EXTRAORDINARY PUBLIC EXCLUDED MEETING

of

Council

AGENDA

Date: Wednesday, 9 July 2025

Venue: Waiata House, 27 Lincoln Road, Masterton

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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.

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Order Of Business

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5.1 Local Water Done Well - Foundation Principles 5

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5.1 LOCAL WATER DONE WELL - FOUNDATION PRINCIPLES

File Number:

Author: **Maseina Koneferenisi, General Manager Infrastructure and Assets**

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

Section under the Act	The grounds on which part of the Council or Committee may be closed to the public are listed in s48(1)(a)(i) of the *Local Government Act 2002.*
Sub-clause and Reason:	s7(2)(i) - the withholding of the information is necessary to enable Council to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations).

PURPOSE

The purpose of this report is to seek Council's approval to adopt the foundation principles and key terms to enable Officers to progress with the development of a Water Services Delivery Plan (WSDP) for the Wairarapa Tararua Water Services Council Controlled Organisation (WSCCO), aligning with Government's Local Water Done Well legislation.

RECOMMENDATIONS

That Council

1. **Adopts** the foundation principles and key terms for the Wairarapa Tararua Water Services Council Controlled Organisation, as specified in Attachment 1.
2. **Delegates** authority to the Chief Executive to make minor editorial changes to the foundation principles, key terms and Commitment Agreement on the basis that such changes do not alter Council's position or intention.
3. **Directs** officers to proceed to develop a draft Wairarapa Tararua Joint Water Services Delivery Plan (and not a draft Water Services Delivery Plan for a Masterton-only water services delivery model) for consideration at the Council meeting on 20 August 2025.
4. **Notes** the foundation principles and key terms have been established in line with the Local Government (Water Services) Bill No. 108-1 which has now been reported back from the Select Committee as Bill No. 108-2. Officers will incorporate any amendments necessary to the foundation principles and key terms as part of the development of the Water Services Delivery Plan for consideration at the Council meeting on 20 August 2025.
5. **Agrees** that the information in the report be brought out of public excluded at the discretion of the Chief Executive.

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

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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.

Following the consultation process and deliberations in May 2025, Council agreed on 21 May 2025 to progress the Wairarapa Tararua water services delivery model, including entering 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 include:

- Non-standardisation of pricing and debt
- Share allocation
- Decision-making

ANALYSIS AND ADVICE

Foundation principles and key terms

Following direction to proceed with developing the Wairarapa Tararua Water Services Delivery Model, officers have held three workshops with elected members facilitated by independent advisors. Through these workshops, Council has provided direction on foundation principles and key terms the Council want to be included in the WSCCO foundation documents, such as the WSCCO constitution and shareholders. These are included for Council adoption in Attachment 1.

The principles and terms are included under the following headings:

- General - principles to guide establishment and transition decision making
- Governance and oversight
- Ownership
- Pricing and financial sustainability

The principles and terms have been agreed subject to formal adoption by the four shareholding councils excluding the term relating to the appointment and delegations of mana whenua representatives to the board of the WSCCO. This was a late matter, and officers expect it to be agreed in the coming days.

Local Government (Water Services) Bill Report Back from Select Committee

The foundation principles and key terms have been developed in line with the Local Government (Water Services) Bill No. 108-1. This was reported back from Select Committee as Bill No. 108-2 on 3 July 2025. Officers are seeking advice on the implications of any changes to the Bill will update Council and incorporate any amendments necessary to the foundation principles and key terms as part of the development of the Water Services Delivery Plan for consideration at the Council meeting on 20 August 2025.

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Development of the draft Wairarapa Tararua Joint Water Services Delivery Plan

Officers consider that good progress has been made with the other councils to agree the principles and key terms that are important to our Council. There is now only 5 weeks left to develop the draft Wairarapa Tararua Joint Water Services Delivery Plan for consideration/adoption by the four councils. Given limited time and resources, Officers are seeking agreement at this meeting from Council to only proceed to develop a draft Wairarapa Tararua Joint Water Services Delivery Plan and not a draft Water Services Delivery Plan for a Masterton-only water services delivery model. A Masterton-only Delivery Plan can be developed should the Wairarapa Tararua Delivery Plan not be agreed at the Council meeting on 20 August 2025.

OPTIONS CONSIDERED

A summary of the options considered is included in the table below.

Option		Advantages	Disadvantages
1a	Agree to the adoption of the principles and key terms as detailed in Attachment 1 **Recommended Option**	Aligns with the direction Officers have received from Council to date. Enables progression of the WSDP to meet legislative deadline of submission by 3 September 2025. Enables partnering Councils to have certainty on direction up to the next offramp, which is approval of the WSDP (20 August 2025)	No known disadvantages
1b	Do not agree to the adoption of the principles and key terms as detailed in Attachment 1.	No known advantages	Does not align with direction Officers have received to date. Officers will require direction on matters not previously expressed by Council elected members Any new matters will require collective alignment with all partnering Councils. Provides uncertainty for partnering Councils. Presents a high risk of not meeting the legislative deadline for submission of

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Option		Advantages	Disadvantages
			WSDP by 3 September or an extension, as per Local Govenment) Water Services Preliminary Arrangements) Act 2024 which states the deadline for an extension request is 3 August 2025.
2a	Agree to officers developing only a Water Services Delivery Plan for a Wairarapa Tararua WSCCO for consideration on 20 August 2025 **Recommended Option**	Enables partnering Councils to have certainty on direction up to the next offramp (20 August 2025). Enables progression of the WSDP to meet legislative deadline of submission by 3 September 2025.	No known disadvantages.
2b	Do not agree to Officers developing only a Water Services Delivery Plan for a Wairarapa Tararua WSCC for consideration on 20 August 2025	No known advantages	Increases risk of a WSDP not being complete for Council meeting for the decision on plan adoption on 20 August 2025. The WSDP will not be completed ready for submission to DIA to meet legislative deadline of submission by 3 September 2025. Officers will require direction on the required approach by Council and additional resourcing. May require further collective alignment discussions with partnerting Councils.

RECOMMENDED OPTION

Options 1a and 2a are recommended. Resolving to proceed with these recommendations will ensure Masterton District Council are well placed to submit a WSDP in line with the legislative deadline of 3 September 2025.

These recommendations will also provide clarity for partnering councils on the work they need to undertake to prepare for the furnishing of a WSDP.

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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. The enduring settings for the water services system are included in the Local Government (Water Services) Bill. The Bill was reported back from the Select Committee on 3 July 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.

The decisions sought in this report do not require further consultation with the community under current legislation.

Financial Considerations

The legislative changes present significant financial implications for Masterton District Council and our community as waters-related assets and debt and revenue and expenditure commitments (including staff), 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 forecasting, analysis and reporting requirements to be fulfilled. These include financial projections, financial sustainability metrics and other financial statement and benchmark 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 collected and used by the WSCCO or if delivered in-house, 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.

As part of the lead up to consultation there was initial work done on a Wairarapa Tararua financial model to enable valid comparison to a stand-alone option. The basis of that work was the best financial information available at the time. There is now more up-to-date financial information, as Councils have adopted their 2025/26 Annual Plans, SWDC has adopted its LTP and the Councils

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have passed through their financial year end. Updated financial modelling for the WSDP remains 'work in progress'.

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. Mana whenua representation is included as a key term for a Wairarapa Tararua WSCCO.

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

A workshop will be held to step through the refined financial modelling of a Wairarapa Tararua Water Services Organisation, prior to the meeting of 20 August 2025.

ATTACHMENTS

1. **Foundation principles and key terms for Wairarapa Tararua Water Services Council Controlled Organisation** ⇩

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Wairarapa Tararua Water Services Organisation

This terms sheet is subject to further legal advice, including in relation to the Select Committee report back on the Local Government (Water Services) Bill and in relation to the operation of the Shareholder Forum under existing LGA provisions.

Issue	Agreement between Councils
General	

Principles to guide establishment and transition decision making	These principles will be included in the Commitment Agreement to guide the establishment of the Water Services Organisation:
	• Deliver long-term benefits to the region (recognising these benefits take time to accrue)
	  ○ Efficient operational delivery
	  ○ Affordable water services
	  ○ Adequate investment in infrastructure through time
	  ○ Financially resilient and sustainable
	  ○ Working with mana whenua
	• Manage shorter-term transition impact on individual shareholding communities and Councils
	  ○ Manage any cost/price changes
	  ○ Ensure transparency in transition pathways
	  ○ Maintain service continuity and reliability for customers and minimise staff disruption
	  ○ Manage financial and/or operating risk for Councils
	• Ensure statutory and regulatory compliance
	  ○ Operate within statutory planning and accountability framework
	  ○ Meet DIA and Commerce Commission financial sustainability and pricing requirements
	  ○ Meet regional Council and Taumata Arowai environmental standards
	• Where possible, provide flexibility in the design for the new entity and Councils to adapt to changing circumstances over time.
	• Recognise the independence of the new entity and provide it with the autonomy to make decisions necessary for success
	• Keep it simple, with straightforward arrangements easy for the community to understand.

Governance and oversight	
Shareholder forum	• Councils agree to establish a Shareholders' Forum as the basis for coordinating the shareholder activity and for the four Councils to exercise certain of their shareholding rights and responsibilities.
Mana whenua participation	• Councils agreed that mana whenua will be members of the Shareholders' Forum (while not shareholders) to give effect to Councils' commitment to partner with mana whenua in oversight of the water organisation. • **[This point is under continued discussion by Councils]** Mana whenua will have rights to appoint two members to the Water Services Organisation Board under the same appointment process as all Board members. All members of the Board are subject to the skills requirements in the skills matrix.
Size and composition of shareholder forum	• Total membership will be 6 members – 1 member from each Shareholding Council and 1 each of from Rangitāne and Ngāti Kahungunu.

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Size and composition of Water Services Organisation Board	• Water Services Organisation will have a flexible Board size of five to seven members.
Board member appointment term and reappointment	• Initial Directors appointments terms will be varied to enable staggering of replacements and to enable appointment of initial Directors with entity start-up experience. • After the initial directors, general appointments will be for three-year terms, with up to two possible reappointment terms. Reappointment is subject to a formal process. • Reappointment beyond three terms will be at the Shareholders' Council discretion but expected to be on an exceptional basis e.g., to retain an essential specialist skill set.
Board skills requirements	The Constitution will include the following skills requirements for the Water Services Organisation Board: • Governance and senior leadership experience • Experience in utilities and infrastructure industries, preferably water • Commercial and financial expertise, including Director(s) with relevant qualifications to chair an Audit and Risk Committee • Understanding of the relevant public accountability, legislative and regulatory context • Asset management experience • Commitment to partnership and upholding the Treaty of Waitangi, tikanga and te ao Māori • Knowledge and experience in te ao Maori and te taiao Maori and Treaty of Waitangi principles and implementation • Strong understanding and commitment to the four communities the organisation serves • Commitment to strong stakeholder management with the four Shareholding Councils
Decision making framework for key decisions involving shareholding councils	

Decision	**Decision making mechanism**	**Decision making threshold**
Issues relating to governance and governing documents		
Appointment of Directors (including Chair)	• Decision by Shareholders' Forum (Councils plus iwi) • One Council, one vote • One vote per iwi representative	Simple majority (i.e., >50% of votes cast)
Approving Statement of Expectations	• Statement developed by Shareholders' Forum (Councils plus iwi) • Decision to issue the SOE to the Water Servies Organisation will be made by Shareholder members of the Shareholders' Forum • One Council, one vote	Special majority (i.e., 75% votes cast)
Monitoring performance	• Decision by Shareholder Forum (Councils plus iwi) • One Council, one vote • One vote per iwi representative	Simple majority (i.e., >50% votes cast)

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	• Note Shareholders still receive reports as a shareholding right	
Changes to the Constitution (all matters except pricing review)	• Recommendation by the Board • Decision by Shareholders with voting based on a shareholding basis at either Shareholder Forum or Councils	Special majority (i.e., 75% votes cast)
Issues of community interest		
Review of cost-to-serve/price harmonisation	For nine years: • Recommendation by Board • Decision by Councils After nine years: • Include review point after nine years to reconsider the issue and whether the cost to serve principle should be removed from the pricing principles in Constitution • Decision at this review point made by Councils on a shareholding basis, with advice to be provided by the Board • If cost to serve principle removed, any future decision on the issue would be a Board decision from year 10 onwards	Unanimous agreement (for nine years) Special majority (i.e., 75% votes cast) for review point
Issues relating to shareholding		
Shareholder entry	• Recommendation by Board and Shareholder Forum based on a proposal for entry • Shareholder entry principles would apply • Decision by Councils	Unanimous agreement
Shareholder exit	• Recommendation by Board and Shareholder Forum based on a proposal for exit • Shareholder exit principles would apply • Decision by Councils	Unanimous agreement
New share issue to existing shareholders (i.e., company request for new funding)	• Board decision to request funding from shareholders • Decision by Councils to decide to grant funding • Details need to be worked through on implications of Council decisions at the time of any request	Each Council makes its own decision
Other issues		

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	Selected major transactions	• Major transactions (e.g., by value of $100m or greater) will be subject to consideration by shareholders • Decision by Shareholder Forum on shareholding basis	Special majority (i.e., 75% votes cast)
	Ceasing operations of the company	• Recommendation by Board and Shareholder Forum • Decision by Councils	Special majority (3 out of 4 Councils)
Shareholder role in Water Services Strategy and Annual Budget	• Shareholders will not approve the Water Services Strategy or Budget. Their role will focus on the development and approval of the Statement of Expectations		
Ownership			
Share allocation	• Shareholding will be allocated based on network connections. Consideration will need to be given to if/when adjustments are needed over time.		
Shareholder entry	The Shareholders' Agreement will include the following principles in relation to future new Council joining as a shareholder (which will apply unless the shareholders agree otherwise at the time): • Shareholders are open to considering admission of new council shareholders • Proposal from a potential new council shareholder would be considered by the Board of Directors and recommendation made to the Shareholders' Forum who could approve/not approve the admission or recommend to the four Councils to approve/not approve • New council shareholders' shareholding will be determined using the same method as used by the original shareholders • The terms of transfer of assets for a new council shareholder shall not be more favourable to the new council shareholder than to the original shareholders • As part of the decision to admit a new council shareholder, the existing shareholders will consider the position to ensure appropriate iwi participation for the larger service area • As part of the decision to admit a new council shareholder, the existing shareholders will need to review and agree changes to the company Constitution and Shareholders' Agreement • The addition of a new council shareholder must not worsen the Water Organisation's financial position or forecast financial position, or result in the Water Organisation failing to meet its regulatory obligations to be financially sustainable • Each party will bear its own costs of considering and redocumenting the arrangements for a new council shareholder joining • An appropriate timeline and transition plan will be developed (with at least one year's lead time) and agreed by the Board and Shareholders' Forum • Any legislative consultation requirements will be complied with		
Shareholder exit	The Shareholders' Agreement will include the following principles in relation to shareholder exit (which will apply unless the continuing shareholders agree otherwise at the time): • It will be possible for a shareholding Council to exit from the water services organisation and implement a new operating model		

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	• A detailed exit plan will be developed and agreed between the Board and Shareholders' Forum (with a three-year time period between notification and exit) • As part of the decision for a Shareholder's exit, the existing shareholders will undertake a review to agree any changes to the company Constitution and Shareholders' Agreement • The exit of a shareholder must not materially worsen the Water Organisation's financial position or forecast financial position, or result in the Water Organisation failing to meet its regulatory obligations to be financially sustainable • Other principles to be developed for: treatment of assets, joint assets, consideration, stranded assets or liabilities, transactions costs • Any legislative consultation requirements will be complied with
Pricing and financial sustainability	
Pricing principles	The Constitution will include the following principles in relation to pricing: • Transparency between pricing and investment requirements • Engagement with communities in setting or changing pricing • Managing/smoothing the transition impact of any changes to pricing • Balancing affordability for customers with investment and financial sustainability requirements • Consideration of distributional impacts of pricing decisions • Initial adoption of cost-to-serve approach, with review point after nine years

Price harmonisation	• Councils agree to ringfence pricing for nine years to respond to Council and community concerns (i.e., each jurisdiction will operate on a cost-to-serve basis)
	• Every three years (i.e., in line with the LTP cycle), the Board could provide a case to Shareholders to consider amending the pricing, should it choose to do so (with the decision sitting with Shareholders as requiring unanimous agreement)
	• The Board's case to shareholders should include consideration of the factors:
	  ○ Demonstrate there is sufficient reliable information available about future investment requirements to provide reliable and transparent estimates of costs to ratepayers
	  ○ Consider the impact of any proposed changes on each shareholder's ratepaying population (including distributional impacts within and between Council districts)
	  ○ Consider other benefits and costs of the new proposed approach relative to current approach (e.g., impact on operating costs/efficiencies for the entity)
	  ○ Consider whether other compensatory measures could be put in place to manage any significant impact (if any) on subsets of ratepayers.
	• After nine years, the issue will be reconsidered. If the cost-to-serve principle is removed from the Constitution at this point, the issue becomes the responsibility of the Board and no longer a matter for Council decision.

Debt transfer	Councils agree to the following principles in relation of transfer of debt to the Water Services Organisation (which will apply unless the shareholders agree otherwise at the time): • Debt that can be identified by Councils as water-related debt will transfer to the new entity • Debt incurred by the shareholding Councils in relation to the establishment and transition to the new entity from the date of

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	submission of the WSDP to DIA will be transferred to the Water Services Organisation • Cost effective transfer of debt from each Council to the Water Services Organisation will take place over a few years as tranches of debt mature and hedging is unwound • Interest costs incurred by Councils on waters debt after the Water Services Organisation is established (and the revenue is flowing into the Water Services Organisation) will be reimbursed to the Councils by the Water Services Organisation. (Note debt that remains with Councils over the transition period is looked through by LGFA for covenant purposes and assumed to be held by the Water Services Organisation for financial sustainability purposes) • For the nine-year period of price harmonisation, each council's guarantee/support of the Water Services Organisation is based on the actual debt outstanding for their jurisdiction • At nine years (or at the point when the Board proposes harmonization), the Board is required to provide advice to the shareholders on proposed allocation of guarantee/support based on the Water Services Organisation's financial position • Assumption would be that any reallocation of the guarantee would default to shareholding, unless Board proposed an alternative approach. • (Note that in the situation of a majority shareholder, the LGFA or lenders would typically treat the majority shareholder as the guarantor)
Dividends	• The Water Services Organisation would not pay dividends to Shareholding Councils for at least the first 9-12 years. The future possibility should be retained/not ruled out to encourage commercial discipline by the Board and management. • Initial priority is for surpluses, if any, generated, to be used by the Board to either reduce costs to consumers or bring forward necessary investment.

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