

Wairarapa and Tararua Water Done Well

TARARUA DISTRICT COUNCIL

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

11 November 2024

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

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

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

Wairarapa and Tararua Joint Council Project

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

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

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

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

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

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

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

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

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

A 'WAI + T' Water CCO will:

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

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

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

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

This report sets out the considerations and trade-offs to be considered.

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

A 'WAI + T' Water CCO established under Local Water Done Well enables **debt financing to be more effectively utilised to increase and/or accelerate investment, or to reduce charges for consumers.**

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

Savings to investment programmes could be identified through:

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

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

This pack includes analysis and guidance on:

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

Key conclusions of analysis for Tararua District Council

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

A **determination on how internal borrowings will be treated is critical** to the overall assessment of financial sustainability for Tararua District Council's water services.

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

LTP projected investment represents a significant capital programme that would **meet the 'investment sufficiency' test**.

Projected borrowing requirements for water services exceed 500% over the LTP period.

However, **if included in a 'WAI + T' Water CCO**, this leverage requirement would be manageable and **would meet the 'financing sufficiency' test**.

A 'WAI + T' water CCO would be viable

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

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

A 'WAI + T' Water CCO will:

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

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

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

- Enable the full \$150 million water services capital investment requirement to be funded sustainably; and
- Create **\$42 million of borrowing headroom for TDC** (noting this notional headroom would be \$66m by FY33/34). This would effectively **eliminate all council net debt** by FY33/34.

The additional capacity for TDC could:

- Be used to **fund non-water investment** that is projected to be revenue funded, to **offset or eliminate projected rates increases**; or
- Potentially be capitalised (e.g., as some form of debt or equity investment in 'WAI + T') to **reduce projected water charges**.

If \$50 million of TDC's headroom is utilised for water services, this could **decrease average water bills by \$7,000 + GST per household over the first 8 years** of operation (21% saving).

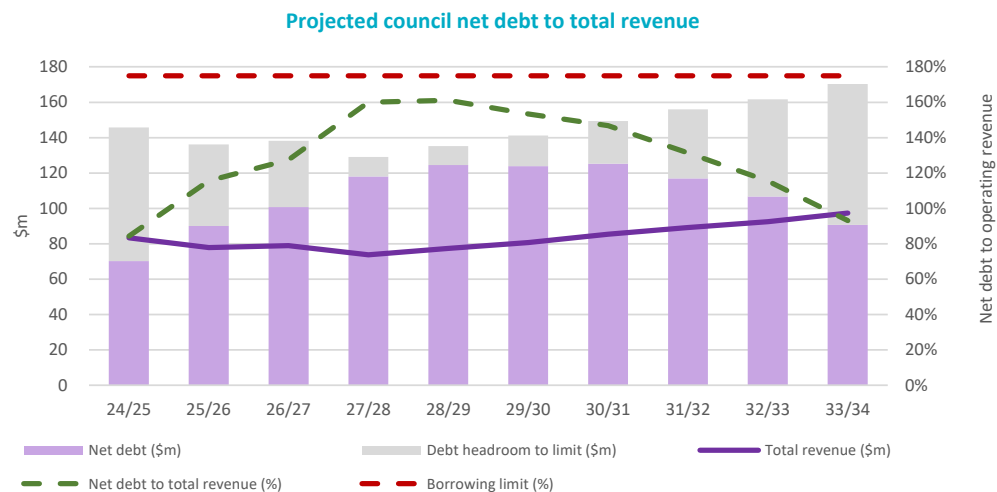
Impact on Tararua District Council from transferring water services to a CCO

Tararua District Council analysis (\$m)	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Including water services (status quo)										
Operating revenue	83	78	79	74	77	81	85	89	92	97
Net debt	70	90	101	118	125	124	125	117	107	91
Net debt to operating revenue	84%	116%	127%	160%	161%	153%	147%	131%	116%	93%
Excluding water services										
Operating revenue	71	64	63	57	59	60	63	65	67	69
Net debt	18	23	23	22	20	18	15	11	5	(2)
Net debt to operating revenue	25%	36%	36%	38%	35%	30%	24%	17%	8%	-2%
Debt headroom created from excluding three waters	42	51	58	70	74	74	77	74	71	66

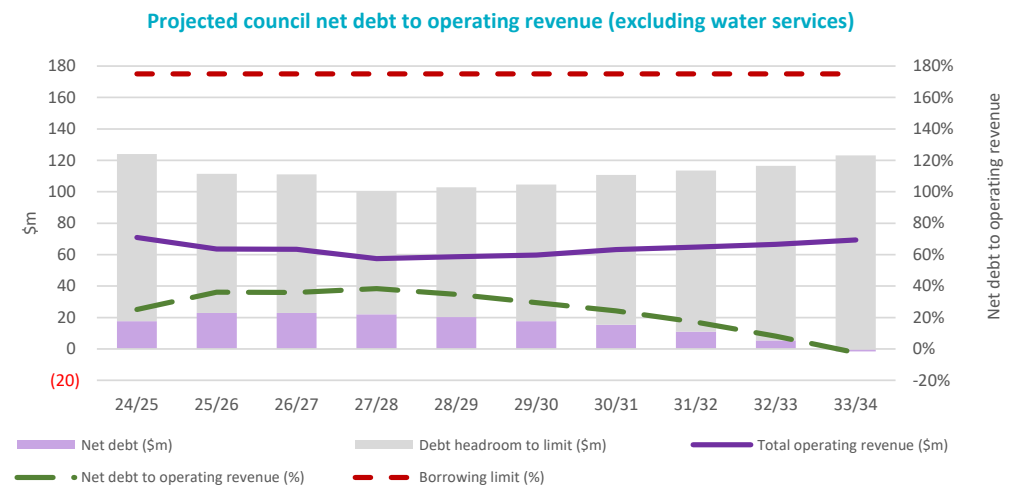
Impact on borrowing headroom if water services are transferred to a water services CCO

- Tararua District Council would benefit from the creation of \$42 million in debt headroom at the parent council level if water services are transferred to a Wairarapa/Tararua water services CCO initially, growing to \$66 million by FY33/34. **This new borrowing headroom could be used to fund non-water investment that is projected to be revenue funded, with a corresponding reduction in non-water rates requirements.**
- This would provide significant borrowing headroom for council's other activities, improve financial resilience and **would eliminate parent council debt** over time at current projected revenues.
- Alternatively, this borrowing headroom could be used to **capitalise internal borrowings for water (e.g., as some form of debt or equity investment in 'WAI + T')** to reduce projected water charges (see 'slide #7' below).

All of council financing (including water services)



All of council financing (excluding water services)



Options to consider for the settlement of internal borrowing balances

Internal borrowing arrangements for water services

The ringfenced financial projections for Tararua District Council's water services (as set out on 'slide #9') show significant negative cash balances.

These negative cash balances reflect internal borrowing arrangements where water services functions are provided centrally financed funding.

The value of projected internal borrowings (i.e., negative cash reserves) for water services are:

- \$22.2 million in FY23/24. These balances were provided to the Department by Tararua District Council.
- This grows to \$54.0 million in FY30/31, driven by cash flows in the water services funding impact statements through the 'increase/(decrease) in reserves' line.
- This balance is then projected to decrease to \$37.9 million in FY33/34, following repayments of internal borrowings generated from revenue receipts, shown as cash flows in the water services funding impact statements through the 'increase/(decrease) in reserves' line.

A determination on how internal borrowings will be treated is critical to the overall assessment of financial sustainability for Tararua District Council's water services.

Projected water services debt balances

Water Services Debt Analysis (\$000)	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Gross external borrowings	26,741	36,359	41,510	49,289	55,749	56,327	56,026	56,419	55,350	54,338
Internal borrowings (represented as negative cash in ringfenced fin stats)	25,740	30,641	36,341	46,760	48,391	49,825	53,930	49,458	45,956	37,902
Total borrowings including internal borrowings	52,481	67,000	77,851	96,049	104,140	106,152	109,956	105,877	101,306	92,240
Water services operating revenues	12,422	14,133	15,528	16,411	18,524	20,924	22,125	24,254	25,818	27,898
Debt to operating revenue - including internal borrowings	422%	474%	501%	585%	562%	507%	497%	437%	392%	331%
Debt to operating revenue - excluding internal borrowings	215%	257%	267%	300%	301%	269%	253%	233%	214%	195%

Borrowing headroom created for Tararua District Council through establishing a 'WAI + T' Water CCO

As set out on 'slide #6' above, Tararua District Council would benefit from the creation of \$42 million in debt headroom at the parent council level if water services are transferred to a Wairarapa/Tararua water services CCO initially, growing to \$66 million by FY33/34.

This borrowing headroom could potentially be utilised to capitalise internal borrowings for water (e.g., as some form of debt or equity investment in 'WAI + T') to reduce projected water charges.

We have included analysis comparing projected water charge price paths under three scenarios:

- **SCENARIO 1: LTP scenario** – where all internal borrowings are treated as external net debt and financed out through new borrowings by the 'WAI + T' Water CCO. This is the 'base case' included in the *Wairarapa and Tararua Water Done Well* report.
- **SCENARIO 2: \$50m capitalisation scenario** – \$50m of the total maximum internal borrowing requirement is capitalised (e.g., as debt or equity) on 30 June 2026, with sufficient working capital for viable water services provision.
- **SCENARIO 3: \$25m capitalisation scenario** – \$25m of the total maximum internal borrowing requirement is capitalised by TDC, with the other half funded by new borrowings by 'WAI + T'.

In scenarios 2 & 3, additional debt capacity for water is utilised through new borrowings and lower charges.

Comparison of price path, WAI + T debt attributed and remaining TDC borrowings

Tararua District Council debt post transfer to 'WAI + T' (net debt numbers exclude water)

Tararua District Council net debt (\$000)	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
TDC Net debt - Scenario 1 (WAI+T finances 100% internal borrowings)										
Tararua District Council net debt post transfer \$k	17,756	22,998	22,863	22,028	20,377	17,668	15,359	11,115	5,428	(1,604)
Tararua District Council net debt to revenue post transfer %	25%	36%	36%	38%	35%	30%	24%	17%	8%	(2%)
TDC Net debt - Scenario 2 (WAI+T finances 0% internal borrowings)										
Tararua District Council net debt post transfer \$k	17,756	73,639	73,504	72,669	71,018	68,309	66,000	61,756	56,069	49,037
Tararua District Council net debt to revenue post transfer %	25%	116%	116%	127%	121%	114%	104%	95%	84%	71%
Scenario 3 (WAI+T finances 50% internal borrowings)										
Tararua District Council net debt post transfer \$k	17,756	48,319	48,184	47,349	45,698	42,989	40,680	36,436	30,749	23,717
Tararua District Council net debt to revenue post transfer %	25%	76%	76%	83%	78%	72%	64%	56%	46%	34%

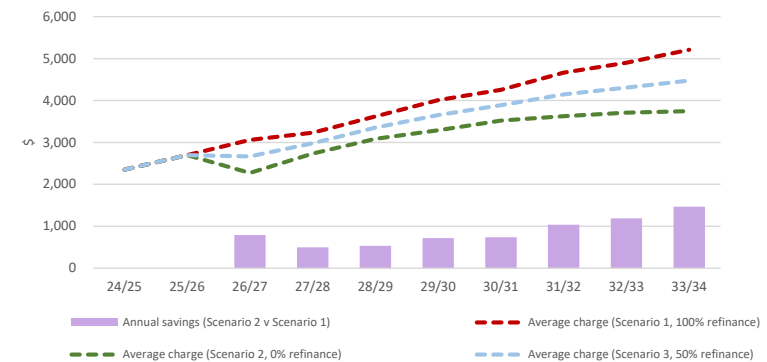
'WAI + T' water debt attributed to Tararua consumers

WAI + T' net debt for Tararua consumers (\$000)	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
WAI + T Net debt - Scenario 1 (WAI+T finances 100% internal borrowings)										
WAI + T net debt post transfer \$k	52,481	67,000	87,895	108,849	120,414	127,466	136,666	139,762	143,578	144,799
WAI + T net debt to revenue post transfer %	422%	474%	501%	585%	562%	507%	497%	437%	392%	331%
WAI + T Net debt - Scenario 2 (WAI+T finances 0% internal borrowings)										
WAI + T net debt post transfer \$k	52,481	16,359	37,254	58,208	69,773	76,825	86,025	89,121	92,937	94,158
WAI + T net debt to revenue post transfer %	422%	116%	273%	378%	406%	420%	441%	441%	447%	444%
WAI + T 3 (WAI+T finances 50% internal borrowings)										
WAI + T net debt post transfer \$k	52,481	41,680	62,574	83,528	95,094	102,146	111,346	114,441	118,257	119,478
WAI + T net debt to revenue post transfer %	422%	295%	417%	519%	523%	500%	515%	485%	473%	444%

Trade-offs to consider:

- The greater the internal borrowings that are refinanced by 'WAI + T' the higher the water charge to consumers. The savings shown below over eight years **total approximately \$7,000 per household** excluding GST (between scenarios 1 & 2).
- However, this would reduce the amount of 'borrowing headroom' created for Tararua District Council as this borrowing headroom would be primarily utilised by 'WAI + T'.
- Under all three scenarios, 'WAI + T' would be financially viable. What changes is the projected price path that Tararua consumers would pay for water services.

Comparison of average water charges under internal borrowing scenarios (excl GST)



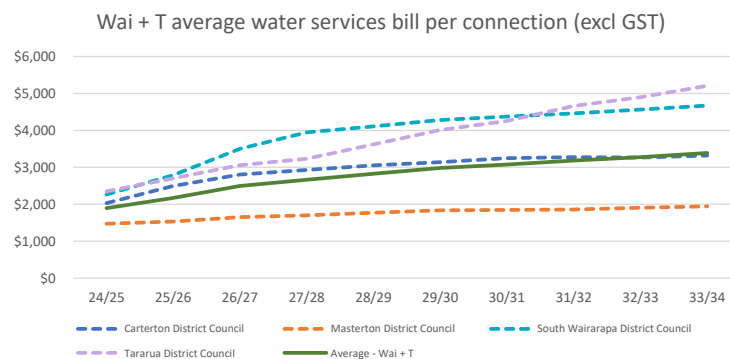
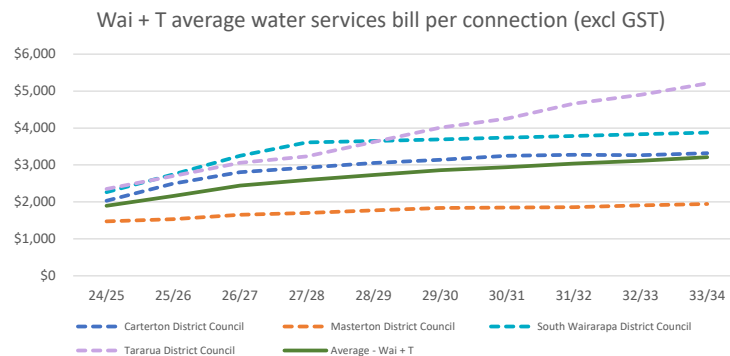
Investment requirements drive household bills for water services

Tararua District Council's proposed levels of investment result in higher charges than the 'WAI + T' average

The 2024-34 LTP is projecting \$150 million of capital investment over ten years. This is a significant capital programme over ten years. Total proposed water services infrastructure investment is 2.5 times depreciation charges over the period.

The level of proposed investment on a per connection basis is significantly higher than the 'WAI + T' average, which in turn sees average household bills for Tararua consumers that are higher than the 'WAI + T' average.

Average investment and bills per connection from the *Wairarapa and Tararua Water Done Well* report are shown below.



Sensitivity analysis on capital investment and the impact on household charges

While a proportion of the projected price increases could be avoided through transferring less debt to 'WAI + T' (as set out in 'slide #7' above), another lever is the level of proposed investment.

To demonstrate the relationship between investment and price we have included scenarios below which show the projected price path at different levels of investment, compared against the 'WAI + T' average projected charge.

These scenarios compare:

- Projected average household charges with \$150 million capital investment over ten years (as set out in Tararua District Council's 2024-34 LTP);
- Projected average household charges with \$125 million capital investment over ten years (17% reduction); and
- Projected average household charges with \$100 million capital investment over ten years (33% reduction).

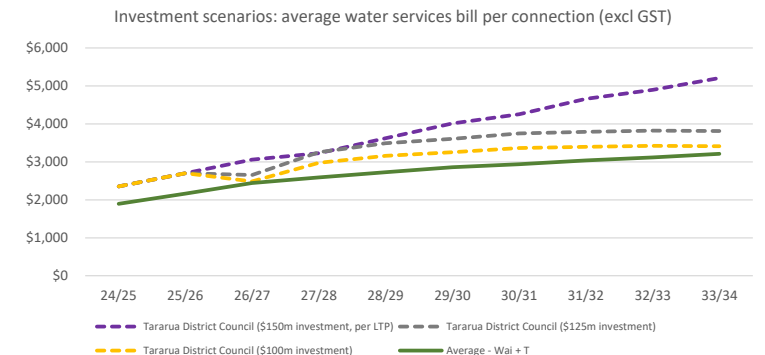
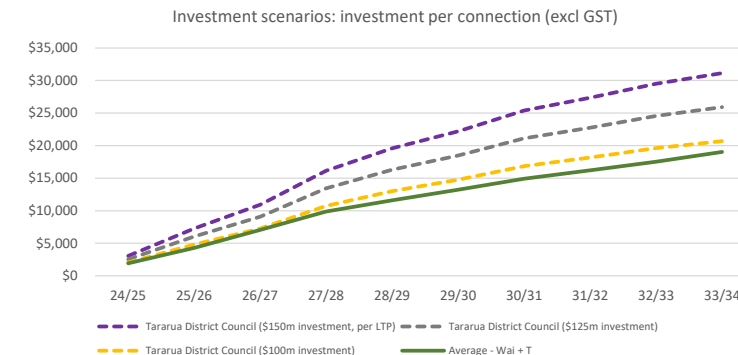
These scenarios show a significant reduction in average household charges with a smaller capital envelope.

Note: the savings are larger moving from \$150m capex to \$125m capex, than the difference between \$125m and \$100m. This is because capital and debt financing inefficiencies in the 2024-34 LTP have been removed when re-setting revenues and prices in the two lower capex scenarios.

Tararua District Council may wish to review the projected water services investment included in the 2024-34 LTP against the minimum requirements required in Water Services Delivery Plans guidance and look to identify any potential savings or efficiencies that could be gained to reduce the total investment requirement.

Savings to investment programmes could be identified through:

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



Tararua District Council: Revenue sufficiency

Projected statement of comprehensive revenue and expense

Statement of comprehensive revenue and expense (\$000)	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Operating revenue	12,422	14,133	15,528	16,411	18,524	20,924	22,125	24,254	25,818	27,898
Total revenue	12,422	14,133	15,528	16,411	18,524	20,924	22,125	24,254	25,818	27,898
Operating expenses	5,876	5,738	5,575	5,696	5,815	5,929	6,047	6,162	6,278	6,397
Finance costs	1,547	1,549	1,836	2,168	2,481	2,606	2,568	2,520	2,424	2,354
Overheads and support costs	1,408	1,516	1,573	1,614	1,652	1,683	1,712	1,748	1,774	1,807
Depreciation & amortisation	4,830	5,145	5,514	5,798	6,062	6,475	6,664	6,839	7,013	7,170
Total expenses	13,661	13,948	14,498	15,276	16,010	16,693	16,991	17,269	17,489	17,728
Net surplus / (deficit)	(1,239)	185	1,030	1,135	2,514	4,231	5,134	6,985	8,329	10,170
Revaluation of infrastructure assets	5,889	4,283	4,941	5,085	5,383	5,266	5,476	5,524	5,403	5,576
Total comprehensive income	4,650	4,468	5,971	6,220	7,897	9,497	10,610	12,509	13,732	15,746
Cash surplus / (deficit) from operations (excl depreciation)	3,591	5,330	6,544	6,933	8,576	10,706	11,798	13,824	15,342	17,340

Key water services metrics

Metrics	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Rates increase	18.3%	16.0%	14.4%	5.7%	13.0%	13.1%	5.8%	9.7%	6.5%	8.1%
Operating revenue increase	21.5%	13.8%	9.9%	5.7%	12.9%	13.0%	5.7%	9.6%	6.4%	8.1%
Operating expenses increase	17.9%	-0.4%	-1.5%	2.3%	2.1%	1.9%	1.9%	1.9%	1.8%	1.9%
Net debt to operating revenue	422.5%	474.1%	501.4%	585.3%	562.2%	507.3%	497.0%	436.5%	392.4%	330.6%
Net debt to operating revenue (excluding internal borrowings)	215.3%	257.3%	267.3%	300.3%	301.0%	269.2%	253.2%	232.6%	214.4%	194.8%
FFO to net debt	6.8%	8.0%	8.4%	7.2%	8.2%	10.1%	10.7%	13.1%	15.1%	18.8%
FFO to net debt (excluding internal borrowings)	13.4%	14.7%	15.8%	14.1%	15.4%	19.0%	21.1%	24.5%	27.7%	31.9%

Commentary on water services revenue and expenses

- The 2024-34 LTP shows a 21.5% uplift in water services revenues for FY24/25, which is primarily due to a 17.9% increase in operating expenses.
- There are large water rates increases projected over the remaining nine years to FY33/34. The average annual increase in water rates over ten years is approximately 11% per year.
- The projected levels of water services revenues are sufficient for the level of investment and expenditure proposed, and fully cover all operating costs including depreciation.
- The large projected revenue increases drive significant operating cashflow receipts which reduce leverage. Net debt to revenue (including internal borrowings) is projected to decrease from 585% in FY27/28 to 330% in FY33/34.
- Water services are projected to provide funds from operations ('FFO', i.e., operating cashflows) of \$3.6 million in FY24/25, which represents 7% of water services debt (including internal borrowings).
- Due to projected rates rises, free funds from operations increase to \$17.3 million in FY33/34, which represent 19% of projected FY33/34 water services net debt (including internal borrowings).
- A Wairarapa / Tararua water services CCO that borrows through LGFA would be likely required to maintain a minimum FFO to debt ratio of 8-10%.**
- This means that there is scope for Tararua District Council (or a 'WAI + T' Water CCO) to reevaluate the level of water services revenue required from FY31/32 onwards.**
- A determination on how internal borrowings will be treated is critical to the overall assessment of financial sustainability for Tararua District Council's water services.**

Revenue sufficiency performance measures

Average charge per connection including GST

Average charge per connection including GST	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Average drinking water bill (including GST)	1,346	1,544	1,660	1,797	2,053	2,056	2,157	2,673	2,743	2,912
Average wastewater bill (including GST)	1,258	1,436	1,718	1,786	1,963	2,348	2,565	2,515	2,686	2,817
Average stormwater bill (including GST)	209	257	292	272	308	430	356	358	423	540
Average charge per connection including GST	2,813	3,237	3,670	3,855	4,325	4,834	5,078	5,547	5,853	6,269
Projected increase	17.3%	15.1%	13.4%	5.0%	12.2%	11.8%	5.1%	9.2%	5.5%	7.1%

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

Operating surplus ratio	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34	Total
Operating surplus/(deficit) excluding capital revenues	(1,239)	185	1,030	1,135	2,514	4,231	5,134	6,985	8,329	10,170	38,474
Total operating revenue	12,422	14,133	15,528	16,411	18,524	20,924	22,125	24,254	25,818	27,898	198,037
Operating surplus ratio	(10.0%)	1.3%	6.6%	6.9%	13.6%	20.2%	23.2%	28.8%	32.3%	36.5%	19.4%

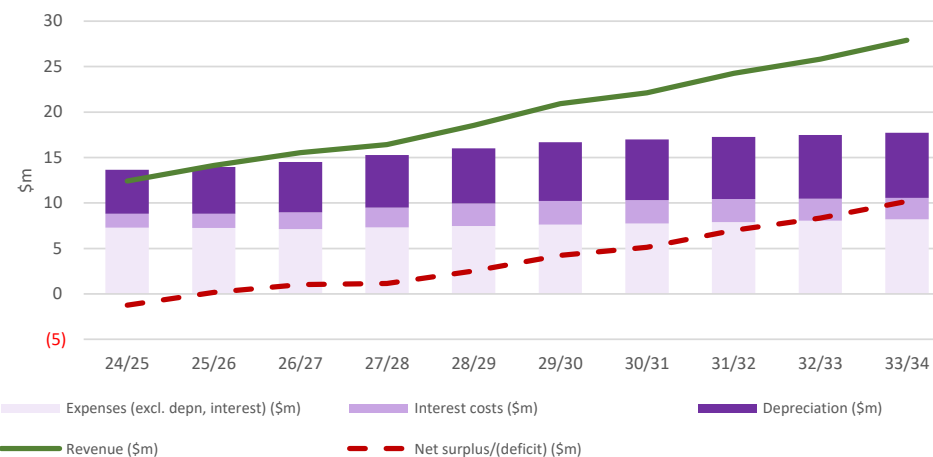
Operating cash ratio: what much cash is generated from operations?

Operating cash ratio	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34	Total
Operating surplus/(deficit) + depreciation + interest costs - capital revenue	5,138	6,879	8,380	9,101	11,057	13,312	14,366	16,344	17,766	19,694	122,037
Total operating revenue	12,422	14,133	15,528	16,411	18,524	20,924	22,125	24,254	25,818	27,898	198,037
Operating cash ratio	41.4%	48.7%	54.0%	55.5%	59.7%	63.6%	64.9%	67.4%	68.8%	70.6%	61.6%

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

- Projected operating revenues cover projected operating costs including depreciation.
- Funds from operations are higher than what would be required for a combined water services CCO funded by LGFA. This is due to projected revenue increases needed to pay down borrowings to get net debt to revenue down from 585% in FY27/28 to 330% in FY33/34.
- LTP projections for water services would likely meet the 'revenue sufficiency' test.**

Projected water services revenue and expenses



Tararua District Council: Investment sufficiency

Projected water services investment

Projected investment in water services (\$000)	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34	Total
Drinking water											
Capital expenditure - to meet additional demand	457	1,414	476	1,939	524	1,604	545	1,669	0	0	8,628
Capital expenditure - to improve levels of services	1,227	1,711	998	1,360	1,730	742	885	730	817	758	10,958
Capital expenditure - to replace existing assets	7,948	7,623	6,679	10,928	3,809	5,390	9,617	3,548	5,258	3,172	63,972
Total projected investment for drinking water	9,632	10,748	8,153	14,227	6,063	7,736	11,047	5,947	6,075	3,930	83,558
Wastewater											
Capital expenditure - to meet additional demand	281	514	532	555	577	601	625	248	253	258	4,444
Capital expenditure - to improve levels of services	1,527	5,268	4,788	6,014	5,941	150	55	56	57	58	23,914
Capital expenditure - to replace existing assets	2,305	2,724	2,520	3,457	3,192	3,239	2,916	2,550	3,401	3,014	29,318
Total projected investment for wastewater	4,113	8,506	7,840	10,026	9,710	3,990	2,854	3,711	3,711	3,330	57,676
Stormwater											
Capital expenditure - to meet additional demand	257	262	268	0	0	0	0	0	0	0	787
Capital expenditure - to improve levels of services	0	0	0	0	0	0	0	0	0	0	0
Capital expenditure - to replace existing assets	328	333	1,134	878	894	992	959	944	985	1,014	8,461
Total projected investment for stormwater	585	595	1,402	878	894	992	959	944	985	1,014	9,248
Total projected investment in water services	14,330	19,849	17,395	25,131	16,667	12,718	15,602	9,745	10,771	8,274	150,482

Funding sources of projected investment

Water Services Investment (\$000)	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34	Total
Capital expenditure - to meet additional demand	995	2,190	1,276	2,494	1,101	2,205	1,170	1,917	253	258	13,859
Capital expenditure - to improve levels of services	2,754	6,979	5,786	7,374	7,671	892	940	786	874	816	34,872
Capital expenditure - to replace existing assets	10,581	10,680	10,333	15,263	7,895	9,621	13,492	7,042	9,644	7,200	101,751
Total investment	14,330	19,849	17,395	25,131	16,667	12,718	15,602	9,745	10,771	8,274	150,482
Capital revenues	0	0	0	0	0	0	0	0	0	0	0
Increase/(decrease) in debt	7,176	9,618	5,151	7,779	6,460	578	(301)	393	(1,069)	(1,012)	34,773
Funds from operations	7,154	10,231	12,244	17,352	10,207	12,140	15,903	9,352	11,840	9,286	115,709
Total investment funding	14,330	19,849	17,395	25,131	16,667	12,718	15,602	9,745	10,771	8,274	150,482

Commentary on water services investment

- The 2024-34 LTP is projecting \$150 million of capital investment over ten years.
- \$102 million of this is for renewals, against ten-year depreciation charges of \$61 million.
- \$49 million investment is provided for improving levels of service and growth.
- This is a significant capital programme over ten years. Total proposed water services infrastructure investment is 2.5 times depreciation charges over the period.
- Significant debt financing, internal borrowings arrangements and water rates/charges increases are needed over ten years to fund this level of investment proposed.

Investment sufficiency performance measures

Asset sustainability ratio: comparison of renewals capital expenditure to depreciation

Asset sustainability ratio	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34	Total
Capital expenditure on renewals	10,581	10,680	10,333	15,263	7,895	9,621	13,492	7,042	9,644	7,200	101,751
Depreciation	4,830	5,145	5,514	5,798	6,062	6,475	6,664	6,839	7,013	7,170	61,510
Asset sustainability ratio	119.1%	107.6%	87.4%	163.2%	30.2%	48.6%	102.5%	3.0%	37.5%	0.4%	65.4%

Asset investment ratio: comparison of total capital expenditure to depreciation

Asset investment ratio	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34	Total
Capital expenditure	14,330	19,849	17,395	25,131	16,667	12,718	15,602	9,745	10,771	8,274	150,482
Depreciation	4,830	5,145	5,514	5,798	6,062	6,475	6,664	6,839	7,013	7,170	61,510
Asset investment ratio	196.7%	285.8%	215.5%	333.4%	174.9%	96.4%	134.1%	42.5%	53.6%	15.4%	144.6%

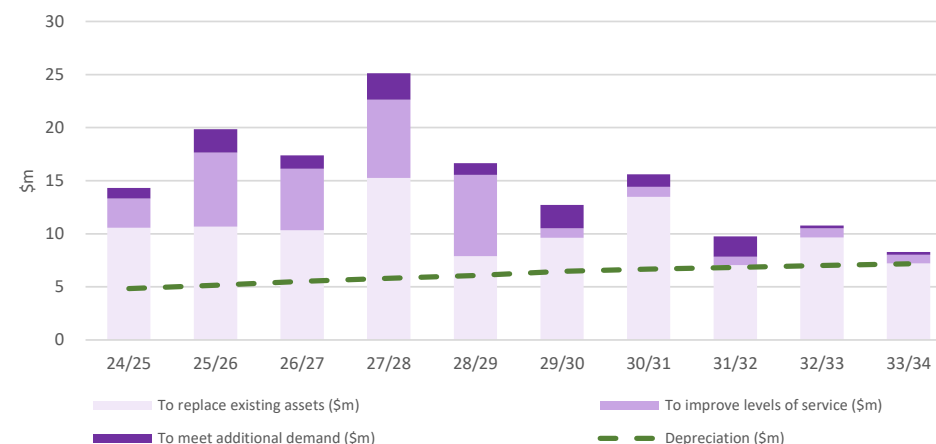
Asset consumption ratio: comparison of book value to replacement value

Asset consumption ratio	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34	Total
Book value of infrastructure assets	194,427	213,414	230,236	254,654	270,642	282,151	296,565	304,995	314,156	320,836	320,836
Total estimated replacement value of infrastructure	360,283	387,916	414,189	448,389	474,526	496,516	521,777	541,246	561,581	579,775	579,775
Asset consumption ratio	54.0%	55.0%	55.6%	56.8%	57.0%	56.8%	56.8%	56.4%	55.9%	55.3%	

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

- Renewals investment is significantly higher than depreciation (+65%).
- Total proposed investment over ten years is 2.5 times depreciation charges, which represents a significant investment programme.
- This proposed level of investment **would meet the 'investment sufficiency' test**.

Projected water services investment requirements



Tararua District Council: Financing sufficiency

Financing sufficiency measures

Net debt to operating revenue ratio

	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Net debt to operating revenue										
Total net debt (gross debt less cash)	52,481	67,000	77,851	96,049	104,140	106,152	109,956	105,877	101,306	92,240
Operating revenue	12,422	14,133	15,528	16,411	18,524	20,924	22,125	24,254	25,818	27,898
Net debt to operating revenue	422%	474%	501%	585%	562%	507%	497%	437%	392%	331%

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

	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Borrowings headroom/(shortfall) against limit										
Operating revenue	12,422	14,133	15,528	16,411	18,524	20,924	22,125	24,254	25,818	27,898
Debt to revenue limit	500%	500%	500%	500%	500%	500%	500%	500%	500%	500%
Maximum allowable net debt	62,110	70,665	77,640	82,055	92,620	104,620	110,625	121,270	129,090	139,490
Total net debt	52,481	67,000	77,851	96,049	104,140	106,152	109,956	105,877	101,306	92,240
Borrowing headroom/ (shortfall) against limit	9,629	3,665	(211)	(13,994)	(11,520)	(1,532)	669	15,393	27,784	47,250

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

	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Free funds from operations (FFO) to debt ratio										
Total net debt	52,481	67,000	77,851	96,049	104,140	106,152	109,956	105,877	101,306	92,240
Funds from operations	3,591	5,330	6,544	6,933	8,576	10,706	11,798	13,824	15,342	17,340
FFO to debt ratio	6.8%	8.0%	8.4%	7.2%	8.2%	10.1%	10.7%	13.1%	15.1%	18.8%

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

- Net debt to revenue for water services peaks at 585% (including internal borrowings) before reducing to 331% by FY33/34, through projected rates increases.
- If internal borrowings are included in external net debt calculations, leverage exceeds the 500% LGFA limit. This is not a major concern, as a 'WAI + T' Water CCO would have sufficient borrowing headroom to accommodate this.
- If internal borrowings arrangements were refinanced through either reducing the amount of debt to transfer or through some form of equity interest arrangement, then this would provide significant additional borrowing capacity for water services.

Projected debt to revenue by water service

Debt to revenue by water service (\$k)	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Drinking water - operating revenue	5,628	6,459	6,683	7,292	8,397	8,474	8,963	11,196	11,581	12,392
Drinking water - net debt	28,584	37,135	42,710	53,868	55,840	59,465	65,963	65,183	64,184	60,281
Drinking water - net debt to operating revenue %	508%	575%	639%	739%	665%	702%	736%	582%	554%	486%
Wastewater - operating revenue	5,864	6,522	7,526	7,882	8,715	10,465	11,505	11,378	12,237	12,934
Wastewater - net debt	22,090	27,967	32,485	39,188	45,117	43,780	41,057	37,758	34,457	30,099
Wastewater - net debt to operating revenue %	377%	429%	432%	497%	518%	418%	357%	332%	282%	233%
Stormwater - operating revenue	930	1,152	1,319	1,237	1,412	1,985	1,657	1,680	2,000	2,572
Stormwater - net debt	1,807	1,898	2,656	2,993	3,183	2,907	2,936	2,936	2,665	1,860
Stormwater - net debt to operating revenue %	194%	165%	201%	242%	225%	146%	177%	175%	133%	72%
Three Waters - net debt to operating revenue %	422%	474%	501%	585%	562%	507%	497%	437%	392%	331%

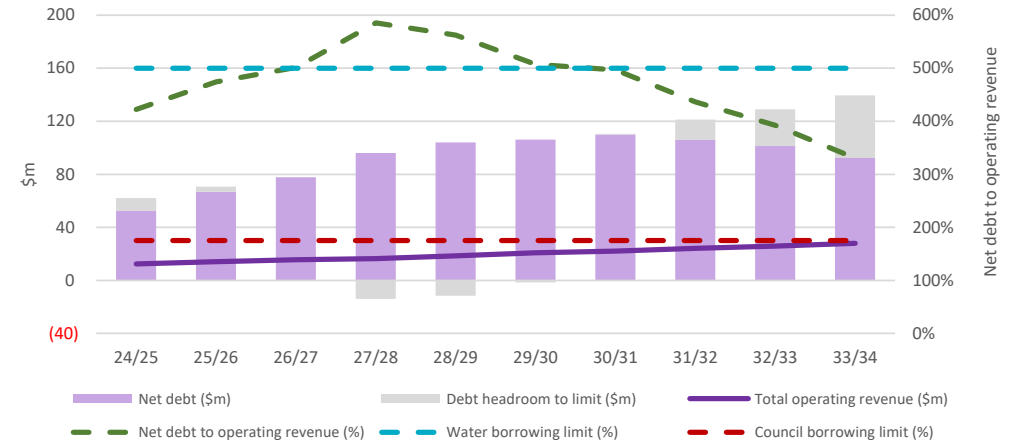
Funding source of investment

Funding source of investment (\$'000)	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34	Total
Capital revenues	0	0	0	0	0	0	0	0	0	0	0
Increase/(decrease) in debt	7,176	9,618	5,151	7,779	6,460	578	(301)	393	(1,069)	(1,012)	34,773
Funds from operations	7,154	10,231	12,244	17,352	10,207	12,140	15,903	9,352	11,840	9,286	115,709
Total investment funding	14,330	19,849	17,395	25,131	16,667	12,718	15,602	9,745	10,771	8,274	150,482

The 2024-34 LTP projects capital investment of \$150 million. \$35 million of this is proposed to be funded by new net borrowings over ten years (23% of the total). This is relatively low and constrained by the high starting leverage for water services (422% net debt in FY24/25); and projected revenue increases driving external and internal debt repayments and lower net debt to revenue (reducing to 331% in FY33/34).

Water services financing

Projected water services net debt to operating revenue



A 5x operating revenue debt limit is included to compare against projected leverage for water services, in line with what LGFA have indicated could be provided to water services CCOs. This limit is projected to be exceeded over the LTP period, if internal borrowings are included, before being paid down. This level of leverage could work in a 'WAI + T' Water CCO.

All of council financing (including water services)

Projected council net debt to total revenue

