3.5 Expected capital expenditure to meet levels of service

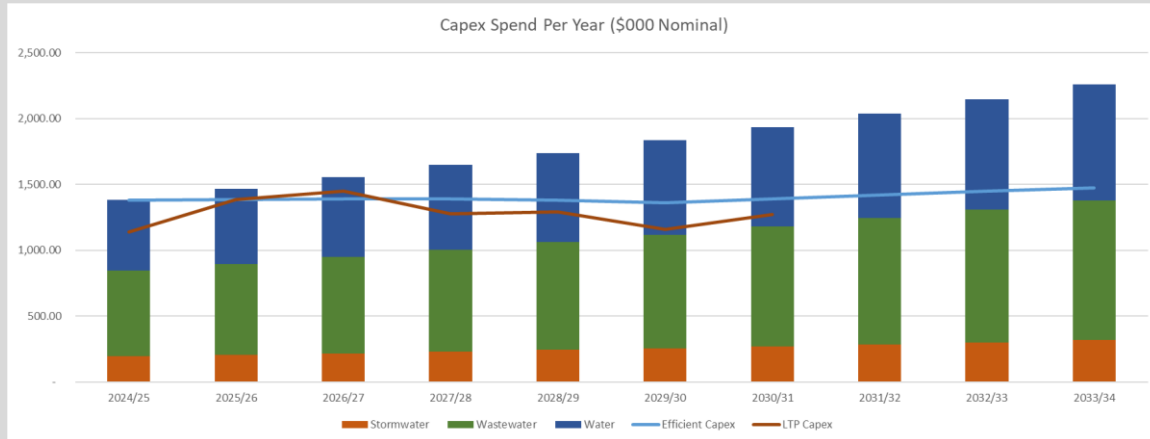
As noted previously for this initial funding and pricing plan, the existing levels of service previously provided to consumers by the territorial authorities (and Watercare) is assumed to continue, with any changes to be determined by the Entity after establishment.

Appropriate performance measures are identified in the asset management plan for levels of service, but no specific targets have been set to identify actual levels of service to be delivered to.

Therefore, the capital expenditure levels forecast in this initial plan are building over a ten-year timeframe on the pre-reform scenario, focusing to arrest any decline in levels of service.

5.3.6 Capital expenditure over the next 10 years

The chart below shows the capital expenditure for the Entity for each of the first 10 years of its operation, with the programme building up over time to reach what would have been a total of over \$2.2b for year 10.



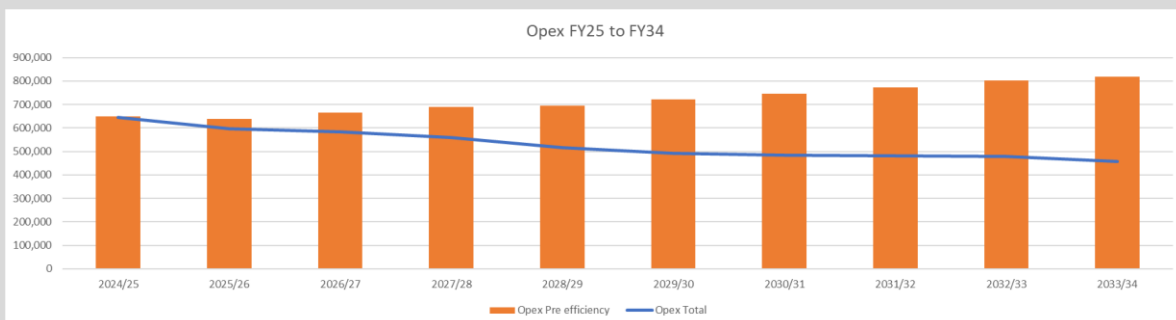
It is important to note the light blue line in the above chart shows the actual total cost after anticipated or expected efficiencies. This effectively lowers the overall cost for each year. Therefore, what was to have expected to cost around \$2.2b in year 10, is now expected to cost around \$1.4b.

These savings are considered appropriate as capital programmes are reset through the new entities, where improved economies of scale, standardisation and other planning and delivery options are explored.

For comparative purposes, the nominal spend from the previous combined Territorial Authorities LTPs, for each of the first seven years, is also shown as a dark red line. This highlights how much, in simple nominal terms, the spend has increased, even after significant efficiency savings.

5.3.7 Operational expenditure over the next 10 years

The chart below shows the operational expenditure for the Entity for each of the first 10 years of its operation. The columns show the expected costs to deliver services before any allocations are made for efficiencies. The dark blue shows the impact of those efficiencies, with costs dropping, from years two onwards.



5.3.8 Other significant factors

There are many significant challenges impacting on the nature and costs associated with maintaining existing levels of service and meeting additional demands for service.

Some of the key challenges are:

- Market capacity to deliver the increasing demand for infrastructure, both due to escalating programmes and recent natural events.
- Changing expectations from a customer perspective as well as meeting national drinking water and environmental standards.
- Uncertainty around when and where developments and increasing demands will actually occur.
- Perhaps the most obvious challenge and one of the core purposes of both the asset management plan and the funding and pricing plan is meeting financial constraints, be it debt parameters or affordable and equitable charges.

These and other challenges are explored in the initial asset management plan, having significant influence on assumptions and risk assessments.

5.3.9 Deviating from assumptions

As with any forecasting there is always the possibility of financial results not eventuating as anticipated, due to actual outcomes differing from the in-built assumptions. Appendix C outlines the key assumptions incorporated into this initial funding and pricing plan, along with the associated risks and impacts of deviating from the assumed factors.

In general terms should the overall financial results differ (either favourably or unfavourably) from those incorporated into this plan, then the entity will need to consider which of the key levers to adjust. By way of example should the results be unfavourable then options to be considered would include additional debt, reduced capital expenditure or service levels, reducing operational costs possibly through additional efficiencies, or increasing pricing.

5.4 Policy for giving security for borrowing

To reduce the cost of borrowing the entity will be providing security for the borrowings it undertakes. This is in order to give assurances to lenders that the debt will be repaid. Legislation does not allow the water infrastructure itself to be used as security, instead the intention is that the future revenue streams arising from water services charges will be used.

This arrangement will be managed through a security trustee model whereby certificates will be issued to secured creditors alongside the debt that is raised, enabling a trustee to levy and collect future water charges should a receiver be appointed.

To provide extra security to lenders there is an expectation the Crown will also provide a standby liquidity facility, with the actual details of this arrangement to be determined.

There is also the possibility of the establishment of a Water Services Entities Funding Agency to raise funds on behalf the entities, to pool the risks attached.

5.5 How investments and equity securities are managed

Unlike pipes, pump stations and treatment plant, which directly deliver water services to consumers, financial investments and equity securities serve a secondary purpose, which should only transfer to the new entity if they indirectly contribute to the objectives of the Water Services Entity.

By definition, water services infrastructure is that which is owned or operated by a Water Services Entity for the purpose of the delivery of water services. Therefore, any investments held only for financial return are not for providing water services and on face value are not expected to be transferred to the Water Services Entity upon establishment.

Similarly, any subsidiaries, associates etc that contractually provide services back to councils or Watercare, especially where it is multiple services beyond just water services, are expected to remain with the council from an ownership or governance perspective, with the contracts to provide the service being novated across to the Water Services Entity.

In light of the above, there are relatively few financial investments and equity securities expected to be held by the Water Services Entity.

At this time, the Entity does not have financial investments or equity shareholdings.

6. Glossary

Entities: A key component of the reform programme is a change as to who will be running New Zealand's drinking water, wastewater and stormwater services, on behalf of the consumers and communities. The two sets of entities involved are:

- **Territorial Authorities** – local government is made up of regional councils that are responsible for significant regions of New Zealand and territorial authorities that are responsible for cities and districts (this includes Auckland Council). It is territorial authorities that are currently also responsible for running the water services (either directly or through another entity like Watercare Services Ltd), meeting the costs through mechanisms like rates.
- **Water Services Entities** – under legislation, 10 Water Services Entities are established to take over the responsibilities for running the water services, working with the territorial authorities to deliver services to the consumers and communities. These will be new not-for-profit entities, with strong governance and engagement regimes, with every dollar of revenue going into the provision of water services.

Financials

There are financial implications attached to almost everything that is undertaken, and water services is no exception. Financial terms used through this initial funding and pricing plan include:

- **Capital expenditure (or CAPEX)** – these are costs incurred to build or purchase an asset, which is something that will provide services or benefits for more a year. This can include such things as a pump station, a treatment plant, or a part of the pipe network. (More detail is provided in the Asset Management Plan)
- **Capital revenues** – these are funds coming in that can be used to pay for capital expenditure. This can include capital grants or subsidies from central government, or growth-related contributions.
- **Debt (or Borrowings)** – these are financing arrangements, normally used to pay for capital expenditure up front, with the debt then being repaid over time through operating revenues.
- **Operating expenditure (or OPEX)** – these are costs incurred on a more every day or ongoing basis and reflect where the service or benefit provided is more immediate, or at least lasting for less than a year. This can include such things as paying staff salaries, power, regular maintenance, fuel costs.
- **Operating revenues** – these are funds coming in that are normally used to pay for operating expenditure. This can include most water services charges and interest income.

Properties

There are variety of terms used when it comes to forms of properties and consumers:

- **Property** – this is a separately and legally identified piece of land whether it has any buildings or improvements on it or not.

- **Rateable Property** – this is a property that is identified as rateable under applicable legislation, recognising that for a variety of reasons, such as Crown ownership, charitable status etc some properties are deemed not rateable.
- **Dwelling** – this is a building on a property that is primarily used for living in, as opposed to commercial, industrial, agricultural etc purposes.
- **Domestic** – this is a property that is primary used for the purposes of living in, and so is those properties with a house or apartment.
- **Non-Domestic** – this is a property that is primarily not used for the purposes of living in, including but not limited to commercial, industrial, and agricultural uses.
- **Separately Used or Inhabited Part (SUIP)** – this is a legal term where it is appropriate to identify that a single legal property may actually have separate components used for separate purposes. An example is a shopping mall in one legal title, that actually contains a multitude of shops.

Water Services: This is a term used to describe the types of water services that are normally provided to consumers by a public entity, and is made up of:

- **Stormwater** – the collection, treatment, storage, reuse, or discharge of stormwater produced by the environment, and for our purposes is only that within an urban area.
- **Wastewater** –the collection, storage, treatment and discharge of wastewater produced by consumers.
- **Water Supply** –the provision of water to consumers and includes drinking water, firefighting water supplies, and water supplied for agricultural or horticultural purposes.

7. **Appendices**

Appendix A – Schedule of proposed water services charges

Appendix B – Other fees and charges

Appendix C – Significant forecasting assumptions and risks

Appendix D – Water Infrastructure Contributions policy

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Appendix A – Schedule of proposed water services charges

This initial funding and pricing plan seeks to transition from the existing territorial authorities' (and a subsidiary's) charging regimes to the new regime under the Water Services Entity.

There is to be a reset in the total amount of revenues to be sought from consumers, in an attempt to harmonise domestic charges and moderate future increases.

The following schedules list all of the proposed water services charges for the 2024/2025 financial year, broken down by major activity. These are the tariffs that are generally annual charges, usually levied by territorial authorities in the form of rates, for the provision of ongoing water services.

Schedule of Water Services Charges for 2024/25			
All fees and charges are inclusive of GST at the current rate of 15%, unless otherwise stated.			
Wai Tamaki ki Te Hiku	Category	Unit	2024/2025 proposed fee
Water Charges			
	All users Volumetric charge	\$ per Kilolitre	\$2.038
Wastewater Charges			
	Domestic Fixed charge	Per meter	\$295.00
	Domestic Volumetric charge*	\$ per Kilolitre	\$3.546
	<i>* Domestic wastewater is assessed at 78.5% (95% for apartments) of incoming water volume as measured by the water meter</i>		
	Domestic Unmetered charge	Per connection	\$906.00
	Commercial - Low user plan - Fixed charge	Per meter	\$303.00
	Commercial - Low user plan - Volumetric charge	\$ per Kilolitre	\$6.828
	Commercial - Moderate user plan - Fixed charge	Per meter	\$761.00
	Commercial - Moderate user plan - Volumetric charge	\$ per Kilolitre	\$6.479
	Commercial - High user plan - Fixed charge	Per meter	\$10,775.00
	Commercial - High user plan - Volumetric charge	\$ per Kilolitre	\$5.496
	Commercial - Industry user plan - Fixed charge	Per meter	\$115,624.00
	Commercial - Industry user plan - Volumetric charge	\$ per Kilolitre	\$4.272
	Commercial - Unmetered - Fixed charge*	Per connection	\$1,251.00
	<i>* Unmetered commercial customers will pay a notional fixed charge which may be adjusted to better reflect actual discharge volumes</i>		
Stormwater Charges			
	To be updated to reflect current Council billing structures inclusive of an annual price increase for FY24/25		
Town to tank water supply service			
	Annual Fixed Charge		\$181.00
	Volumetric charge	\$ per Kilolitre	\$4.417
	Setup cost - Metropolitan Auckland		\$3,330.00
	Setup cost - Helensville and Parakai		\$4,179.00
	Setup cost - Northeast sub-regional		\$3,330.00
	Setup cost - Southwest sub-regional		\$3,330.00
	Setup cost - Wellsford		\$3,681.00

Appendix B – Other Fees and Charges

As well as the water services charges proposed to be charged in Appendix A, which in general terms replace what would have been charged through rates or their equivalent, there are other fees and charges that are generally more one-off by nature.

The following schedules list all of the *proposed* one off fees and charges for the 2024/2025 financial year, broken down by major activity.

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Schedule of Fees and Charges for 2024/2025

All fees and charges are inclusive of GST at the current rate of 15%, unless otherwise stated.

The Fees and Charges below generally represent an Entitywide alignment of charging for similar services. Rollout of aligned services and prices across each geographic area may proceed at differing paces and require interim discounts or other pricing arrangements.

All other provided services remain as Price on Application

Wai Tamaki ki Te Hiku	Category	Description	2024/2025 proposed fee
Professional services - Applications, Inspections, Audits, Monitoring, Surveying and other activities			
	Hourly charges	Engineer	\$227.00
	Hourly charges	Technician	\$201.00
Connections / Disconnections / Relocations			
	Install 20mm water meter onto existing service lead		\$867.00
	Install 20mm water meter and new service lead		\$1,793.00
	Install 20mm water meter and backflow device and new service lead		\$2,318.00
	Connection of a water, wastewater or stormwater network extension to the public network		Price on Application
	Installation of backflow prevention devices for existing water meters (all types)		Price on Application
	Relocation of 15-25mm water meters		Price on Application
	Disconnection of 15-25mm water meters		\$1,098.00
	Installation, relocation and disconnection for all other water meter types		Price on Application
	Additional charges may apply for installations, relocations and disconnections that involve road crossings, traffic management, pavement excavation and reinstatement, arborist services, other utility providers, hindrance by above ground structures or other works.		Price on Application
	Location and marking of Water, Wastewater and Stormwater services		Price on Application
Trade Waste and Septage			
	Applications, permits & monitoring	Hourly charges	\$227.00
	Sampling (per sampling visit)		Price on application
	Analysis		Price on application
	Trade waste discharges - By Volume m3	Whangarei only	\$1.91
	Trade waste discharges - By Total Kjeldahl Nitrogen (TKN)	Whangarei only	\$0.95
	Trade waste discharges - By Total Suspended Solids (TSS)	Whangarei only	\$0.76
	Trade waste discharges - By Chemical Oxygen Demand (COD)	Whangarei only	\$0.51
	Septage - For disposal and treatment of septage at Council's treatment facility	Types 1 02, 1 03 & 1 14 & All Auckland	\$48.44
	Septage - For disposal and treatment of septage at Council's treatment facility	Types 1 04 & 14 01 (Whangarei only)	\$13.76
Meter Testing			
	15 to 25mm (site test)		\$233.00
	15 to 25mm (lab test)		\$536.00
	Larger than 25mm		Price on application
	Aborted test		\$132.00
	Testing fee not charged in the event the meter is found to be faulty		
Backflow Prevention			
	Annual backflow prevention device testing (per device, per visit)	Business Hours	\$195.00
	Annual backflow prevention device testing (per device, per visit)	After Hours	\$354.00
	Repair of backflow prevention device due to normal wear and deterioration	Price on application	Price on application
	Site inspections and surveying charged at standard rates for professional services		
Administration Services			
	Additional copy of account		\$6.20
	Processing of refunds (first refund no charge)		\$33.50
	Special meter reading fee		\$77.80
	Rain tank meter application processing, per application		\$68.30
	Debt collection fee (plus agency cost)		\$89.40
	Legal collection fee (plus agency cost)		\$172.60
	New product approval fee (commercial only)		Price on application
	Paper copy bill		\$1.60
	Account processing fee (Note: complex transactions like subdivision may incur additional fees)		\$27.30
Tanker Filling Stations			
	Bond	Far North	\$2,215.00
	Annual administration fee (First Vehicle billing and inspection)	Far North	\$739.00
	Annual administration fee (Subsequent Vehicle billing and inspection)	Far North	\$381.00
	Charge rate per m3	Far North	Standard Domestic Rate
	Tanker filling point - Kioreroa and Sime Road (per fill)	Whangarei	\$18.36
	Engineer Technician Annual permit – fixed charge (per year)	Auckland	\$2,516.00
	Tanker filling station bond (reimbursable on agreement termination)	Auckland	\$1,185.00
	Volumetric water rate - potable per KL	Auckland	\$5.46
	Volumetric water rate - non-potable per KL	Auckland	\$4.40
	Expectation that as further work is undertaken to align the service across regions pricing will likewise harmonise.		
Other Services			
	Pressure wastewater collection boundary kit		Price on application
	CCTV inspection of wastewater line (per inspection)		\$556.40
	Wastewater Pit connection fee	1 - 2 DUE only (3+ POA)	\$20,663.00
	Vacuum Pit Land development fees (Clevedon only)	Water	\$16,298.00
	Vacuum Pit Land development fees (Clevedon only)	Wastewater	\$21,828.00

Appendix C – Significant Forecasting Assumptions and Risks

As with any future focused planning, forecasting assumptions and estimates are used to develop this initial financing and pricing plan, as well as associated documents like the initial asset management plan. With estimates and assumptions comes uncertainty and risks of error. All key assumptions have been assessed as to level of uncertainty and implications, with the following schedule identifying the findings.

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Assumption C: Forecasting Assumptions and Risks

Section 146 of the Water Services Entities Act 2022 requires that the significant forecasting assumptions and estimates used to develop the 10-year draft initial Plan are identified. With estimates and assumptions comes uncertainty. Where there is a high level of uncertainty, we are required to state the reason for the uncertainty and provide an estimate of the potential effects on the financial forecasts.

The level of uncertainty for each assumption refers to the difficulty of predicting outcomes because of limited knowledge. Some of the variables that affect future outcomes are outside the entity's control, such as the wider economy, changes in legislation, and climate.

- Low level of uncertainty – information available to the entity point to a high likelihood of the assumption being accurate and/or most of the variables are under the entity's control.
- Moderate level of uncertainty – the entity has most of the information available on the assumption but variables outside the entity's control may still affect the accuracy of the assumption.
- High level of uncertainty – the entity has some of the information on the assumption but there is a high likelihood that variables outside the entity's control will impact on the accuracy of the assumption

Major Assumption	Estimates applied	Level of Uncertainty
Population and development growth	Population growth and the consequential demand for residential housing is a key driver for the entity's Asset Management Plan (AMP). Population projections are used to forecast the level and location of development growth (the number of dwellings and floor space area) and therefore infrastructure requirements.	Uncertainty: Low

Major Assumption	Estimates applied					Level of Uncertainty																																																																																																			
	We have sourced our population projections information from Statistics NZ (Stats NZ). The Stats NZ predictions are based on census data collected every five years. The current projections are based on the 2018 census data. It is recognised that the Stats NZ data may provide a conservative view of growth, as the projections do not consider the potential impact of planned development and changes to land use within the entity area. Total population is projected to be:																																																																																																								
	<table><tr><th>Year</th><th>Auckland</th><th>Far North</th><th>Whangarei</th><th>Kaipara</th><th>Total Population</th><th>Population Change</th><th>% change</th></tr><tr><td>2024/25</td><td>1,721,640</td><td>75,900</td><td>103,880</td><td>28,380</td><td>1,929,800</td><td></td><td></td></tr><tr><td>2025/26</td><td>1,736,260</td><td>76,500</td><td>104,920</td><td>28,720</td><td>1,946,400</td><td>16,600</td><td>0.9%</td></tr><tr><td>2026/27</td><td>1,750,880</td><td>77,100</td><td>105,960</td><td>29,060</td><td>1,963,000</td><td>16,600</td><td>0.9%</td></tr><tr><td>2027/28</td><td>1,765,500</td><td>77,700</td><td>107,000</td><td>29,400</td><td>1,979,600</td><td>16,600</td><td>0.8%</td></tr><tr><td>2028/29</td><td>1,784,280</td><td>78,200</td><td>107,900</td><td>29,680</td><td>2,000,080</td><td>20,480</td><td>1.0%</td></tr><tr><td>2029/30</td><td>1,803,060</td><td>78,740</td><td>108,800</td><td>29,960</td><td>2,020,560</td><td>20,480</td><td>1.0%</td></tr><tr><td>2030/31</td><td>1,821,840</td><td>79,260</td><td>109,700</td><td>30,240</td><td>2,041,040</td><td>20,480</td><td>1.0%</td></tr><tr><td>2031/32</td><td>1,840,620</td><td>79,780</td><td>110,600</td><td>30,520</td><td>2,064,520</td><td>20,480</td><td>1.0%</td></tr><tr><td>2032/33</td><td>1,859,400</td><td>80,300</td><td>111,500</td><td>30,800</td><td>2,082,000</td><td>20,480</td><td>1.0%</td></tr><tr><td>2033/34</td><td>1,877,260</td><td>80,720</td><td>112,280</td><td>31,020</td><td>2,101,280</td><td>19,280</td><td>0.9%</td></tr><tr><td>Total 10-year Growth</td><td>155,620</td><td>4,820</td><td>8,400</td><td>2,640</td><td></td><td>171,480</td><td>8.9%</td></tr></table>							Year	Auckland	Far North	Whangarei	Kaipara	Total Population	Population Change	% change	2024/25	1,721,640	75,900	103,880	28,380	1,929,800			2025/26	1,736,260	76,500	104,920	28,720	1,946,400	16,600	0.9%	2026/27	1,750,880	77,100	105,960	29,060	1,963,000	16,600	0.9%	2027/28	1,765,500	77,700	107,000	29,400	1,979,600	16,600	0.8%	2028/29	1,784,280	78,200	107,900	29,680	2,000,080	20,480	1.0%	2029/30	1,803,060	78,740	108,800	29,960	2,020,560	20,480	1.0%	2030/31	1,821,840	79,260	109,700	30,240	2,041,040	20,480	1.0%	2031/32	1,840,620	79,780	110,600	30,520	2,064,520	20,480	1.0%	2032/33	1,859,400	80,300	111,500	30,800	2,082,000	20,480	1.0%	2033/34	1,877,260	80,720	112,280	31,020	2,101,280	19,280	0.9%	Total 10-year Growth	155,620	4,820	8,400	2,640		171,480	8.9%		
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Major Assumption	Estimates applied	Level of Uncertainty								
	The average household occupancy is assumed to remain constant over the period at 2.9 people per household (as per Stats NZ families and household projections based on 2018 Census data for Auckland). No specific provision has been made for the potential impact of housing intensification on the average household size and infrastructure capacity requirements. Connected properties as a proportion of the total population is assumed to remain constant.									
Domestic Pricing	Domestic water, wastewater, and stormwater prices are harmonised to 2024 and then increase by 2% per annum.	Uncertainty: Low								
Domestic revenue	Domestic revenue is modelled to increase by the price increase of 2% pa combined with the population increase of approx. 0.9% pa	Uncertainty: Low								
Non-domestic pricing	Water prices are in line with domestic pricing to reflect the same service provided to domestic and non-domestic customers for water, while wastewater and stormwater diverge from the residential price path to reflect the addition strain that non-domestic customers put on these services through the nature of their business. Non-domestic pricing is modelled at the below price increases: <table><tr><th>Service Type</th><th>Increase p.a</th></tr><tr><td>Water</td><td>2%</td></tr><tr><td>Wastewater</td><td>5%</td></tr><tr><td>Stormwater</td><td>5%</td></tr></table>	Service Type	Increase p.a	Water	2%	Wastewater	5%	Stormwater	5%	Uncertainty: Low
Service Type	Increase p.a									
Water	2%									
Wastewater	5%									
Stormwater	5%									

Major Assumption	Estimates applied	Level of Uncertainty
Non-domestic revenue	Non-domestic revenue is modelled to increase by the annual price increase above as well as population growth factor of approx. 0.9% p.a. Population growth is used as a proxy for non-domestic customer growth as there is not a reliable source of non-domestic growth for the FPP period	Uncertainty: Moderate
Fees and charges pricing	Fees and charges pricing has been aligned across all entities.	Uncertainty: Low
Fees and charges revenue	Fees and charges revenue is modelled to increase at 15% in year 1 (FY25), then 5% p.a. from year 2 onwards as well as a population growth factor of approx. 0.9% p.a.	Uncertainty: Moderate
Water Infrastructure Contributions (WICs) - Pricing	Water Infrastructure contribution prices in this plan are calculated on the cost of growth-related capital expenditure set out in the asset management plan, divided by the projected Development Unit Equivalent (DUE) growth over the estimated capacity life of assets (or groups of assets). Future DUE's are projected for domestic and non-domestic growth to calculate the total expected DUE's. WICs prices are set at an Entity level based on the total growth capital expenditure over the expected DUE's per year. The current WICs pricing is based on estimated capacity lives which need further validation before pricing is finalised.	Uncertainty: High
Water Infrastructure Contributions (WICs) - Revenue	Water Infrastructure contributions revenue is set to recover 95% of the maximum allowable revenue calculated from total expected growth capital expenditure over the projected future DUE's.	Uncertainty: High

Major Assumption	Estimates applied	Level of Uncertainty
Base Operational Expenditure	The base operational expenditure is from updated budgets in local authorities’ 2023/24 Annual Plans. The base operational expenditure is then adjusted for inflation using the BERL LCGI Opex inflation and population growth over the 10 years of the plan. Base operational expenditure is subject to both opex efficiency and the TFP efficiency.	Uncertainty: Low

Major Assumption	Estimates applied	Level of Uncertainty								
Additional WSE Operational Expenditure	Additional WSE operational expenditure has been added to reflect new expenses incurred because of reform. Reform costs which apply to all entities across the country have been allocated to Entity A on a proportional basis using a percentage of the national population. Reform costs are adjusted by BERL opex inflation and population growth per year. The additional WSE operational expenditure is not subject to any efficiency. Estimated reform costs for the 2024/25 base year are as below: <table><tr><th>Expense</th><th>Allowance in FY24 real dollars</th></tr><tr><td>Economic and environmental regulators</td><td>\$5.16m</td></tr><tr><td>Additional rates paid to councils</td><td>\$15.70m</td></tr><tr><td>Total</td><td>\$20.86m</td></tr></table>	Expense	Allowance in FY24 real dollars	Economic and environmental regulators	\$5.16m	Additional rates paid to councils	\$15.70m	Total	\$20.86m	Uncertainty: Moderate
Expense	Allowance in FY24 real dollars									
Economic and environmental regulators	\$5.16m									
Additional rates paid to councils	\$15.70m									
Total	\$20.86m									
Vulnerable Customer assistance	Additional operational expenditure is allowed for vulnerable consumer assistance. This allowance is 1% of total domestic service revenue each year. This expense is not subject to any efficiency.	Uncertainty: Low								
Spend-to-save expense	Spend-to-save expenses of \$400m over ten years have been included. The spend to save spend has been allocated throughout the FPP period based on the below table. 50% of spend to save is capitalised. The spend-to-save annual expense assumption for Entity A are outlined below:	Risk: Low								

Major Assumption	Estimates applied				Level of Uncertainty
	Year	Spend to save per year in 2023/24 real dollars (\$m)	Spend-to-save operational expense after adjusting for inflation (\$m)	Spend-to-save capital expense after adjusting for inflation (\$m)	
	2024/25	20.00	10.330	10.868	
	2025/26	47.50	25.221	26.663	
	2026/27	47.50	25.902	27.543	
	2027/28	47.50	26.523	28.397	
	2028/29	47.50	27.107	29.220	
	2029/30	47.50	27.649	30.038	
	2030/31	47.50	28.174	30.849	
	2031/32	47.50	28.653	31.682	
	2032/33	47.50	29.112	32.506	
	2033/34	0	0	0	
	Total	\$400.00	\$228.671	\$247.766	
	Spend-to-save allowances are not subject to any efficiencies.				
Consequential Opex	Additional operation expenses are allowed for the increase in costs associated with new capital works. Consequential opex has been forecast at 1.5% of the delta between the LTP planned capital expenditure for growth and level of service assets and the AMP capital expenditure for growth and level of service assets. This is a cumulative expense each year. The additional consequential opex expense is subject to both operation expenses efficiency and the TFP efficiency.				Risk: Moderate

Major Assumption	Estimates applied	Level of Uncertainty																						
Interest rates	Interest rates assumptions are based on PricewaterhouseCoopers (PwC) advice and Local Government Funding Agency (LGFA) disclosures, and calculated as follows: • Used the current, forward 5-year swap rates as provided by NZ Banks • Plus the credit margin (as per PWC advice) assuming a ‘A’ S&P credit rating: value 0.5% per annum • Plus an issuance margin of 0.02% per annum reducing • Plus the cost of the Crown standby liquidity facility of 0.015% per annum reducing (based on LGFA disclosures). This assumes the facility would be 10% the size of total debt. The interest rates on borrowings used in this draft initial Plan are: <table><thead><tr><th>Year</th><th>Interest rates</th></tr></thead><tbody><tr><td>2024/25</td><td>5.08%</td></tr><tr><td>2025/26</td><td>4.92%</td></tr><tr><td>2026/27</td><td>4.93%</td></tr><tr><td>2027/28</td><td>4.93%</td></tr><tr><td>2028/29</td><td>4.93%</td></tr><tr><td>2029/30</td><td>4.92%</td></tr><tr><td>2030/31</td><td>4.92%</td></tr><tr><td>2031/32</td><td>4.92%</td></tr><tr><td>2032/33</td><td>4.92%</td></tr><tr><td>2033/34</td><td>4.92%</td></tr></tbody></table> These rates assume that a S&P Global Credit Rating of A (with access to the Crown liquidity funds) being maintained throughout the period of the Plan.	Year	Interest rates	2024/25	5.08%	2025/26	4.92%	2026/27	4.93%	2027/28	4.93%	2028/29	4.93%	2029/30	4.92%	2030/31	4.92%	2031/32	4.92%	2032/33	4.92%	2033/34	4.92%	Uncertainty: Low
Year	Interest rates																							
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2025/26	4.92%																							
2026/27	4.93%																							
2027/28	4.93%																							
2028/29	4.93%																							
2029/30	4.92%																							
2030/31	4.92%																							
2031/32	4.92%																							
2032/33	4.92%																							
2033/34	4.92%																							

Major Assumption	Estimates applied	Level of Uncertainty																					
Capitalised Interest	The FPP assumes that no interest is capitalised.	Uncertainty: low																					
Inflation	Separate inflation rates have been used for the operational and capital budgets due to the different cost drivers that impact these types of cost. Business and Economic Research Ltd (BERL) are contracted on behalf of the local government sector to provide inflation forecasts for budgeting and planning purposes. These forecasts are related to the types of costs that the local government sector and water services entities are likely to incur. We have used the BERL Local Government Cost Index (LGCI) rates for Opex as the operational expenses inflation and Water, Sewer, Drainage, and Waste Services for capital expenditure inflation. Inflation rates assumed in financial forecasts are as follows: <table> <tr> <th>Year</th><th>Operating inflation - Council (LGCI OPEX)</th><th>Capital inflation</th></tr> <tr> <td>2024/25</td><td>3.30%</td><td>3.80%</td></tr> <tr> <td>2025/26</td><td>2.80%</td><td>3.30%</td></tr> <tr> <td>2026/27</td><td>2.70%</td><td>3.30%</td></tr> <tr> <td>2027/28</td><td>2.40%</td><td>3.10%</td></tr> <tr> <td>2028/29</td><td>2.20%</td><td>2.90%</td></tr> <tr> <td>2029/30</td><td>2.00%</td><td>2.80%</td></tr> </table>	Year	Operating inflation - Council (LGCI OPEX)	Capital inflation	2024/25	3.30%	3.80%	2025/26	2.80%	3.30%	2026/27	2.70%	3.30%	2027/28	2.40%	3.10%	2028/29	2.20%	2.90%	2029/30	2.00%	2.80%	Uncertainty: Low
Year	Operating inflation - Council (LGCI OPEX)	Capital inflation																					
2024/25	3.30%	3.80%																					
2025/26	2.80%	3.30%																					
2026/27	2.70%	3.30%																					
2027/28	2.40%	3.10%																					
2028/29	2.20%	2.90%																					
2029/30	2.00%	2.80%																					

Major Assumption	Estimates applied			Level of Uncertainty										
	2030/31	1.90%	2.70%											
	2031/32	1.70%	2.70%											
	2032/33	1.60%	2.60%											
	2033/34	1.60%*	2.60%*											
	*inflation rates were not provided for 2033/34. It is assumed that inflation will be in line with the prior year’s inflation.													
Opening Assets	The opening assets have been rolled forward from the Annual Plan 2022/23 closing asset position, plus LTP projected capex for FY24, less depreciation at 2% for FY24 to get the opening asset position at 1 July 2024. The opening assets are: <table><tr><th>Asset Type</th><th>Value at 1 July 2024</th></tr><tr><td>Wastewater</td><td>\$9,071m</td></tr><tr><td>Stormwater</td><td>\$7,205m</td></tr><tr><td>Water</td><td>\$6,516m</td></tr><tr><td>Total</td><td>\$22,792m</td></tr></table>			Asset Type	Value at 1 July 2024	Wastewater	\$9,071m	Stormwater	\$7,205m	Water	\$6,516m	Total	\$22,792m	Uncertainty: Low
Asset Type	Value at 1 July 2024													
Wastewater	\$9,071m													
Stormwater	\$7,205m													
Water	\$6,516m													
Total	\$22,792m													
Borrowings	It is assumed that the entity will have the facilities to secure funding as required. The opening borrowings assumptions used for financial modelling are:			Uncertainty: Moderate – Relied on roll forward calculations										

Major Assumption	Estimates applied			Level of Uncertainty																		
	<table><tr><th>Borrowing</th><th>National (\$m)</th><th>Estimated Value (\$m)</th></tr><tr><td>Debt on network assets transferred</td><td></td><td>\$4,212</td></tr><tr><td>Systems of record debt</td><td>\$532</td><td>\$201</td></tr><tr><td>CS-OT debt</td><td>\$343</td><td>\$130</td></tr><tr><td>No worse off funding*</td><td>\$500</td><td>\$137</td></tr><tr><td>Total opening debt</td><td></td><td>\$4,681</td></tr></table> *The allocation for No Worse Off funding is indicative based on early policy work. Opening debt balances are based on the last known debt position for each activity within the four TA's and rolled forward to 30 June 2024 with expected debt increases from the TA's LTP's.			Borrowing	National (\$m)	Estimated Value (\$m)	Debt on network assets transferred		\$4,212	Systems of record debt	\$532	\$201	CS-OT debt	\$343	\$130	No worse off funding*	\$500	\$137	Total opening debt		\$4,681	
Borrowing	National (\$m)	Estimated Value (\$m)																				
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Systems of record debt	\$532	\$201																				
CS-OT debt	\$343	\$130																				
No worse off funding*	\$500	\$137																				
Total opening debt		\$4,681																				
Capital cost projections	Cost projections for individual capital projects are based on the best available information at the time of planning and are set at a mid-point of the expected total project cost. For more complex projects a formal estimation process may be undertaken whereby a range of cost outcomes are estimated and budgets are set at a P50 level, being a level under which there is 50 per cent confidence the final cost will sit. The capital expenditure efficiency is applied to growth and level of service capital expenditure costs while the TFP efficiency applies to growth, level of service, and renewal capital expenditure costs.			Uncertainty: Moderate																		
Capital Expenditure Funding Profile	The 10-year capital programme in this draft initial plan is 41% larger than pre-reform programmes after inflation is factored in. The additional expenditure will be phased in gradually over the period of the plan, taking into consideration the deliverability of the programme and availability of suppliers and contractors.			Uncertainty: Low																		

Major Assumption	Estimates applied			Level of Uncertainty
	Year	Nominal Capital Expenditure (pre-efficiency \$m)	Annual capital expenditure (real 2023 dollars \$m)	
	2024/25	\$1,384	\$1,273	
	2025/26	\$1,467	\$1,307	
	2026/27	\$1,555	\$1,341	
	2027/28	\$1,646	\$1,376	
	2028/29	\$1,738	\$1,413	
	2029/30	\$1,834	\$1,450	
	2030/31	\$1,933	\$1,488	
	2031/32	\$2,038	\$1,528	
	2032/33	\$2,146	\$1,568	
	2033/34	\$2,260	\$1,609	
	Total	\$18,000	\$14,353	
Capital Expenditure Investment	Annual capital expenditure has been allocated proportionally to the following categories:			Uncertainty: Low
	Activity	Activity Area	Proportion of spend	
	Wastewater	Growth	16.5%	
	Wastewater	Renewal	20.7%	
	Wastewater	Level of Service	9.9%	

Major Assumption	Estimates applied			Level of Uncertainty
	Stormwater	Growth	0.8%	
	Stormwater	Renewal	6.4%	
	Stormwater	Level of Service	6.7%	
	Water	Growth	15.6%	
	Water	Renewal	17.9%	
	Water	Level of Service	5.5%	
			100%	
Business efficiency	We have budgeted for savings across the 10 years of the plan, with a total value of \$1,903 million for operating expenditure and \$3,988 million for capital expenditure. It is forecasted that efficiency gains will begin in year 2 and increase to 42.2% efficiency for operational expenses over the 10 year FPP period and 39.6% for capital expenditure by year 10. The capital expenditure efficiency is only applied to growth and level of service capital expenditure. A Total Factor Productivity (TFP) efficiency is applied at 0.405% per year to all operational and capital expenditure from year 1. The cumulative efficiencies are applied to both base Opex and Capex, as outlined in the table below. The Opex efficiency target is applied to base operational expenses and consequential opex. The Capex efficiency target is applied to growth and level of service capital expenditure spend. TFP efficiency is applied to base operational expenditure, consequential operational expenditure, and all capital expenditure.			Uncertainty: Moderate

Major Assumption	Estimates applied						Level of Uncertainty
	Year	Total Factor Productivity Efficiency	Opex Efficiency target %	Opex savings \$m	Capex Efficiency target %	Capex savings \$m	
	2024/25	0.41%	-	2.2	-	5.6	
	2025/26	0.81%	6.4%	40.8	6.0%	80.5	
	2026/27	1.21%	12.8%	82.7	12.0%	164.3	
	2027/28	1.61%	19.2%	127.8	18.0%	257.4	
	2028/29	2.01%	25.6%	177.0	24.0%	360.1	
	2029/30	2.41%	32.0%	229.9	30.0%	473.0	
	2030/31	2.80%	34.5%	260.3	32.4%	542.4	
	2031/32	3.19%	37.1%	292.4	34.8%	617.9	
	2032/33	3.59%	39.6%	326.5	37.2%	699.2	
	2033/34	3.98%	42.2%	363.0	39.6%	787.4	
	Total			\$1,903		\$3,988	
	We expect to make these savings through digital-enabled business transformation, strategic procurement, and capital programme optimisation. It is our intention that savings will be achieved without changing the services the community receives.						
Asset revaluations	The FPP assumes assets are not revalued. All assets are shown at a book value of cost less depreciation.						Uncertainty: Low
Useful life of asset additions	The useful lives of significant assets with the appropriate depreciation rates are shown in the table below. Assumptions of asset lives are informed by the AMP team, which will be refined in further iterations of the 10-year plan as better information becomes available.						Uncertainty: Low

Major Assumption	Estimates applied	Level of Uncertainty																										
	It is also assumed that: - the useful lives will remain the same throughout the 10-year planning period. - that assets will be replaced at the end of their useful lives. - assets are depreciated on a straight-line basis over their useful lives with annual depreciation expense included in the total costs for each service. <table><tr><th>Asset Class</th><th>Estimated useful life (years)</th></tr><tr><td>Infrastructure</td><td></td></tr><tr><td>Water</td><td>55</td></tr><tr><td>Wastewater</td><td>70</td></tr><tr><td>Stormwater</td><td>100</td></tr><tr><td>Other infrastructure</td><td>Out of scope for the draft plan</td></tr><tr><td>Operational</td><td></td></tr><tr><td>Land</td><td>Out of scope for the draft plan</td></tr><tr><td>Buildings</td><td>Out of scope for the draft plan</td></tr><tr><td>Other operational assets</td><td>Out of scope for the draft plan</td></tr><tr><td>Intangible assets</td><td></td></tr><tr><td>Computer software</td><td>Out of scope for the draft plan</td></tr><tr><td>Other intangible assets</td><td>Out of scope for the draft plan</td></tr></table>	Asset Class	Estimated useful life (years)	Infrastructure		Water	55	Wastewater	70	Stormwater	100	Other infrastructure	Out of scope for the draft plan	Operational		Land	Out of scope for the draft plan	Buildings	Out of scope for the draft plan	Other operational assets	Out of scope for the draft plan	Intangible assets		Computer software	Out of scope for the draft plan	Other intangible assets	Out of scope for the draft plan	
Asset Class	Estimated useful life (years)																											
Infrastructure																												
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Intangible assets																												
Computer software	Out of scope for the draft plan																											
Other intangible assets	Out of scope for the draft plan																											
Remaining useful life of assets transferred	The remaining weighted useful life of assets to be transferred are assumed to be: <table><tr><th>Asset Class</th><th>Estimated useful life (years)</th></tr><tr><td>Infrastructure</td><td></td></tr><tr><td>Water</td><td>50</td></tr></table>	Asset Class	Estimated useful life (years)	Infrastructure		Water	50	Uncertainty: Moderate																				
Asset Class	Estimated useful life (years)																											
Infrastructure																												
Water	50																											

Major Assumption	Estimates applied		Level of Uncertainty
	Wastewater	50	Please note that the details of assets to be transferred are being collected from local authorities through the Allocations Schedule process, which is not complete at the time this draft initial plan is prepared. Therefore, assets have not been split into the various asset classes and types. This information will be refined in future iterations of the plan once the information becomes available.
	Stormwater	50	
	Other infrastructure	Out of scope for the draft plan	
	Operational		
	Land	Out of scope for the draft plan	
	Buildings	Out of scope for the draft plan	
	Other operational assets	Out of scope for the draft plan	
	Intangible assets		
	Computer software	Out of scope for the draft plan	
	Other intangible assets	Out of scope for the draft plan	
Vested assets	Vested assets are assets transferred from developers to the entity to meet their obligations under building and resource consent conditions or infrastructure contribution agreements. Vested asset income is inconsistent from year-to-year and therefore is difficult to forecast. It has therefore not been budgeted in the Plan. Vested asset income has no cash impact therefore any financial risk is low. No allowance is made to increase the network asset value from the addition of vested assets.		Uncertainty: Moderate

Major Assumption	Estimates applied	Level of Uncertainty
Average drinking water consumption per capita	Average drinking water consumption per capita is assumed to be stable and consistent across all local authorities in Wai Tāmaki ki Te Hiku. We have not assumed any changes to per capita consumption over the forecast period and due to uncertainty have not allowed for the potential impact of water conservation strategies from individual authorities.	Uncertainty: Low
Average volume of wastewater as a percentage of water consumption	We have adopted the pre-reform proportions for wastewater average volumes as a percentage of water consumption.	Level of uncertainty: Low
Levels of service	For this draft initial plan, we have assumed that: - the current demand for water services and customer expectations regarding business-as-usual levels of service will not change during the planning period - there is no other significant impact from external pressures on asset requirements or operating expenditure, beyond what is specifically planned for in this 10-year plan The key service levels are described in the entity AMP document.	Uncertainty: Low
Asset condition information	Current asset condition modelling is subject to limitations but reflects the best information available for decision making at this time. Asset conditions and the impact on the capital programme is addressed in the AMP document.	Risk: Low

Major Assumption	Estimates applied	Level of Uncertainty
Climate and natural hazards	Our ability to deliver planned levels of service to the community may be affected if climate change occurs faster or with greater impact, such as what we are already experiencing with recent flooding and effects of Cyclone Gabrielle. If this occurs, unbudgeted emergency work may need to be carried out. Additional costs may also be incurred to mitigate impacts, such as improving protection of critical infrastructure or increasing maintenance. The AMP currently allows for upgrades to water networks and treatment facilities across the Auckland and Northland areas to improve resilience against climate change impacts while improving and maintaining levels of service, as well as augmenting the entity's water resource portfolio.	Uncertainty: High
Resource Management Reforms	The Resource Management Act 1991 (RMA) is the main law governing how people interact with natural resources. The Government plans to repeal the RMA and enact new laws to create a resource management (RM) system that will safeguard the wellbeing of current and future generations. The information that has been made available through the proposed Natural and Built Environment Bill and Spatial Planning Bill suggests that the potential risk to materially impact this plan is high. However, we cannot anticipate the impact of future legislative changes as a result of the select committee process and their timing. Therefore, this draft plan has been developed based on current legislation, regulations, and policy.	Uncertainty: High
Income Tax	It is assumed that the entity is a public purpose Crown-controlled entity under the Income Tax Act 2007 for income tax purposes and is therefore not liable to pay income tax.	Uncertainty: Low

Major Assumption	Estimates applied	Level of Uncertainty
Waikato District Council Contract	Watercare Services Limited currently provides the water service operations to Waikato District Council. This contract is assumed to continue in FY25 under Wai Tamaki ki te Hiku until Entity B is stood up. Entity B is expected to go live July 2025. Revenue assumed to grow by Entity A Population growth as a proxy population growth and opex inflation as revenue is based on opex with a margin added. Revenue showing in Fees revenue line. Opex assumed to grow by Entity A population growth and BERL opex inflation. No efficiencies are applied to this contract.	Uncertainty: Low

Note that these assumptions and risks are not an exhaustive list of the assumptions and risks faced by the entity and should be read in conjunction with the Financial Strategy and AMP document accompanying this Funding and Pricing Plan. These contain risks and assumptions that are more specific in nature.

Assumptions with High Uncertainty

From the assessment of all significant forecasting assumptions and risks underlying the financial assumptions, four are identified as having a “high level of uncertainty”. This assessment is made within the context of the draft Initial Funding & Pricing Plan with further work to be undertaken before this plan is finalised. While the DIA has produced this draft plan to initiate the forecasting and pricing process, it is the Entity that will refine the numbers, as well as implement operational processes and systems to implement the plan. This will include control procedures and appropriate risk management processes, and so it is possible that the level of uncertainty attached to these assumptions will be reduced.

The following table provides additional details on the factors creating the current assessment of a high level of uncertainty as well as a description of the potential effects of that uncertainty on the estimates within the plan.

Assumption	Factors Creating Uncertainty	Potential Effects
Water Infrastructure Contributions (WICS) – Pricing	Further work is required on key inputs used to determine WICS pricing. This includes the assessment of growth-related capital expenditure and underlying capacity lives in the draft Asset Management Plan, which currently sits at a 60% completion stage. In addition, while overall average WICS pricing has been assessed for the entity as a whole, no separate zone-based pricing has been determined.	With WICS pricing highly dependent on the inputs, any change to the value of growth-related works, or the assessed capacity lives of individual projects, can materially affect the assessed pricing. Once pricing is assessed and paid by developers for individual developments, “top-ups” or reassessments cannot be requested if it is later determined that pricing was set too low.
Water Infrastructure Contributions (WICS) – Revenue	WICS revenue is based off the underlying pricing and so the high level of uncertainty with WICS pricing translates into the same for WICS revenue.	If WICS pricing changes, then total revenues will also change. In the case of reduced pricing, to levels lower than forecast, this will require additional debt to be raised to cover any yearly shortfall. If more material over multiple years, it may require a reassessment of the size, nature, or timing of the capital works programme.

Climate and Natural Hazards	There is a high level of uncertainty attached to the potential implications of climate change and natural hazards more generally. Recent trends suggest that events such as extensive flooding and the effects of Cyclone Gabrielle may mean more frequent and severe climate-based events.	Severe events can result in substantial capital expenditure to remedy the effects of the event as well as require increased and improved investment to prevent reoccurrences. They can also lead to additional preventative maintenance work. These potential capital and operational costs will need to be financed through additional debt or funded through additional charges unless the costs are offset by reducing other programmes of work. Ultimately more frequent and/or severe events may also increase future insurance premiums.
Resource Management Reforms	Government's intention to repeal the existing Resource Management Act 1991 (RMA) creates a high degree of uncertainty as to what it will be replaced with and what the associated consenting and compliance costs will be.	The reform and replacement of the RMA may lead to higher consenting and compliance costs than have currently been forecast. This may include capital projects as well as operational costs, and may impact on both initial and ongoing costs, all of which will need to be funded. This has the potential to impact on debt, Water Infrastructure Contributions, Water Services charges, and other fees.

Appendix D – Water Infrastructure Contributions Policy

Water Infrastructure Contributions (WICs) are a key funding tool for growth related capital expenditure, where additional capacity has to be built as a result of development.

There are principles and requirements outlined in water services legislation as to how these WICs can be charged and the requirement for the new Entity to adopt a Policy before such charged can be levied.

Following is a copy of the draft Policy, which is a part of this initial funding and pricing plan.

DRAFT