ORDINARY MEETING

of

Council

AGENDA

Time: 2:00 pm

Date: Wednesday, 21 May 2025

Venue: Waiata House, 27 Lincoln Road, Masterton

MEMBERSHIP

Mayor Gary Caffell (Chairperson)

Councillor Bex Johnson
Councillor Craig Bowyer
Councillor Brent Goodwin
Councillor David Holmes
Councillor Tom Hullena
Councillor Stella Lennox
Councillor Tim Nelson
Councillor Marama Tuuta

RECOMMENDATIONS IN REPORTS ARE NOT TO BE CONSTRUED AS COUNCIL POLICY UNTIL ADOPTED

Values

1. **Public interest:** members will serve the best interests of the people within the Masterton district and discharge their duties conscientiously, to the best of their ability.
2. **Public trust:** members, in order to foster community confidence and trust in their Council, will work together constructively and uphold the values of honesty, integrity, accountability and transparency.
3. **Ethical behaviour**: members will not place themselves in situations where their honesty and integrity may be questioned, will not behave improperly and will avoid the appearance of any such behaviour.
4. **Objectivity:** members will make decisions on merit; including appointments, awarding contracts, and recommending individuals for rewards or benefits.
5. **Respect for others:** will treat people, including other members, with respect and courtesy, regardless of their ethnicity, age, religion, gender, sexual orientation, or disability. Members will respect the impartiality and integrity of Council staff.
6. **Duty to uphold the law:** members will comply with all legislative requirements applying to their role, abide by this Code, and act in accordance with the trust placed in them by the public.
7. **Equitable contribution:** members will take all reasonable steps to ensure they fulfil the duties and responsibilities of office, including attending meetings and workshops, preparing for meetings, attending civic events, and participating in relevant training seminars.
8. **Leadership:** members will actively promote and support these principles and ensure they are reflected in the way in which MDC operates, including a regular review and assessment of MDC's collective performance.

These values complement, and work in conjunction with, the principles of section 14 of the LGA 2002; the governance principles of section 39 of the LGA 2002; and our MDC governance principles:

Whakamana Tangata	Respecting the mandate of each member, and ensuring the integrity of the committee as a whole by acknowledging the principle of collective responsibility and decision-making.
Manaakitanga	Recognising and embracing the mana of others.
Rangatiratanga	Demonstrating effective leadership with integrity, humility, honesty and transparency.
Whanaungatanga	Building and sustaining effective and efficient relationships.
Kotahitanga	Working collectively.

Order Of Business

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2 Apologies 5
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4 Items not on the Agenda 5
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6 Committee Reports 14
Nil
7 Reports for Decision 15
7.1 Local Water Done Well: Deliberations Report 15
8 Reports for Information 45
Nil
9 Public Excluded 45
Nil

The Chairperson will open the meeting with the karakia

Karakia timatanga

Kia tau ngā manaakitanga a te mea ngaro	Let the strength and life force of our ancestors
ki runga ki tēnā, ki tēnā o tātou	Be with each and everyone of us
Kia mahea te hua mākihikihi	Freeing our path from obstruction
kia toi te kupu, toi te mana, toi te aroha, toi te Reo Māori	So that our words spiritual, power, love and language are upheld
kia tūturu, ka whakamaua kia tīna! Tīna!	Permanently fixed established and understood
Hui e, Tāiki e!	Forward together

At the appropriate time, the following karakia will be read to close the meeting

Karakia whakamutunga

Kua mutu ā mātou mahi	Our work has finished
Mō tēnei wā	For the time being
Manaakitia mai mātou katoa	Protect us all
Ō mātou hoa	Our friends
Ō mātou whānau	Our family
Āio ki te Aorangi	Peace to the universe

1 CONFLICTS OF INTEREST

Members are reminded of the need to be vigilant to stand aside from decision making when a conflict arises between their role as a member and any private or other external interest they might have.

2 APOLOGIES

The Chair invites notice from members of:

- leave of absence for future meetings of Masterton District Council
- apologies, including apologies for lateness and early departure from the meeting where leave of absence has not previously been granted.

3 PUBLIC FORUM

4 ITEMS NOT ON THE AGENDA

The Chairperson will give notice of items not on the agenda as follows:

Matters requiring urgent attention as determined by resolution of the Council

- The reason why the item is not on the agenda; and
- The reason why discussion of the item cannot be delayed until a subsequent meeting.

Minor matters relating to the general business of Council

No resolution, decision or recommendation may be made in respect of the item except to refer it to a subsequent meeting of Masterton District Council for further discussion.

5 CONFIRMATION OF COUNCIL MINUTES

5.1 MINUTES OF COUNCIL MEETING HELD ON 14 MAY 2025

File Number:

Author: **Harriet Kennedy, Governance Team Leader**

Authoriser: **Kym Fell, Chief Executive**

RECOMMENDATION

That the Minutes of Council Meeting held on 14 May 2025 to hear submitters in relation to the Local Water Done Well consultation, be received and confirmed as a true and correct record of that meeting.

ATTACHMENTS

1. Minutes of Council Meeting held on 14 May 2025

MASTERTON
WHAKAORIORI
DISTRICT COUNCIL

MINUTES

Ordinary Council Meeting
Wednesday, 14 May 2025
Hearing of Submissions
Local Water Done Well

Order Of Business

1 Conflicts of Interest 3
2 Apologies 3
3 Public Forum 3
4 Items not on the Agenda 3
5 Confirmation of Council Minutes 3
There were no Council minutes for confirmation.
6 Committee Reports 3
There were no Committee reports
7 Reports for Decision 3
7.1 Local Water Done Well: The Future of Our Water Services Consultation Hearing Report 3
8 Reports for Information 7
There were no reports for information.
9 Public Excluded 7
No matters were considered with the public excluded.

MINUTES OF MASTERTON DISTRICT COUNCIL
ORDINARY COUNCIL MEETING
HELD AT THE WAIATA HOUSE, 27 LINCOLN ROAD, MASTERTON
ON WEDNESDAY, 14 MAY 2025 AT 2:00 PM

PRESENT: Mayor G Caffell (Chair), Councillors B Johnson, C Bowyer, B Goodwin, D Holmes, T Hullena, S Lennox, T Nelson and M Tuuta

IN ATTENDANCE: Iwi representatives Jo Hayes and Robin Potangaroa, Chief Executive, General Manager Strategy and Development, General Manager Finance, General Manager Infrastructure and Assets, Chief Advisor, General Manager Community, General Manager Corporate, Strategic Planning Manager, Corporate Planning Lead, Governance Team Leader.

1 CONFLICTS OF INTEREST

Iwi Representative Jo Hayes declared that she was the Chair of Rangitāne o Wairarapa Incorporated

Councillor Johnson declared she was a member of the Masterton Ratepayers and Residents Association.

2 APOLOGIES

There were no apologies.

3 PUBLIC FORUM

There was no public forum as the purpose of the meeting was to hear submissions.

4 ITEMS NOT ON THE AGENDA

There were no late items

5 CONFIRMATION OF COUNCIL MINUTES

There were no Council minutes for confirmation.

6 COMMITTEE REPORTS

There were no Committee reports

7 REPORTS FOR DECISION

7.1 LOCAL WATER DONE WELL: THE FUTURE OF OUR WATER SERVICES CONSULTATION HEARING REPORT

The report providing Council with the submissions on the Local Water Done Well (LWDW) Consultation – The Future of Our Water Services for the hearings on 14 May 2025 was presented by the Corporate Planning Lead.

Council heard from the following submitters:

Sub #	Name

#102	Rangitāne o Wairarapa Incorporated - Tina te Pū (Amber Craig) The presenter spoke to the submission. Questions • In response to a question about who the submitter was representing, as through the process Rangitāne had supported Local Water Done Well, she advised that she was representing Rangitāne O Wairarapa Incorporated and through that had asked whanau, hapu and communities and brought their whakaaro to the table. • The submitter agreed when asked whether they believed that the matters raised in the submission could happen through an enhanced in house model, • When asked who she had consulted with she advised that she had gone out to whānau members, Papawai Marae Trustees, Kohunui Marae Trustees, to their environmental team, and other whānau conversations at hui around wai where the matter had been discussed. • The submitter was asked about her statement about the enhanced status quo rather than old solutions and the contradiction when the enhanced status quo was the old solution. She advised that they were trying to say that a new committee with other groups wasn't needed to be able to do new things and innovate and collaborate, and they were throwing a challenge on the table proceeding forward. Proceeding with the Tararua option didn't stop being able to do new things and collaborate with the community and whānau. • The submitter confirmed she had not been able to talk to all whānau, but had tried to get to as many as possible. • The submitter advised she had the support of the Rangitāne Board. • Clarification was sought from the submitter as Council understood iwi supported the Wai + T model, but they said they were respresenting Rangitāne and supported the stand alone enhanced model. The submitter responded that they had put forward that there were ways to do it regardless of which way Council went forward. The views reflected the whānau talked to and mulitple years of experience. The submitter claified that they supported either approach but with new ideas and new thinking. It was clear that the same thinking could not continue. • The submitter confirmed they supported the enhanced status quo model as whānau were concerned that their voice would be lost if there were other councils involved as they were struggling to have a voice at the table already and that one solution that fitted everyone would not succeed. If Wai + T prevailed and there was one Māori group for all the regions, then that one group would need to think about how that happened as a solution for Dannevirke would not be the same for Pirinoa. That group needed to think about how we collaborate on the ground, as community solutions aren't going to be the same across the board.
#77	Masterton Ratepayers and Residents Association (Lyn Riley) The presenter spoke to the submission. Questions • In response to a question about how many responses they got to their survey the submitter advised that it wasn't about the number but about proportionality, they had surveyed all registered members and got a response from 1/3 which although under 150 was a larger response in proportion to the 139 submissions Council received from the community. • The submitter was asked whether they would support the Wai + T option if one of the terms of the agreement was non subsidisation. The submitter

	responded if it was the cheapest option then she would say yes. • The submitter was asked what other problems they saw with the proposal and replied that there was a lot of detail missing like the make up of the board, what was the strategic vision across all councils and did they match, are all working together at a strategic level, how many ratepayers would be thrown out of their houses to pay for infrstructure in Martinborough or Dannevirke, there are too many unknowns and variables, how would they all work together as it was not one size fits all. • The submitter confirmed that they understood that the stand alone enhanced alternative would not be the same as it was now.
#12	Chris Blunden The submitter spoke to his submission. Questions • Clarification was sought whether retaining intellectual property and expertise and making sure there was plenty to go around was the submitters main argument for the Wai + T model. The submitter replied that with separate entities, when an individual leaves it leaves a hole, it will be a big hole as a lot of deep subject matter expertise to fill a critical gap is needed, but a bigger entity will have breadth and depth, you will have others with the expertise to do the tasks at hand. If you have a small team and lose people you increase the risk to council and residents. • The submitter was asked what he meant by the millstone of increased debt. He advised that he felt that the 500% debt available was too high and didn't think that burden should be placed on councils, it should be national debt to support the country not individuals. While he recognised that Masterton does better than other regions it is still a large number and he didn't think it was in the best interests of Masterton or the region to go up to that cap. It was a concern and that risk needed to be considered and taken care of as part of the process.
#116	Sustainable Wairarapa (Erica Jar on Teams) The presenter spoke to the submission and noted that she had emailed a copy of her speaking notes (see Minutes Attachment 1). Questions • The submitter was asked whether their support was conditional on all the information that's needed being provided and that if that information wasn't there, they would support the enhanced stand alone model. The submitter advised that they couldn't support something they don't know what it looks like. • In response to a question about what the submitter meant by double billing, the submitter advised she was referring to interest payments and the fact that transferring debt from the council so the council could take on more debt just meant that the community would be paying two lots of interest as members of the community.
#1	Bob Alsop The submitter spoke to his submission. Questions The submitter was asked for clarification that he supported the Wai + T but had quite a few questions. He advised that he did support it but had big concerns that if they weren't answered the trust of the populace, the people council was here to serve, would be lost.

#56	Robbie Hullena The submitter spoke to his submission. There were no questions.
#44	Peter Debney The submitter spoke to his submission and tabled a copy of his speaking notes (Minutes Attachment 2). Questions • The submitter was asked if for some reason the Wai+T couldn't guarantee non-standardisation of pricing would that change his thinking. The submitter advised that It would challenge the viability of the proposal and that the key was how the four councils come together and go through the dialogue process and address some of the issues around the indebtedness of the current services. It wouldn't be an easy process, but if we're open and honest and can look ahead, and see where contingencies can be addressed, we can do it. Standardisation and paying the same rates as industry accumulating profits would be grossly unfair on ratepayers. Some councils are coming together, we are unique where we have a geographic location and four councils that can bring that together and have economies of scale which is where cost savings and sharing of debt would need to be be addressed. He would like to believe that standardisation was not a possibility.
#95	Lyn Patterson (TEAMS) The submitter spoke to her submission. There were no questions.
#129	Wairarapa Federated Farmers (Jamie Falloon) The submitter spoke to the submission. There were no questions.
#46	Jamie Falloon The submitter spoke to his submission. There were no questions
Attachments 1 Sustainable Wairarapa Speaking Notes 2 Peter Debney Speaking Notes	

RESOLUTION 2025/53

Moved by Councillor D Holmes
Seconded by Councillor M Tuuta

That Council:

1. Receives the full set of submissions on the LWDW Consultation – The Future of Our Water Services (Attachment 1);
   (a) Notes that 139 submissions were received
   (b) Notes of these submissions 11 submitters are confirmed to be heard.
2. Notes that the Deliberations meeting for the LWDW Consultation is scheduled for 21 May

2025.

CARRIED

8 REPORTS FOR INFORMATION

There were no reports for information.

9 PUBLIC EXCLUDED

No matters were considered with the public excluded.

The Meeting closed at 3.44pm.

The minutes of this meeting were confirmed at the Council Meeting held on 21 May 2025.

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CHAIRPERSON

6 COMMITTEE REPORTS

Nil

7 REPORTS FOR DECISION

7.1 LOCAL WATER DONE WELL: DELIBERATIONS REPORT

File Number:

Author: **Karen Yates, General Manager Strategy & Development**

Authoriser: **Kym Fell, Chief Executive**

PURPOSE

To provide Council with a summary of feedback received through the Local Water Done Well: The Future of Our Water Services consultation. This report also includes staff advice to support Council's deliberations on the submissions and seeks direction on the progression of next steps for preparing a Water Services Delivery Plan for submission to the Department of Internal Affairs by 3 September 2025.

RECOMMENDATIONS

That Council:

1. **Notes** that the Council have been provided with the full set of submissions on the Local Water Done Well consultation as part of the Hearings Report.
2. **Considers** the community feedback received and advice from officers.
3. **Agrees EITHER**

   (a) to progress work on the Wai + T water services delivery model, including entering into a Commitment Agreement with the participating councils and developing the Water Services Delivery Plan and foundation principles to be carried forward into the WSDP and foundation documents that will include:

   (i) non-standardisation of pricing and debt

   (ii) share allocation

   (iii) decision-making

   OR

   (b) to not progress a Wairarapa Tararua water services delivery model and only progress a Masterton-only water services delivery model.

4. **Notes** that if Council agrees to progress a Wairarapa Tararua water services delivery model there will be two further opportunities to exit the arrangement (off-ramps) and to submit a WSDP with a Masterton-only water services delivery model to the Department of Internal Affairs.
5. If Council agrees to progress a Wairarapa Tararua water services delivery model, **delegates** authority to the Chief Executive and Mayor to enter into the Commitment Agreement with the participating councils.

CONTEXT

Local Water Done Well (LWDW) is the Government's approach to tackling New Zealand's long-standing water infrastructure challenges. It emphasises the importance of local decision-making and provides councils with a framework for determining how water services will be delivered in the future.

The Local Government (Water Services Preliminary Arrangements) Act 2024 ("the Act"), which came into effect on 2 September 2024, requires all councils to prepare a Water Services Delivery Plan (WSDP). This must include an adopted service delivery model and be submitted to the Department of Internal Affairs (DIA) by 3 September 2025 for approval.

Before making a final decision on a preferred delivery model, the Act requires councils to consult their communities on at least two service delivery options. One of these must be the existing model, or an "enhanced status quo" - in Masterton District Council's case, a combination of internal and external service provision that must be enhanced to meet new regulatory requirements.

To develop the options for consultation, Council engaged with iwi entities, representatives from the DIA, Crown Infrastructure Partners, and other sector experts. This engagement helped assess the likely impact of each model on our community.

Following this process, Council identified two options for consultation:

- Our Proposal: Forming a Wairarapa–Tararua council-controlled water organisation, jointly owned by Masterton, Carterton, South Wairarapa, and Tararua District Councils.
- Our Alternative Option: Continuing with our current approach but enhancing it to meet new regulatory standards set by Taumata Arowai and the Commerce Commission.

Council adopted the LWDW Statement of Proposal on 19 March 2025 (Report item 4.4, page 25), and public consultation ran from 21 March to 22 April 2025. A hearing was held on 14 May 2025, where elected members heard from 10 submitters.

Deliberations are an opportunity for Council to discuss the submissions received, consider the submission analysis, views of the community, any advice from staff, and make decisions.

ANALYSIS AND ADVICE

Consultation Process

Consultation occurred between 21 March and 22 April 2025.

The Statement of Proposal and submission form were available on our website, from the Customer Services Centre (161 Queen Street) and the Library.

To ensure broad community participation, three public workshops were held at varied times (Wednesday 2 April evening, Friday 4 April morning, and Monday 14 April afternoon). The first session was livestreamed and made available on Council's YouTube channel for those unable to attend in person.

Additional engagement included community pop-up events attended by elected members and staff, as well as presentations to stakeholder groups by request. Throughout the consultation period, frequently asked questions and responses were added to the Council's consultation web page to support public understanding.

Community feedback was sought on the following two options:

- Our proposed option – To join with South Wairarapa, Carterton and Tararua District councils to form a joint council-controlled water organisation to deliver water services.
- Our alternative option – A Masterton-only approach.

Submitters were asked to indicate their preferred option and share why they selected that option.

Summary of Submissions

A total of 139 submissions were received during the consultation period. The majority of submissions (112) were received online, 21 submissions were completed on a physical submission form that were then entered into Survey Monkey, and six provided their submission via email or letter.

Submitter demographics

Submitters were asked demographic questions to help understand which parts of the community responded. These questions were optional and not all submitters responded. Of those who did respond:[1]

- 85% were Masterton Urban residents, 11% were Masterton Rural residents
- Half (50%) indicated they were 70 years or over, 27% were 60-69 years of age
- Most submitters (90%) identified as New Zealand European, 11 submitters (9%) identified as Māori, three as Asian (2%) and two (2%) as Pacific Peoples.
- 42% identified as female, and 56% as male (the remaining didn't answer or gave an alternative response).
- Most submitters (82%) did not identify as living with impairments/long term health conditions or as tāngata whaikaha/disabled, 12 submitters (10%) did (the remaining preferred not to answer).

Redactions were applied to individual submitters demographic information and other content that did not meet the content conditions of the Submission Policy.

Quantitative analysis

Submitters were presented with two delivery options for the future of our water services.

The Council's proposed option was to join with South Wairarapa, Carterton and Tararua District councils to form a joint council-controlled water organisation to deliver water services.

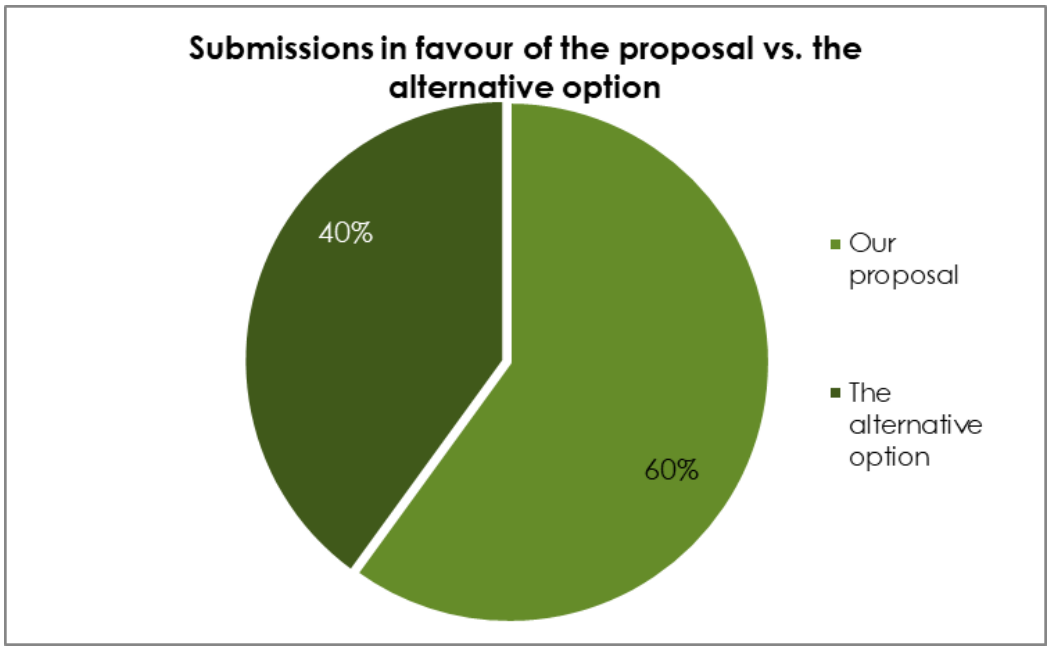
The alternative option was a Masterton-only "enhanced status quo" approach of delivering water services as the Council currently does with enhancements to meet new legislative requirements.

[1] Refer to Attachment 1 for graphic illustration of submitter demographics.

Submissions in favour of the proposal vs. the alternative option

	Our proposal: Wai-T		The alternative option: Masterton-only		No Preference indicated	
	n	%	*n*	%	*n*	%
Total – All submissions (n=139)	82	59%	55	40%	2*	1%
Total – Those indicating a preference (i.e. excluding not indicated n=137)	82	60%	55	40%	-	-

*In addition, two online submitters did not tick a box indicating their preference between the proposal and the preferred option but gave a clear indication of their preference in their comments and were therefore categorised accordingly.



Qualitative analysis

The submission form (online and hard copy) asked submitters to explain why they chose their option. Of the 133 submitters who completed a submission form, 121 provided some explanation. In addition, six written submissions (emails or letters) were received providing comment. In total, 91.3% (127 of 139) submitters provided some written comment as part of their submission.

Responses were considered in the context of the option the submitter selected (i.e. the proposal or the alternative) with 92.7% (76 out of 82) who selected/indicated the proposed option, and 89.1% (49 out of 55) who selected/indicated the alternative option giving a reason to explain their choice. Two written submissions did not specify a clear preference and were analysed separately. The

reasons/comments provided were analysed[2] for common themes. Where a submitter's comments aligned with more than one theme their response was counted under each theme. For this reason, the total number of comments indicated in the table below will add up to more than the number of submitters noted. The table information below shows the key common themes for each option.

Supports Proposed option: Wairarapa – Tararua	**n= 76**	**Supports Alternative option: Masterton-only**	**n=42**
Economies of scale e.g. Larger scale of operation / cost savings / efficiencies / shared costs	27	Standardisation/Subsidisation – e.g. Don't want to subsidise other regions / Councils / have no confidence in ability to prevent subsidisation / cross subsidisation is not acceptable.	22
Better long-term option – Comments referred to the 'long term'	19	Affordability concerns e.g. Masterton rate payers have lower incomes / need to keep rates as low as possible / proposal more expensive	17
Increased borrowing / debt levels	18	Local control e.g. Keep assets, control and services local / local accountability	16
Concerns re uncertainty – e.g. Reference to a number of areas that are still to be confirmed such as the structure of the board, ownership and accountability, pricing, and involvement of Regional Council	13	Complexity/Bureaucracy with Wairarapa Tararua e.g. Too complex / overly complex / too many people involved / extra bureaucracy	13
General support – e.g. It just makes sense / common sense / most logical / most feasible / most viable	12	Concerns re other Councils e.g. Other region's water management / assets are insufficient / inferior	10
Support for amalgamation of Wairarapa Councils e.g. step towards amalgamation / one Council / one region	11	Uncertainty with Wairarapa Tararua e.g. Too much uncertainty / many unknowns	9
Standardisation/Subsidisation – e.g. Stating or indicating they do not support standardisation / subsidisation etc.	11	Happy with status quo e.g. Masterton water services is performing well / keep up the good work	8

[2] There is always an element of interpretation when analysing qualitative feedback. Given that, trends rather than raw numbers should be emphasised.

Supports Proposed option: Wairarapa – Tararua	**n= 76**	**Supports Alternative option: Masterton-only**	**n=42**
Concerns re viability of Masterton-only	10	Concern re increased borrowing potential / amount	4
Enhanced Expertise – e.g. More / broader knowledge / better experts / talent retention and attraction	9	Inclusion of Tararua - Wairarapa only / don't include Tararua	2
Future water resilience – e.g. Better potential for improved water security / resilience with this option.	8		
Leadership/Governance - Professional board / less political / supportive of governance structure	6		
Iwi preference – e.g. Preference of Iwi / following guidance of Iwi	4		

Summary of Comments

Support for the Wairarapa–Tararua proposal was largely driven by its perceived long-term benefits, economies of scale with potential cost savings, and the ability to increase borrowing to fund future investment. Some submitters also saw the proposal as a step toward the potential amalgamation of Wairarapa councils and a way to strengthen the region's water resilience. The proposed governance structure - featuring a professional board with less political involvement - was also viewed as an advantage by some. While many of the reasons reflect perceived benefits, some submitters who selected this option did raise concerns. These primarily related to decisions that are still to be made, outside the scope of the consultation, including governance arrangements and pricing. There was some overlap between submitters - i.e. some submitters commented on both concerns regarding uncertainties and concerns regarding pricing.

Among those who preferred the Masterton-only option, the most common reasons related to concerns about the Wairarapa–Tararua model. Submitters expressed unease about the prospect of pricing standardisation, loss of local control, affordability, and the overall complexity of the proposed structure. Additionally, some submitters noted the current arrangements were working well and didn't see any reason for change.

Those without a stated preference sought clarity on governance, finances, data, operations, and environmental impacts, and echoed concerns about the consultation process.

During the hearings some submitters indicated a level of fluidity around the option that they had selected or indicated in their submission, signalling they could consider a different option if certain conditions were met and/or there was more certainty.

Pricing standardisation

Pricing standardisation emerged as a key concern among submitters on both sides of the discussion. Of the 76 who supported the Wairarapa–Tararua proposal and provided comment (noting 82 indicated support overall but not all commented), 11 mentioned pricing standardisation or a related issue, with a subset (4) stating their support for the proposal was conditional on it not being introduced. Among the 49 Masterton-only supporters who commented (noting 55 indicated support overall but not all commented) pricing standardisation was the most commonly cited reason for supporting the approach, with 22 submitters raising it in their comments. Two of these submitters indicated in their submission that they might reconsider their preference if there was a clear long-term guarantee (e.g. 10 years) that pricing would not be standardised.

These responses show that, regardless of the option selected, the possibility of pricing standardisation was a shared concern.

Uncertainty impacting decision-making

Uncertainty was a theme in feedback from submitters, particularly in relation to the Wairarapa–Tararua proposal. Concern tended to relate to aspects of the proposal that remain undecided, e.g. the final governance structure, ownership arrangements, pricing, and accountability. Others were concerned about the state of infrastructure in neighbouring districts, expressing hesitation about joining a wider entity without clarity on the condition and investment needs of other areas' assets.

Alternatively, some submitters questioned the long-term viability of the Masterton-only option raising doubts about whether it could deliver the necessary resilience, efficiency, and investment capacity to meet future water service demands.

These comments reflect that, across both options, the community has a number of unanswered questions that may have influenced their decision-making.

Water resilience

Although not directly in scope of the consultation on preferred water service delivery options, some submitters took the opportunity to share their view and recommendations on water resilience. This included comments in support of water meters and a user pay system, and requirements of water tanks. These responses show that water resilience remains a key issue for our community.

ADVICE

Officers provide the following advice to respond to additional issues raised by submitters through consultation and requests for further information from elected members to enable decisions to be made on next steps.

Will the Local Water Done Well models lead to privatisation?

No. The Local Government (Water Services) Bill (Bill 3) sets out a number of core requirements that will apply to all water service providers. This includes restrictions against privatisation, by requiring water organisations to be owned by councils and/or consumer trusts, and that water assets cannot be used as security on a loan.

Will the Masterton-only model be the same as existing service provision?

Some submitters expressed a preference to stay with the status quo, particularly as there were uncertainties within the process and with the Wairarapa Tararua model.

It is important to reiterate that a Masterton-only water services delivery model will not be the same as the existing service provision by the Council. The new legislative framework requires full financial ring-fencing of revenue and Council must meet new statutory objectives and financial operating principles.[3] There will be increased economic, environmental and water quality regulation and planning and accountability reporting requirements. The purpose of the Local Water Done Well reforms is to address widespread underinvestment in water infrastructure and water services over several decades. This will require more resourcing and different ways of operating.

Is there an opportunity to join or withdraw from a regional model later?

The participating councils in a CCO, whether it is Wairarapa Tararua or another region, may decide to place restrictions on councils leaving or joining the CCO for a set number of years. This would be to enable the CCO to achieve a steady operating state or protect the investment of the original participating councils in the set up of the CCO.

Will my rates go down by the same amount as my water charges in a new CCO invoice?

Waters will no longer be part of the rates invoice, but the CCO charging model has yet to be decided and will likely be a transition over several years. As the purpose of the reforms is to address underinvestment in water infrastructure and services, it is likely that water charges will be higher than they currently are. In addition, council overheads for the balance of the Council will need to be reduced as an allocation of overheads goes with the CCO. If they are not reduced, rates will likely not decrease as much.

Can we have confidence in the financial modelling?

The financial information and modelling will need to be further developed for the WSDP and will need to comply with DIA guidelines which assess high level financial sustainability of the delivery model chosen.

Is there too much uncertainty to proceed with a Wairarapa Tararua model?

There is a high degree of uncertainty in the Local Water Done Well process. The enduring settings for the water services system are yet to be enacted and detailed regulatory requirements are still to be developed. Due to legislative timeframes, Council has had to consult the community when it does not have all the information on what the models will look like, how they will operate and how much it will cost. While there is more certainty for a Masterton-only model, there are still many unknowns because the model and regulatory environment will be different to the status quo.

Is price standardisation required in a Wairarapa Tararua model?

A primary objective of the LWDW policy reform is to establish a framework for local government to provide water services in a flexible, cost-effective, financially sustainable, and accountable manner.[4] Pricing for water services takes place in this framework.

The WSDP must contain financial details including financial projections for delivering water services for at least 10 years (with detail in relation to the first three financial years and the operating costs and revenue required to deliver water services. These financial projections are the baseline information against which pricing decisions of the CCO must be made.

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[3] See https://www.dia.govt.nz/diawebsite.nsf/Files/Water-Services-Policy/$file/LWDW-guidance-Water-services-delivery-models-(updated-December-2024).pdf for an overview.
[4] See Bill 3, cl 3.

We noted in the consultation document under the heading “Pricing over time” that each council charges for water services differently and has different levels of income, debt and infrastructure needs. The DIA notes that higher water bills are generally due to higher operating costs and/or higher borrowings per connection (which in turn is a result of levels of investment required).[5]

We also noted in the consultation document that there is no requirement under the Local Water Done Well framework to standardise prices across the districts. The Wairarapa-Tararua councils would prefer a joint CCO to first focus on operational improvements and financial sustainability before considering standardising charges and this would be part of the discussion between councils when forming the CCO and by the CCO in the future.

The DIA notes that while councils could decide to standardise prices, over the short to medium term this may result in cross-subsidisation across different consumer groups. They advise that ensuring the prices that different communities pay reflect the direct costs of service to each community will ensure that costs of service are understood and that charges to communities are transparent and equitable.

The DIA guidance provides a worked example of how different councils in a joint CCO could have different price paths which reflect their different costs of service.[6] This example also demonstrates how councils in a joint CCO can structure debt to reflect different borrowing requirements.

Can Council protect Masterton ratepayers from price standardisation?

The basis of revenue raising and pricing must be included in the CCO foundational documents

The legislation requires a CCO to comply with certain obligations and objectives set out in foundational documents, which enables Council as a shareholder to influence revenue policy/pricing decisions:

- Constitution*:* this sets out the rules and governance arrangements of the CCO, which must be a company incorporated under the Companies Act 1993. Shareholders may specify particular objectives, including about pricing, which the board of the CCO must consider.

- Transfer agreement*:* Councils may transfer responsibility for providing water services to a CCO through a transfer agreement. Transfer agreements must set out arrangements to be put in place for charging and revenue collection for the water services that are being transferred. Council can specify matters that will impact pricing in the transfer agreement.

- Statement of expectations*:* Shareholders must prepare a statement of expectations for the CCO, which the CCO must give effect to. The purpose of the Statement of Expectations is to:

    - set out the shareholders' expectations of the CCO;

    - set the priorities and strategic direction of the CCO; and

    - inform and guide the decisions and actions of the CCO and their water services strategy.

[5] Department of Internal Affairs *Pricing and debt considerations for multi-council owned water council-controlled organisations (CCOs)* December 2024, p 2.

The Statement of Expectations is the vehicle through which Council can inform the decisions of the CCO, including about pricing.

- Water services strategy: A CCO must prepare and adopt a water services strategy which gives effect to the Statement of Expectations. The water services strategy must include the CCO's proposed charges, service levels, financial forecasting information, and long-term infrastructure and investment plans.

The structure and governance of the CCO can protect Masterton's relative position

Officers commissioned MorrisonLow to provide advice on Council's ability to protect Masterton ratepayers from price standardisation, including through foundational documents setting up the structure and operation of the CCO (see Attachment 2), including:

- The method of shareholding allocation (based on e.g. number of connections, population, revenue).
- Provisions that protect against shareholders exerting positive or negative control over the CCO.
- Decision-making mechanisms (votes according to e.g. shareholding, one vote per council).
- Ensuring certainty and flexibility in decision making through different approaches to standardisation.

MorrisonLow conclude that it is clear that there is a path forward that would provide Council with assurance that:

- price differentiation is possible
- shareholding can be determined on a basis that reflects Masterton's position relative to the region. Decision making can be structured in a way that promotes regional focus and recognises Masterton's position relative to the region at the current time
- protections can be enshrined in the series of foundational documents required to establish and then control and govern the CCO
- review points are recommended to account for change and best available data.

Can future non-standardised prices be guaranteed?

While protections against price standardisation can be put in place, standardisation in the future cannot be guaranteed. As with any legislation, a future government may decide to change the legislative framework for Local Water Done Well. In addition, a future Masterton District Council may decide that standardisation of pricing benefits Masterton ratepayers.

Guaranteeing non-standardised pricing in perpetuity may not be beneficial to Masterton ratepayers. MorrisonLow note that any measures to protect Masterton customers based on what is known now, should never be so rigidly designed as to prevent subsequent decision making that would provide benefit to the community if and when better information is to hand. All council's knowledge and understanding of three waters services, assets and financial implications has (and continues to) evolve. This will be reflected in 3-yearly WSDPs similar to the reforecasting Council undertakes with the Long-Term Plan.

Can the Commerce Commission intervene in the CCO's pricing decisions?

The Commerce Commission is the new economic regulator for water services under Local Water Done Well.[7] Their first focus will be on setting information disclosure requirements about planning, investment and performance. The purpose is to monitor whether water service providers are collecting enough revenue and incurring sustainable debt levels for their investment needs, while promoting increased efficiency and cost reflective tariffs/charges in the long-term. This includes considering whether tariffs/charges reflect localised costs so that consumers have a clear understanding of how they are being charged.[8]

There will also be a process for other regulatory tools including price-quality (maximum/minimum revenues or prices alongside minimum quality standards) and revenue threshold (maximum/minimum revenue required for investment) regulation, if those tools are required.

With respect to intervention, the Commerce Commission have advised that price differences in different Council regions of a joint CCO that makes its own pricing decisions would not necessarily signal there is a pricing efficiency issue under the economic regulation regime's statutory purpose. Cost reflective prices will generally be more consistent with that purpose. However, if additional types of regulation are imposed in future, that may allow more direct intervention on the regulated entity's pricing decisions, taking into account cost and other differences within that entity's supply area.

It is important to note that affordability of water charges is not included as a consideration in the economic regulatory regime. However, the affordability of water charges will be considered by shareholding councils and the CCO in achieving the requirement of financial sustainability (revenue sufficiency, investment sufficiency and financing sufficiency). In other words, affordability will be front of mind when setting revenue requirements, which will in turn be determined by the operating costs of the service and proposed levels of investment and service.

Progressing a Wai + T model

Elected members have requested information on how a Wairarapa Tararua model could be progressed taking into account the concerns raised. The steps below would enable Council to negotiate with the other councils and work towards the development of a Water Services Delivery Plan for submission to the DIA in September 2025.

May 2025	June 2025	July 2025	August 2025	3 September 2025
• Project team formed • agree and sign Commitment Agreement	• Council Workshop: - draft foundation principles for negotiation • Start MDC WSDP • Negotiate foundation principles • Council Workshop: - Negotiation outcomes	• Council Meeting: - Decision to proceed or offramp • WSDP merged (if not off ramping), **OR** MDC WSDP progresses (if off ramping) • Draft WSDP to DIA for early review	• WSDP iterations (post DIA review) • Council Workshop: - WSDP iterations • WSDP certified by CEs • Council Meeting: - Adopt WSDP. **OR** Take offramp	• Submit WSDP

Two off ramps are identified that will enable Council to decide not to progress with the Wairarapa Tararua service delivery model and instead submit a WSDP to the DIA based on a Masterton-only service delivery model.

1. Council forms a project group to negotiate with the other councils, to include the Chief Executive, General Manager Infrastructure and Assets, Director - Commercial and external expertise. No governance representation is proposed.
2. Councils sign a Commitment Agreement, similar to the previous Memorandum of Understanding outlining the way we will work together.[9]
3. Workshop with Council to develop "bottom lines" including on standardisation of prices and debt, shareholding allocation and decision-making preferences, for the purposes of agreeing foundation principles to be carried forward into the WSDP and foundation documents.
4. Project group negotiates with other councils to agree foundation principles.
5. Workshop with Council on negotiation outcomes
6. Further negotiation if necessary
7. Council **agrees** to foundation principles and progressing the WSDP by July 2025 **(OFF-RAMP)**
8. Project group completes drafting of WSDP
9. Council **agrees** the WSDP by August 2025 **(OFF-RAMP).**
10. WSDP submitted to DIA by September 2025 and accepted.
11. Foundation documents are developed and CCO is incorporated by 1 July 2026.
12. CCO goes live by 1 July 2027

The project group will concurrently proceed with developing key components of a WSDP that will apply to both service delivery models until the decision point at 7 above. After this point, the project group will need to develop both WSDPs to meet the submission timeframe, although there is the ability to apply to the DIA for an extension for WSDP submission.

OPTIONS CONSIDERED

The options for Council consideration are:

- **Option 1**: Progress work on the Wairarapa Tararua water services delivery model, including the Water Services Delivery Plan and foundation principles to be carried forward into the WSDP and foundation documents including on:
    - non-standardisation of pricing and debt
    - share allocation
    - decision-making

  This work would be progressed in line with the steps outlined above.

[9] The DIA have a number of templates and guidance, including for a Commitment Agreement; see https://www.dia.govt.nz/Water-Services-Templates-and-guidance-for-new-water-organisations.

- **Option 2**: Do not progress work on a Wairarapa Tararua service delivery model and progress work on a Water Services Delivery Plan with a Masterton-only water services delivery model.

To assist Council in considering these options, the advantages and disadvantages of both models which we identified in the consultation document and an analysis of the options are included below.

Wairarapa-Tararua (Our Proposal)

Advantages	**Disadvantages**
Bigger scale will enable the following: • Access to increased levels of funding • Process efficiencies. • Streamlined work programming and project management. • Flexibility to apply loan funding where needed across the region. • Could contribute to building local economic capacity and jobs for local businesses. The preferred option expressed by iwi as it aligns with iwi rohe	• Establishing a water services entity to serve multiple locations will be a complex task. • All borrowing is subject to board approval, but there is some risk associated with a joint council Council Controlled Organisation's debt levels, the guaranteeing and agreement of those levels once the entity is established. • Loss of internal council expertise and understanding of water services over time. • No direct council control over the management of water assets and how services are delivered. • Council overheads for the balance of the Council will need to be reduced as an allocation of overheads goes with the CCO.
	Further discussions will be required on key matters such as: • the structure of the Board • pricing, including the potential for standardised rates across the region • service levels and performance measurement • staffing and the CCO's location • the programme of work This creates some uncertainty, as the full impact on our community is not yet known.

Masterton-Only (Our Alternative)

Advantages	Disadvantages
• Day-to-day operations will continue with minimal disruption. • The Council retains full governance and control over water assets and services. • The Council will have direct control over work programmes, service levels and pricing (subject to regulatory requirements)	• Not managed by a professional board to oversee operations. • Any additional resourcing required to meet new compliance monitoring and reporting requirements from MBIE, Commerce Commission and the Water Authority would be the sole responsibility of the Council. • Competing with other water entities for skilled staff and resources. • Limited expertise constraints may lead to a greater reliance on external consultants. • Smaller scale reduces buying power which may lead to less competitive pricing. • Focus would be shared across all infrastructure, not just water services. • Not the preferred option expressed by iwi. • Does not align with the purpose and intent of the new legislation to achieve regional water service delivery so may be subject to further legislative controls. • Any costs resulting from changes to legislation or policy settings in future would sit solely with Masterton ratepayers. • Opportunity for efficiencies because of economies of scale would be lost. • There is a risk that the investment needed to maintain our existing water infrastructure could be higher than expected with costs falling entirely on Masterton ratepayers. • Lower borrowing capacity (175 per cent for future infrastructure and facilities upgrades. This could result in needing revenue increases to fund debt repayment over a shorter period. • Being close to the debt ‘cap’ may restrict the Council’s ability to make investment decisions for the district

The options analysis for Council consideration is included in the table below

Option		Advantages	Disadvantages
1	Progress a Wairarapa Tararua model	- Consistent with majority community and iwi support - uncertainties around pricing, shareholding and decision-making can be worked through - retains ability to exit the model if bottom lines not agreed - Advantages of the model may be realised	- Extra resourcing to develop both WSDPs - If taken, late off-ramp decisions will result in time pressures for WSDP submission (extension could be sought) - Disadvantages of the model may be realised
2	Do not progress a Wairarapa Tararua model and progress a Masterton-only model only	- Early decision reduces resourcing needs - Advantages of the model may be realised	- Inconsistent with majority community and iwi support - Opportunity to work through uncertainties and concerns about the Wairarapa Tararua model is lost - Disadvantages of the model may be realised

RECOMMENDED OPTION

Council is requested to agree either Option 1 or Option 2. Officers recommend Option 1 as this option enables Council to work through the uncertainties and concerns of the Wairarapa Tararua model while still providing Council with two opportunities to exit the arrangement.

SUMMARY OF CONSIDERATIONS

Strategic, Policy and Legislative Implications

The legislative and policy provisions for the Local Water Done Well (LWDW) programme are outlined in the report to the 13 November 2024 Council meeting (Report 7.1, Agenda page 6). Council must submit a Water Services Delivery Plan, either a joint WSDP with the participating councils for the Wairarapa Tararua joint arrangement, or a Masterton only WSDP, by 3 September 2025.

Significance, Engagement and Consultation

Council's three waters network are strategic assets under the Significance and Engagement Policy. Changes to the delivery of water services will have high significance for the community. Consultation arrangements are provided for in the Local Government (Water Services Preliminary Arrangements) Act 2024 and the Local Government Act 2002. Consultation was from 21 March to 22 April 2025. Hearings were held on 14 May 2025.

Financial Considerations

Both options that are being considered will have significant financial implications for Masterton District Council and our community as assets and debt and revenue and expenditure commitments all transfer into a separate entity or are ring-fenced as part of the Council. The transition to the new service delivery model will require project management and external resource and expertise. Under the Wairarapa Tararua CCO, Council will pay a 1/4 share of the external costs of developing the WSDP (some $400k) plus internal staff resources, recognising the opportunity costs while the organisation is transitioning to the new delivery model.

The WSDP has some significant financial analysis requirements to be fulfilled. These include financial projections, financial sustainability metrics and other financial disclosures. Water services must be shown to be able to be delivered via a financially sustainable model by 30 June 2028.

The water services revenues will be ringfenced as separate and distinct from other council business. The WSDP will need to provide six years of historical financial information about investment intentions versus actual delivered.

The WSDP is expected to set out proposed billing and charging arrangements and how they will transition from current mechanisms. Affordability considerations and constraints will be included for residential and non-residential consumers. It will also need to detail a financial strategy that shows how projected investment requirements will be financed and a debt repayment strategy.

The WSDP will need to detail the proposed insurance arrangements that will apply under the delivery model being proposed.

Implications for Māori

Water and environmental wellbeing are key priorities for mana whenua and the wider Māori community.

Ngāti Kahungunu ki Wairarapa and Rangitāne o Wairarapa iwi were represented on the Wairarapa Tararua Advisory Oversight Group and at Council workshops and meetings on the topic.

11 submitters identified as Māori, making up 8 per cent of the submissions received.

Communications/Engagement Plan

Consultation ran from 21 March – 22 April 2025. Three community consultation workshops and additional ‘pop up’ events were held during consultation period.

The opportunity for the community to have their say was advertised on the Council website, social media, radio and through traditional media. Physical copies were available at the Council customer service centre and library.

Environmental/Climate Change Impact and Considerations

There are no climate change impacts as a result of the decisions sought in this report. Some submitters indicated that the proposed option (Wairarapa Tararua) may deliver improved water security and resilience.

Reducing emissions from water services will need to be considered as part of the renewal and upgrade of the network. This will form part of the Asset Management Plans and Strategy of the entity delivering water services in the future.

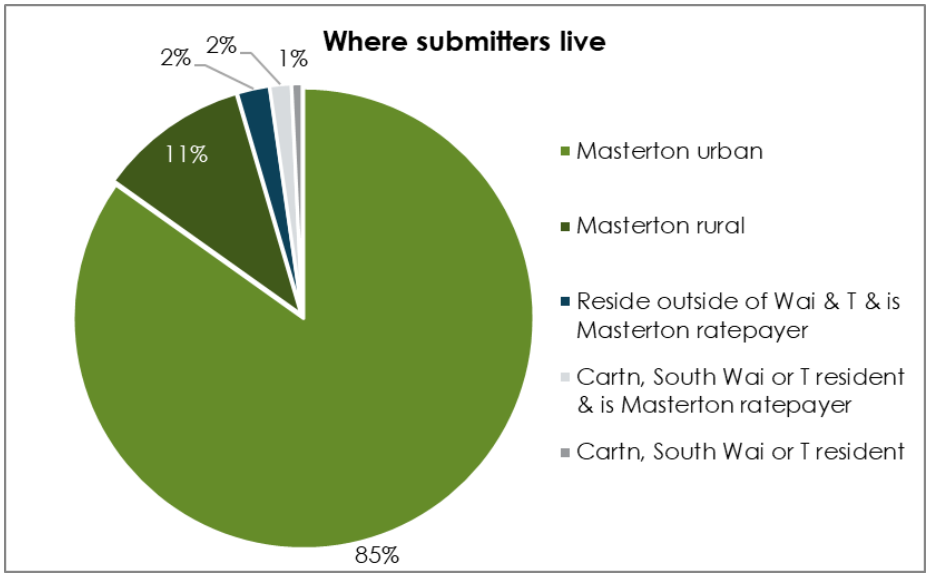
NEXT STEPS

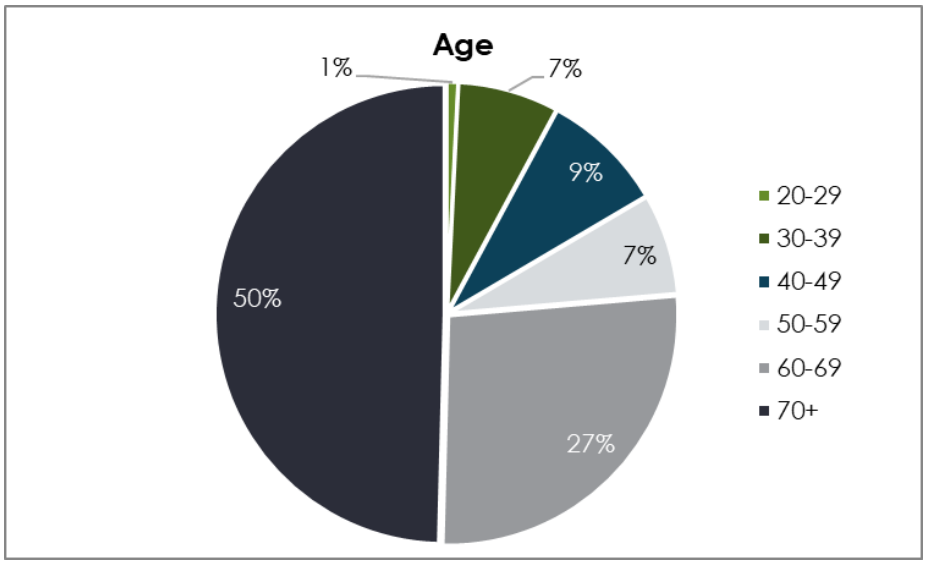
Next steps to progress the Wairarapa Tararua water services delivery model and WSDP are outlined in the report, above. If Council prefers to progress only a Masterton-only water services delivery model and WSDP, officers will progress the work on the WSDP and report to Council with a high-level project plan at the 4 June 2025 meeting.

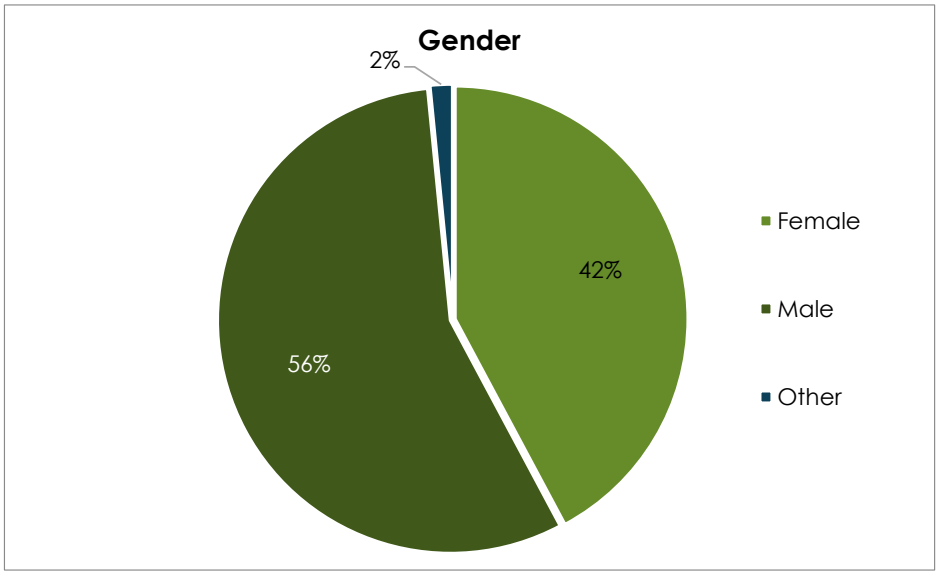
ATTACHMENTS

1. **About LWDW Submitters** ⇩
2. **MorrisonLow Memo Wai + T Key Issues** ⇩

Attachment 1: About LWDW Submitters



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56%
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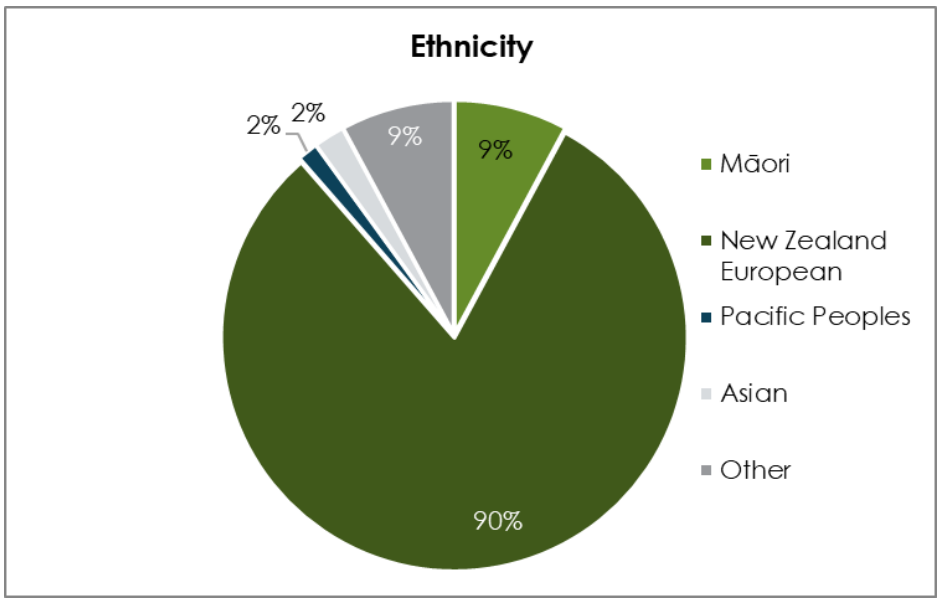
Male
Other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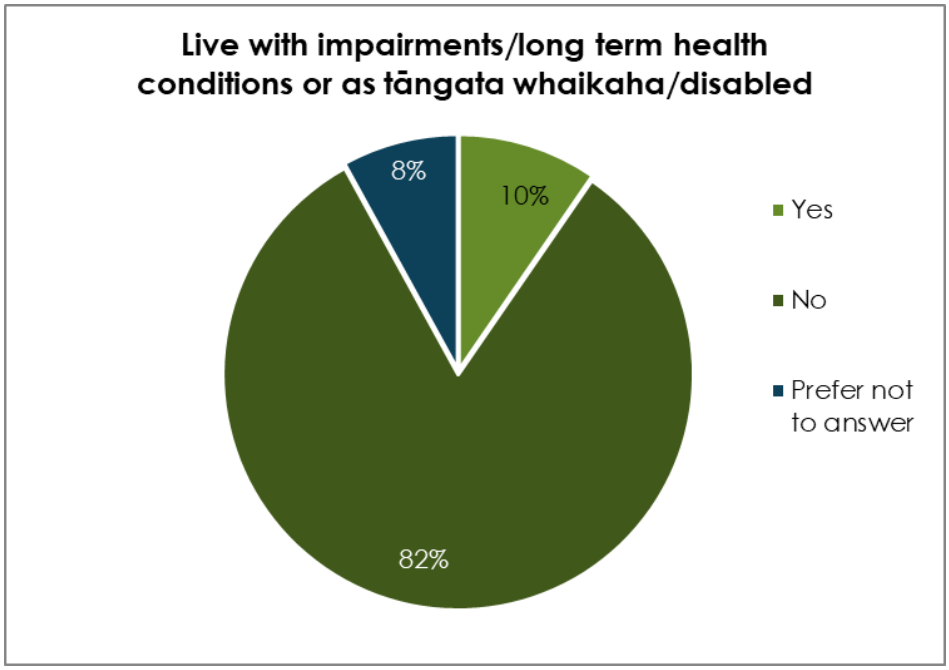
9%
9%
90%
Māori
New Zealand European
Pacific Peoples
Asian
Other


Live with impairments/long term health conditions or as tāngata whaikaha/disabled
8%
10%
82%
Yes
No
Prefer not to answer

MEMO - Advice and guidance on current issues raised in considering Wai + T option

Introduction

Purpose

This memo provides advice and guidance to Masterton District Council (Council / MDC) on issues raised regarding the option of joining with South Wairarapa, Carterton and Tararua in a jointly owned Council Controlled Organisation (CCO) called *Wai + T*. Specifically, Council's desire to:

- on establishment, protect Masterton from price standardisation
- ensure that there are sufficient protections over key decisions or changes to foundational documents over the longer term that protect Masterton from price standardisation to the extent that is desired.

This report provides commentary and advice to Council on achieving these objectives.

The role and decision-making rights of Council in the structure and arrangements for New Zealand's water organisations is an evolving area. There is however advice produced by the Department of Internal Affairs (DIA) which is based on existing robust company law concerning sharing rights. This guidance is based on that advice and the briefing paper from National Infrastructure Funding and Financing (NIFF) that was provided to the councils in a group workshop as well as our own knowledge and experience.

In addition, DIA guidance will be supported by example clauses produced by Russell McVeagh which will further provide assurance to Council on the typical terms that they can prescribe in the establishment of multi-council arrangements. Where these arrangements differ from strictly commercial company arrangements in the focus on control to effect desired community outcomes. We expect that Council would make use of such tools when they are available.

Guidance summary

The report does not provide final recommendations for each of the issues as those are not required at this stage and wider advice, including legal and financial advice would be necessary to resolve those. Instead this guidance focuses on the relationship between:

- ownership of the CCO (the method of shareholding allocation)
- exerting control over the CCO (avoiding negative and positive control)
- decision making mechanism (how decisions are made between and by the ownership group)
- the mechanisms that will be necessary to achieve MDC's objectives
- flexibility in decision making (review points).

In our view it is clear that there is a path forward that would provide Council with assurance that:

- price differentiation is possible
- shareholding can be determined on a basis that reflects Masterton's position relative to the region. Decision making can be structured in a way that promotes regional focus and recognises Masterton's position relative to the region at the current time

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- protections can be enshrined in the series of foundational documents required to establish and then control and govern the CCO
- review points are recommended to account for change and best available data.

In addition, being clear on the terms Masterton requires to work together with others will provide clarity to and inform discussions with the other councils during the establishment phase. It is important to note that the commitment agreement, transfer agreement and any agreement relating to establishment will be before the CCO is established. During this phase no shareholding or mechanisms to govern decision making such as summarised above exists. Those agreements effectively mean that at this point in time all Councils have an equal weight/voice.

Measures that should be considered during the CCO establishment phase and subsequent operations are outlined further below. The commitment agreement and transfer agreement however will facilitate and document shared interests and governance. Therefore considering the matters addressed in this guidance now it is crucial to inform subsequent arrangements during the operational phase of the CCO.

It is important to highlight that the relationship between the measures suggested for consideration is as important as the measures themselves.

In our view there is a balance and any measures to protect Masterton customers based on what is known now, should never be so rigidly designed as to prevent subsequent decision making that would provide benefit to the community if and when better information is to hand. All councils knowledge and understanding of three waters services, assets and financial implications has (and continues to) evolve.

Background

As part of Local Water Done Well, Council has consulted with its community on the option of joining with South Wairarapa, Carterton and Tararua to form a jointly owned Council Controlled Organisation. The proposed entity is currently known as Wai + T. The next step in the process is for Council to consider the results of the consultation process and whether it will continue to engage in development of the Wai + T model.

We understand that Council has concerns about potential cost implications if standardised pricing for water services was adopted as part of Wai + T. Council's concern is that MDC three waters customers, and in particular urban Masterton three water customers would subsidise those of other areas within Wai + T and that this is unfair. Council seeks to ensure the interests of their ratepayers are protected:

- on establishment by ensuring that price standardisation is not part of Wai + T
- over the longer term by ensuring that there are sufficient protections over key decisions or changes to foundational documents.

We understand that the concerns stem from the cost differentials for three waters services shown by the modelling produced to support Wai + T and the relative size and scale of MDC and its' three water customers compared to the other councils (as shown in the table below comparing connections).

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Table 1 - Wai + T number of connections[1]

Connections	South Wairarapa	Carterton	Masterton	Tararua	Combined total
Number	4,935	3,235	10,474	5,716	24,360
Proportion	20.3%	13.3%	43%	23.5%	100%

We do note that the work to date for Wai + T shows that benefits are available to all three water customers and in the interests of realising those benefits, MDC, like the other councils involved in Wai +T may need to make and accept some concessions in order to achieve those benefits.

Ownership of the CCO

Typically there is 'value' attached to the shareholding of a company (CCO) and the rewards of ownership flow in proportion to the shareholding. This makes shareholding of the individual and the relativity of it between other owners of fundamental importance.

That is not the case for Wai + T. There is little, if any financial or material benefit from ownership for MDC or for the other owning councils.[2] Unlike a strictly commercial company, Council's ownership of Wai + T is not an investment intended to make a return over time, there is no wider market in which the shares can be sold, nor could ownership be used as security.

Instead Council's ownership is reflective of community ownership of the CCO and community ownership of the assets (100% of the shares are owned by councils that represent 100% of the customers), and MDC being the steward of that ownership.

In our view this means that the allocation of ownership and the relativity between different owners takes on a different meaning. The true purpose of ownership of Wai + T is to set expectations and standards of performance and hold it accountable. Shareholding largely drives public perception (and dividends if payable), and importantly is linked to the next consideration which is the balance of control and decision-making rights.

Before settling on the actual mechanism for allocation of shareholding we would recommend Council first, then after that the collective councils, consider the outcomes of at least two of the different options identified by NIFF as they will produce different proportions of ownership.

[1] Water Services - FPP (4-COMBO) 8.0 (20 yr).xls, produced by Matt Townsend
[2] If Wai + T was able to issue Dividends then there would be some financial benefit, however, like NIFF we would recommend a No Dividend model for Wai + T

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Table 2 - NIFF ownership/shareholding allocation options

Options	Description	Pros	Cons	NIFF
Split based on connections	Updated periodically to reflect connections by council jurisdiction	✓ Simple measure to apply ✓ Impartial ✓ Broadly consistent with two waters	× Not reflective of asset condition or historical investment × Penalises under-connected councils	◕
Split based on population	Updated periodically to reflect population by council jurisdiction	✓ Simple measure to apply ✓ Impartial	× Not reflective of asset condition or historical investment × Less reflective of business	◔
Split based on recurring revenues	Updated periodically to reflect recurring revenue by council jurisdiction	✓ Directly reflects revenue derived ✓ Relatively simple (need to track revenues by council jurisdiction) ✓ Reliable information	× Not reflective of asset condition or historical investment × Pricing differentials / decisions impact allocation	◑
Split based on free cash flow (FCF)	Updated periodically to reflect free cashflow by council jurisdiction	✓ Cashflow based and broadly consistent with M&A practice ✓ Broadly consistent with fair share of dividends	× Dependent on tracking FCF by council jurisdiction (complex and not regional) × Could change significantly over time × Complex and opaque	○
Split based on asset value	Updated periodically to reflect asset value (or net asset value) by council jurisdiction	✓ Valuation based and broadly consistent with M&A practice ✓ May be considered equitable / fair ✓ Consistent methodology can be agreed	× Dependent on tracking assets by council jurisdiction (complex and not regional) × Complex and opaque – different asset valuation practices	◔
Split equally	If there are four councils, each receives 25%	✓ Simple with no periodic update required ✓ Smaller council's maintain voice	× Perceived to be unfair and not proportional × Any dividends would be disproportionately shared	○

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We have in the past considered net asset value as a reasonable basis for shareholding of a Water CCO (asset value – debt). That measure reflects what each council is contributing and what each council would 'take back' should they exit the CCO. However, if there is no financial or material benefit from ownership and there is sufficient protection for MDC around future decisions and changes to foundational documents then in our view either the number of connections or net asset value would be appropriate. The table below shows the two are virtually the same in this situation.

Table 3 - Wai + T shareholding allocation

Shareholding	South Wairarapa	Carterton	Masterton	Tararua	Combined total
Connections	20.3%	13.3%	43.0%	23.5%	100.0%
Net asset value	23.0%	9.6%	42.0%	25.3%	100.0%

Control over the CCO and decision-making mechanism

We recommend voting mechanism provisions in both the Shareholders Agreement and Constitution which ensure no single council has positive or negative control but which require 75% of the shareholders to agree to any changes to foundational documents.

Negative control includes instances where any shareholder has the ability to block action by the other councils. For example, where voting requires unanimous decision making or a quorum allows smaller councils to impact voting.

In the establishment phase any agreement at that point in time is on the basis that all Councils have an equal weight/voice. It is important therefore that Council is clear on the relative importance and fairness of the decision-making process. The commitment agreement and transfer agreement will facilitate and document shared interests and governance. Therefore, considering the matters addressed in this guidance now is crucial to inform subsequent arrangements during the operational phase of the CCO.

A key concern for Council is that as a shareholding council once the water organisation is operational, it will be able to influence the direction of the new water organisation. In the proposed Wai + T model Council's role is limited to a shareholder and what that entails under the constitution and shareholder agreement for example, issuance of a Statement of Expectations.

Legislation permits shareholders to approve the Water Services Strategy and Annual Budgets. We believe councils should prohibit this in the constitution to limit shareholder decisions to strategic issues with operational / financial decision-making left to the Board (with economic regulation oversight).

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Table 4 – NIFF shareholder control of decision making control

Options	Description	Pros	Cons	NIFF
Strategic	Shareholder decisions should be strategic[1] leaving operational and financial decisions to the Board (with economic regulation oversight)	✓ Councils can continue to influence strategic direction (albeit collectively) ✓ Board has clear accountability ✓ Typical structure for economically regulated utilities with diverse shareholders ✓ May have improved credit rating implications (and more consistent with LGFA guidance)	× Dependent on Board (not directly democratically elected) to make decisions in best interest of customers and community	●
Operational or financial	Shareholder decisions include strategic but also enable operational and/or financial decision making. For example approval or ability to require changes to Water Services Strategy and/or Water Services Annual Budget	✓ Councils can continue to control (albeit collectively) operational and/or financial decisions ✓ Councils being democratically elected may better represent customer and community perspectives	× Reduces line of accountability and could lead to Board and shareholders blaming each other for outcomes × Reduces impact of expert Board making decisions × Complicates relationship with economic regulation (and priority of decision making) × May have S&P credit rating if shareholders exert significant control	◔

Decision making mechanisms

To achieve the protections that MDC seeks, shareholder decisions that require agreement of 75% of shareholders would effectively be proportional while not being captive to a single council (through positive or negative control) to ensure decision making is in the best interest of the region.

In considering the outcomes of the different options identified by NIFF to make decisions below in Table 5, it could be that there are different mechanisms for when different aspects are used. The super majority being reserved for major decisions and changes to foundational documents and others being more equal – one vote per councils. This reflects that some roles relate to a collective ownership role being exercised by all councils equally on behalf of all of the community (e.g. appointment of Board members).

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Table 5 – NIFF decision making options

Options	Description	Pros	Cons	NIFF
Vote in accordance with shareholding	Shareholders have one vote per share, with majority decision making	✓ Simple ✓ Relatively representative of community interests	× Large councils may have outright control × Small councils have less voice × Negative/positive control issues	◔
One vote per council	Updated periodically to reflect recurring revenue by council jurisdiction, with majority decision making	✓ Simple ✓ Promotes collective decision making	× Under representation of large council may create perverse incentives	◔
Vote in accordance with shareholding but no positive control	Shareholders have one vote per share, subject to no single council having outright control[1]	✓ Avoids single council controlling decisions ✓ Ensures small councils are somewhat relevant in decision making	× Large council could still block decisions ("negative control") × Greater risk of impasse / deadlock	◑
Vote in accordance with shareholding but no negative control	Shareholders have one vote per share, subject to no single council having negative control[1] (i.e. resolutions can be made if all councils other than the largest agree)	✓ Promotes collective decision making ✓ Avoids single council having positive or negative control ✓ Ensures small councils are relevant in decision making	× Where a single council warrants a super majority, under representation may create perverse incentives	◕

Irrespective of the shareholding, owners can determine the mechanism by which key decisions or changes to foundational documents are made. This could and should include things like:

- Changes to the company constitution or shareholders agreement
- Admission or acceptance of additional councils
- Approval of statement of expectation
- Appointment of Directors.

Council needs to be cognisant of decision-making mechanisms enshrined in the documents and the interrelationships between them. Adopting a belt-and-braces approach to these documents is advised.

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Water Service Strategy has to give effect to Statement of Expectations, Annual Budget implements the Water Services Strategy and links to pricing. Therefore, need to ensure that the Statement of Expectations:

- cannot be inconsistent with Shareholders Agreement/Constitution – wherever the restriction on cross subsidisation exists
- cannot be changed without support of MDC/super majority.

Table 6 – Foundational documents

Document	Likely to contain
Commitment Agreement	How councils will work together to develop and establish water organisation Allocation of roles Sharing of resources Accountability measures Governance structure in period leading up to final establishment
Transfer Agreement	Matters of shared interest such as charging arrangements Governance for managing shared interests
Shareholder Agreement	Relationship between Councils Admission of additional Councils Sale of shares and/or issue of additional ones Process for exiting CCO Membership of and operation of shareholders committee (or similar)
Constitution	Rules and governance arrangements
Statement of Expectations	Alignment with transfer agreement Sets priorities and performance expectations for the water organisation
Water Services Strategy	Gives effect to the statement of expectations.

MDC could insist that as part of establishing Wai + T that specific decisions or amendments to foundational documents (as defined) either:

- require a super majority (75%) or some high similar threshold that cannot be achieved without MDC's shareholding to support any decision; or
- require MDC approval (what the NIFF paper calls negative control) for any decision.

Both approaches would achieve a similar outcome in practice. Arguably, the perception of them may be different.

Requiring MDC approval (negative control) effectively gives MDC alone decision-making rights, and it could be viewed as the MDC decision is the only one that matters. That does not seem consistent with a regionally focussed water CCO owned by the Councils collectively for the benefit of the consumers and other councils may also argue that they should have a similar position.

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A super majority or similar threshold requires not just MDC but other councils to agree as well. Giving a perception and reality that is more consistent with consensus decision making while preserving MDC's ability to protect the interests of its ratepayers.

If there were in the future additional councils who joined Wai + T (we would expect it would require a decision in accordance with these thresholds) then a super majority approach would continue to be relevant whereas preserving the specific interests of one single council may not suit.

Certainty and flexibility in decision making (review points)

The benefits of scaled multi-council CCOs, and Wai + T in particular have been shown by the analysis provided to Council to be able to flow to all customers. There should, in our view, be a review point for standardised or local pricing as recommended by NIFF. Our advice is not based on the belief that there would be a need to change but the belief that by the time the review point arrives (whether that is a point in time e.g. 5 years or an identified cost differential e.g. when local prices are within +/- 10%) it is likely that a significant amount of information will have changed and having access to the latest information may mean that different decisions need to be made.

On that basis we consider commencing with standardised or local council pricing and establishing a review point is the most pragmatic starting point.

Table 7 – NIFF options for pricing

Options	Description	Pros	Cons	NIFF
Ring fencing by council jurisdiction	Water organisation established with requirement for ring fencing by council jurisdiction and principles for sharing costs and balance sheet capacity	✓ Avoids cross subsidisation concerns of communities and councils ✓ All customers will benefit from efficiencies and debt headroom ✓ Local decisions regarding growth funding, allocation by water activity and differentials between residential, rural and commercial can easily be accommodated ✓ Consistent with some EDB's practice	× More complexity / administration for the water organisation to manage × Lack of flexibility for entity to evolve × May lose some benefits of regional approach	◑

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Options	Description	Pros	Cons	NIFF
Ring fencing with review point	Water organisation established with temporary ring fencing (as per above) but with clear 'review point' (for example [5] years post 'go live') and associated process documented	✓ Benefits from above for establishment and initial operating period of Water organisation ✓ Enables entity to focus on operations and delivery of efficiencies and capex ✓ Framework for moving away from full ring fencing and local pricing is clearly agreed with decision point for councils ✓ May enable potential net benefits of harmonisation to become clear	× Councils, customers and communities do not have certainty on future regime × Clear milestones will be needed prior to 'review point' to ensure effective decisions (including developing proposed harmonisation and transition plan)	
Harmonisation	Water organisation established without any requirement for ring fencing or restrictions on harmonisation[1]	✓ Harmonisation and transition decisions benefit from Board experience ✓ Less complexity / administration for the water organisation to manage ✓ Potentially greater regional benefits ✓ Greater flexibility for the entity to evolve	× Potential for significant cross subsidisation may be a deal breaker for some councils × Significant work for water organisation to develop harmonisation and transition strategy alongside a seamless 'go live' × More likely to incentivise regional pricing differentials not reflective of local circumstance	

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8 REPORTS FOR INFORMATION

Nil

9 PUBLIC EXCLUDED

Nil