Manawatu-Whanganui Water Done Well

‘Manawatu-Whanganui Water CCO’ analysis

Assessment of the financial sustainability of a potential joint Manawatu-Whanganui water services CCO

8 November 2024

This document has been prepared to provide information to Horowhenua District Council, Manawatu District Council, Palmerston North City Council, Rangitikei District Council, Ruapehu District Council, Tararua District Council, and Whanganui District Council (together ‘Manawatu-Whanganui councils’) on the financial sustainability of water services provision (as indicatively assessed against the requirements for Water Services Delivery Plans), and to provide information relating to a potential Joint Manawatu-Whanganui water services CCO.

The Department of Internal Affairs has relied on information provided by Manawatu-Whanganui councils in the development of the analysis and guidance included in this report.

This guidance is not legal advice; and is intended to support Manawatu-Whanganui councils’ decision-making requirements under Local Water Done Well.

Te Kāwanatanga o Aotearoa
New Zealand Government

Te Tari Taiwhenua
Internal Affairs

Manawatu-Whanganui assessment of a joint water CCO

Manawatu-Whanganui councils are jointly assessing the merits of a combined Manawatu-Whanganui Water CCO.

This grouping consists of Horowhenua District Council, Manawatu District Council, Palmerston North City Council, Rangitikei District Council, Ruapehu District Council, Tararua District Council, and Whanganui District Council.

The Manawatu-Whanganui council group has approached the Department of Internal Affairs ('The Department') for analytical, financial modelling and guidance support to investigate the financial sustainability and viability of potential new joint delivery arrangements for water services.

The Department has worked with each participating council to confirm baseline positions and utilised this baseline information to analyse and provide guidance on the financial viability of a Manawatu-Whanganui Water CCO.

We have also developed a consolidated financial model that enables different scenarios of council participation in a Manawatu-Whanganui Water CCO. This financial model has been provided to all Manawatu-Whanganui councils.

The financial model and analysis in this report excludes Palmerston North City Council's proposed IFF funded wastewater treatment plant, as this is an off-balance sheet arrangement and requires funding confirmation.

Key insights on a potential Manawatu-Whanganui Water CCO

1. Our analysis of LTP information for Manawatu-Whanganui councils indicates that a **joint Manawatu-Whanganui model would be financially viable** at LTP projected levels of revenue, debt and investment.
2. Each council has different investment requirements and costs of service. Our analysis retains regional differences as this ensures that prices that different communities pay (as modelled) would reflect the direct costs of service to each community. It is important to note that there is **no requirement to harmonise prices across communities under Local Water Done Well**.
3. Our analysis demonstrates that **a more affordable price path for water charges could potentially be realised for individual councils,** subject to trade-offs between revenues, levels of investment and debt financing.
4. The additional borrowing headroom that can be accessed by establishing a Manawatu-Whanganui Water CCO would create additional flexibility to efficiently deliver water services to communities.
5. Establishing **a Manawatu-Whanganui Water CCO will deliver significant financial benefits to all owning councils**, through the establishment of new borrowing headroom, due to water services being higher leveraged than other council activities. Significant financial benefits of establishing a Water CCO accrue to owning councils themselves.
6. The benefits for each council, when compared to status quo delivery, vary by council based on the initial starting point, projected investment requirements and costs of service. Each council should consider **trade-offs between levels of water services revenues, investment and debt financing to realise the full benefits of Local Water Done Well**.

A Manawatu-Whanganui Water CCO would be financially viable

Our analysis of the financial information provided by Manawatu-Whanganui councils demonstrates that **a Manawatu-Whanganui Water CCO would be financially sustainable** at LTP projected levels of investment, revenues and debt financing.

A **Manawatu-Whanganui Water CCO would also meet the financial sustainability requirements** of Water Services Delivery Plans, subject to confirmation by each participating council that the plan meets the revenue sufficiency, investment sufficiency and financing sufficiency tests.

A Manawatu-Whanganui Water CCO would:

- Be **able to access additional debt financing from LGFA** up to the equivalent of 500% of operating revenues (a significant uplift against what Manawatu-Whanganui councils can achieve on a stand-alone basis).
- **Improve the financial resilience for water services delivery** across Manawatu-Whanganui.
- Provide the ability to **fund the required levels of water services investment**, with **scope to increase and/or accelerate proposed investment**.
- Provide the opportunity for individual councils to consider trade-offs between levels of water services revenues, investment and debt financing to deliver **lower water charges to Manawatu-Whanganui consumers** than what councils could deliver on a stand-alone in-house basis.
- Create **new borrowing headroom for owning councils** if water services revenues and debt are transferred to a water CCO. This new borrowing headroom could be **used to fund non-water investment** that is projected to be revenue funded, potentially leading to a **reduction in projected rates increases**.
- Enable an **efficient financing strategy for water services** to be developed and implemented.

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

Based on the current set of financial projections for each council, a **combined Manawatu-Whanganui Water CCO would be financially sustainable**.

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

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

There is **scope for debt financing to be more effectively utilised to increase and/or accelerate investment, or to reduce charges for consumers**.

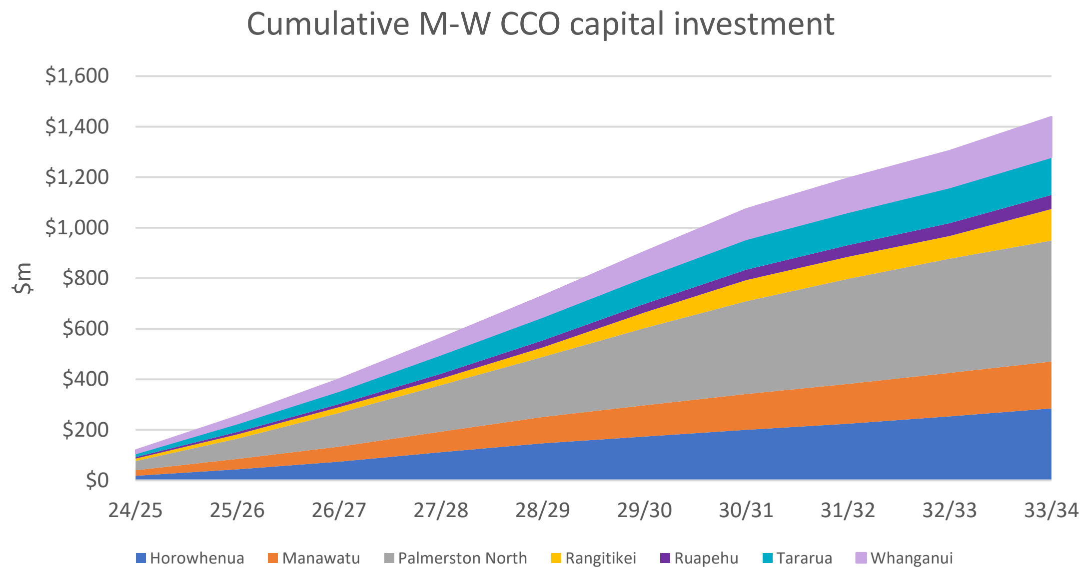
Each council should also review the projected water services investment included in their 2024-34 LTP against the minimum requirements required in Water Services Delivery Plans guidance and look to identify any potential savings or efficiencies that could be gained to reduce the total investment requirement.

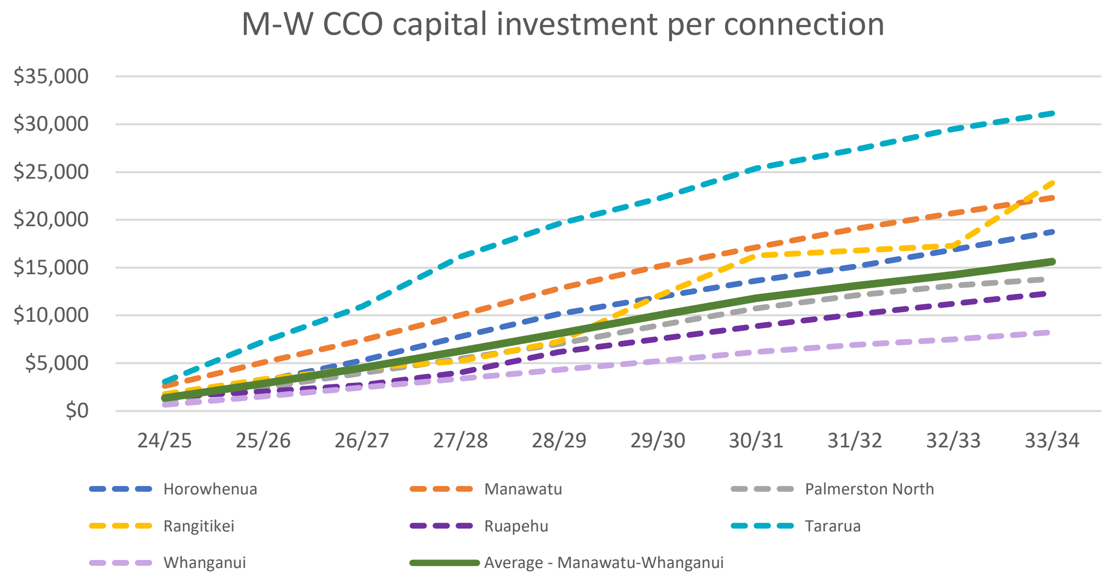
Savings to investment programmes could be identified through:

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

Proposed levels of investment across Manawatu-Whanganui councils

- Manawatu-Whanganui councils are projecting $1.439 billion of capital investment into water services infrastructure over ten years (excluding Palmerston North City Council's proposed IFF funded wastewater treatment plant which is excluded from this analysis). This proposed level of investment is substantial – and is approximately double projected depreciation charges over ten years.
- While this capital programme is bankable for a Manawatu-Whanganui Water CCO, there would be merit in the Manawatu-Whanganui councils who wish to pursue a joint model to develop a joint investment programme to determine the most efficient and deliverable phasing of investment, and to identify opportunities to reduce costs.
- There is significant variation in projected levels of investment on a per connection basis across Manawatu-Whanganui councils. Each council should consider the relationship between proposed investment and levels of service versus the affordability of charges for consumers to strike an appropriate and financially sustainable balance.



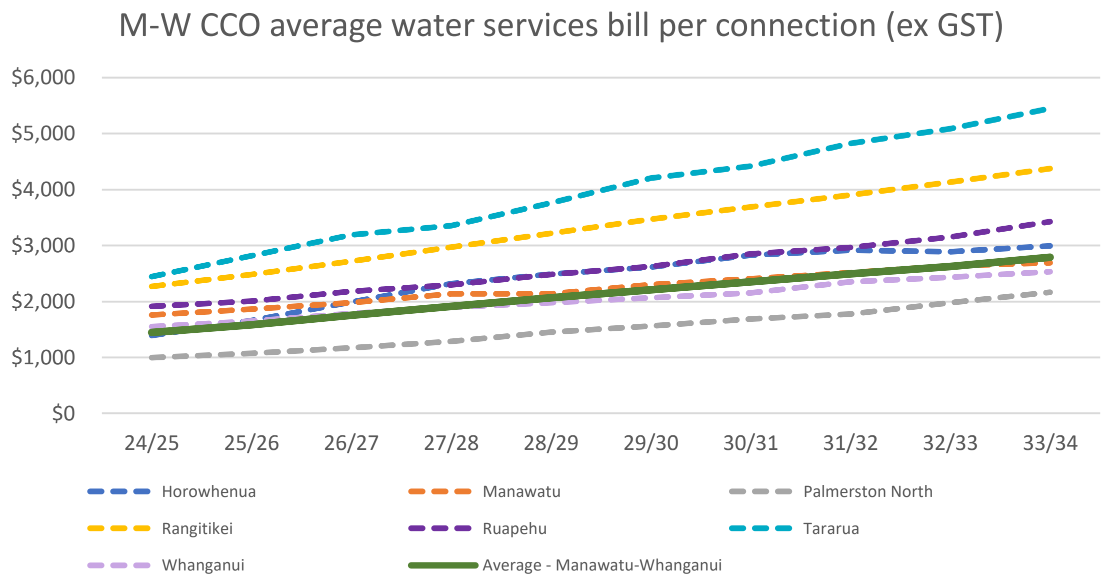


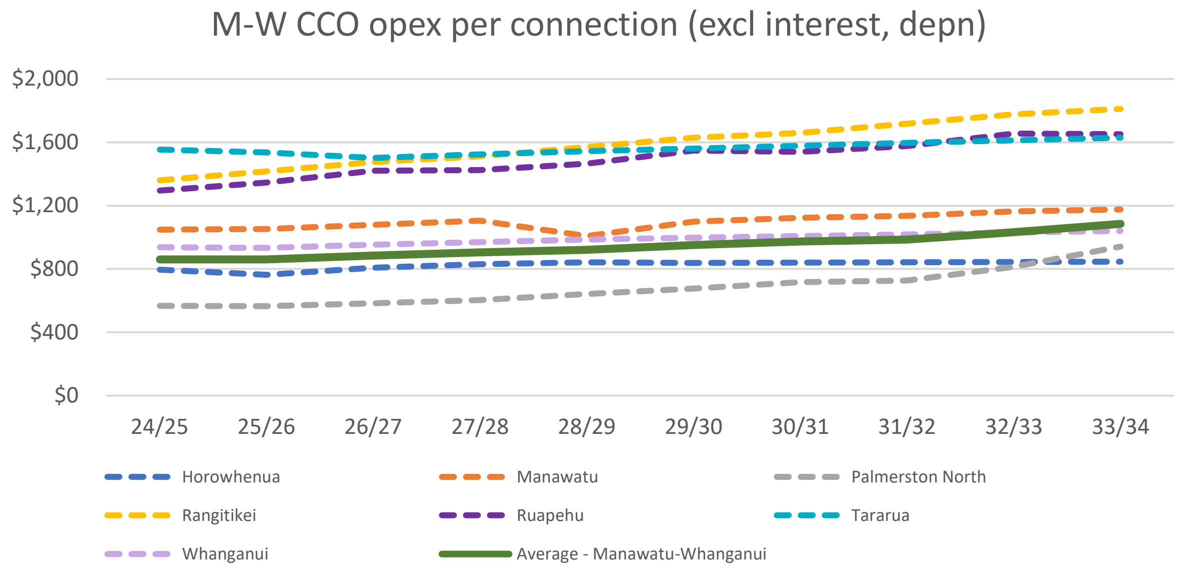
Projected prices and borrowings at proposed levels of investment

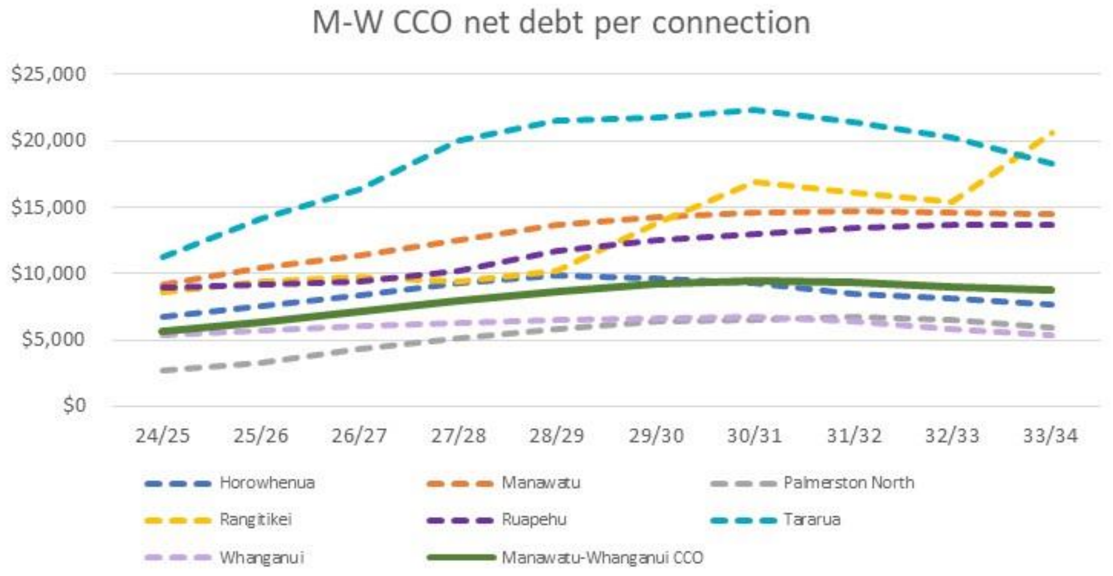
Household water charges are directly determined by proposed levels of investment, operating expenses and the utilisation of debt versus revenue funding of investment. Each council is facing trade-off decisions on these factors.

The charts on this slide show projected water services bills, operating costs and net per connection, across the Manawatu-Whanganui councils.

Higher water bills are generally due to higher operating costs and/or higher borrowings per connection (and vice versa for lower water bills).







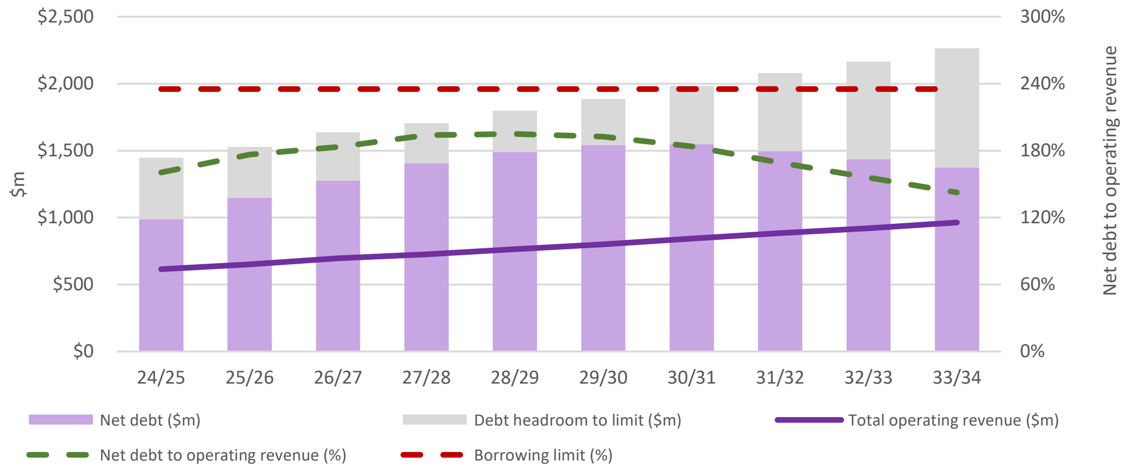
New borrowing headroom created for owning councils

LGFA has committed to lend to water CCOs and treat their debt as separate to owning councils' debt, where there is a guarantee or uncalled capital from owning councils in place, and adherence to prudent credit criteria.

This means that LGFA would exclude a Manawatu-Whanganui Water CCO's water services debts from owning council's borrowing covenants (e.g., in debt to revenue calculations).

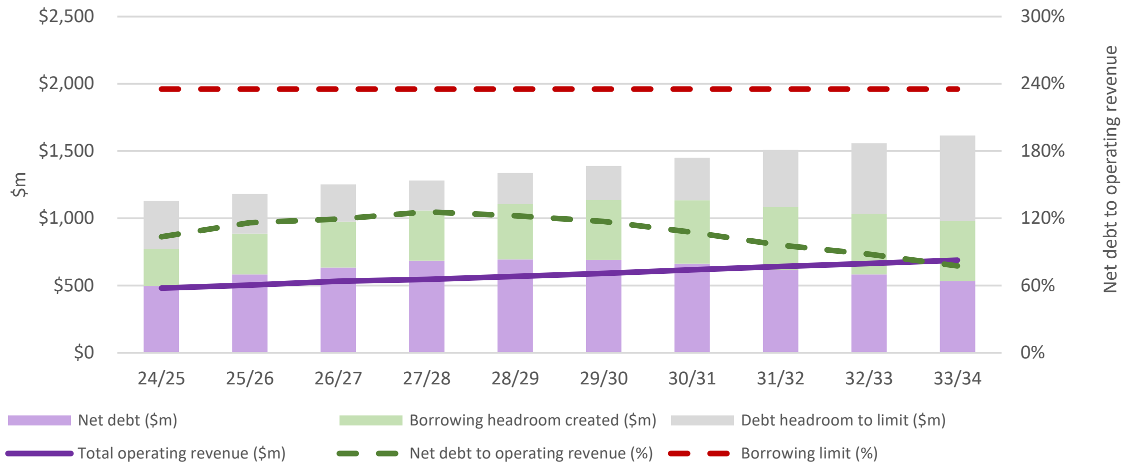
This creates new borrowing headroom for owning councils, as water services are higher leveraged than other council business. This slide shows notional headroom created if water is treated separately.

Consolidated council net debt to operating revenue (including water services)



Note: debt limit is set at approximately 240% which is the weighted average of Manawatu-Whanganui councils' credit limits (a mix of 175% and 280%)

Consolidated council net debt to operating revenue (excluding water services)



Note: debt limit is set at approximately 240% which is the weighted average of Manawatu-Whanganui councils' credit limits (a mix of 175% and 280%)

New debt headroom for owning councils ($000)	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Horowhenua District Council	41,686	42,679	43,893	45,107	49,006	43,860	37,851	30,265	29,373	24,741
Manawatu District Council	45,617	54,577	62,209	70,055	81,376	88,524	94,277	99,275	103,765	107,869
Palmerston North City Council	30,600	41,408	58,979	70,206	80,756	92,947	96,056	104,108	90,077	73,617
Rangitikei District Council	30,698	29,494	27,999	25,065	28,176	42,257	55,481	54,502	54,159	77,689
Ruapehu District Council	27,417	29,232	30,093	32,016	36,875	39,076	40,767	42,811	43,703	42,841
Tararua District Council	42,007	50,651	58,055	69,792	74,301	74,048	77,490	74,030	71,483	66,253
Whanganui District Council	47,373	48,597	51,858	55,293	56,136	58,085	62,158	58,867	50,924	46,466
Total - Manawatu-Whanganui	265,398	296,638	333,086	367,534	406,627	438,796	464,080	463,859	443,484	439,475

Further guidance and analysis to support Manawatu-Whanganui councils

We have attached further information for Manawatu-Whanganui councils' consideration:

- **Annex 1: Local Water Done Well overview and benefits of establishing water CCOs to access increased debt financing** – provides further information on how establishing a regional water CCO will deliver significant benefits to Manawatu-Whanganui councils and communities.
- **Annex 2: Manawatu-Whanganui Water CCO: financial sustainability assessment** – provides further detail on water services investment, revenue and debt financing, and an indicative financial sustainability assessment.
- **Annex 3: Comparison of : Manawatu-Whanganui councils' water services** – sets out and compares Manawatu-Whanganui councils' projected water services and compares investment, operating costs, revenue and debt financing.
- **Annex 4: Manawatu-Whanganui Water CCO: projected consolidated water services financials** – provides consolidated projected financial statements which aggregate the water services financial projections provided by Manawatu-Whanganui councils.

We have also provided a Water Services Delivery Plan financial template to each council, and the aggregated financial model that underpins the analysis in this pack.

<u>Further guidance</u>

The Department is currently preparing a round of guidance relating to the benefits, and practical steps involved with establishing a CCO. This guidance has been prepared in response to feedback from our council engagements over the last two months. Much of this guidance builds on information provided to Council Chief Executives and Mayors in a letter from the LGFA in early October.

The guidance material will include key concepts around the implication of additional borrowing, worked examples, guidance for decision makers regarding the choice of delivery model, and templates for legal documentation required to establish a Water CCO.

We expect to release this guidance in early December.

Local Water Done Well overview and benefits of establishing water CCOs to access increased debt financing

ANNEX 1

Local Water Done Well: A new approach to water services delivery

- The Coalition Government believes **communities are best placed** to make decisions about the future of their water assets.
- Local Water Done Well places **obligations on local authorities** to demonstrate their service delivery arrangements are fit for purpose.
- This includes setting out how their **delivery models** will ensure high-quality, financially sustainable services in the long run.
- The Government expects councils will work together to address **financial sustainability and affordability challenges**.
- All councils are required to **develop Water Services Delivery Plans** which will outline how **water services will be delivered in a financially sustainable manner** by 30 June 2028.

Purpose of Water Services Delivery Plans

The Local Government (Water Services Preliminary Arrangements) Act 2024 sets out the content requirements, timeframe, and process for developing and accepting Plans.

Plans are intended to be a strategic decision-making tool for councils to consider current and future delivery of water services, and will:

- Set out how councils will deliver high-quality, financially sustainable water services in the long run; and
- Include information on councils' water services, how much they need to invest, and how they plan to finance and deliver it through their preferred water service delivery model.

Most information required for the Plans is expected to come from councils' existing documents, such as long-term plans, financial accounts and asset management plans.

- One-off, transitional documents
- Cover drinking water, wastewater and stormwater
- Information to support development of economic regulation
- Can be developed by individual or joint councils
- Streamlined approach to consultation
- 10-year timeframe; may cover up to 30 years, with detailed info on first three

LGFA provides financing to deliver financially sustainable water services

LGFA financing of water CCOs

A key pillar of Local Water Done Well is LGFA's commitment to lend to water CCOs and treat their debt as separate to owning councils' debt, where there is a guarantee or uncalled capital from owning councils in place, and adherence to prudent credit criteria.

LGFA can immediately start lending to water CCOs, at a level needed to fund the investment we need to make in water infrastructure.

The benefit for ratepayers in this is that using more long-term borrowing to fund investment in long term infrastructure spreads the cost of this investment over the life of the assets. That in turn reduces the need to fund investment directly from rates and will reduce the upward pressure on rates that we've seen reflected in rates increases in recent months.

Financial covenants will need to be agreed between Councils and LGFA, with a free funds from operations (FFO) to debt ratio the most likely covenant.

The FFO to debt ratio will be set up to an equivalent level of 500% of water revenues. The level of the ratio will be different between water CCOs.

It's important to note that at this time, LGFA will only lend to water CCOs that are financially supported by their parent council and councils. Financially supported means either a guarantee or uncalled capital to match the liabilities of the water CCO (consistent with legislation).

Prudent credit criteria

- Asset owning CCO with the ability to set and collect water revenues
- Professional Board in place with separation from elected members
- Minimum free funds from operations (FFO) requirements to support debt capacity to level equivalent to five times revenues
- CCO to have the characteristics of 'investment grade' over the mid-term (within ten years).

Increasing water borrowing ability to 5x revenues

A water services CCO can borrow up to a level equivalent to five times revenues for water services, subject to meeting LGFA's prudent credit criteria.

This represents a significant uplift against current borrowing limits for councils (175% - 280%).

Given higher leverage for water, this also significantly increases the total borrowing capacity for owning councils.

Benefits for councils and communities enabled by LGFA financing

- Using debt financing for investment in infrastructure is a fundamental aspect of delivering utilities, and water services are no exception.
- The Minister of Local Government has spoken of the infrastructure deficit New Zealand is facing with water. The financing arrangements provided by LGFA provide councils with increased lending flexibility to address these challenges, while ensuring affordability for ratepayers.
- Increased borrowing to fund necessary investment in water infrastructure reduces the need to fund investments directly from rates and other revenue. This can smooth the impact of investments across longer periods of time, which should be reflected in smaller increases in rates and water charges.
- Councils will be keen to spread the cost of upgrading water assets over time. LGFA will endeavour to provide some flexibility in its application of borrowing ratios provided the water CCO is committed to improving its credit metrics over time
- Irrespective of whether the water CCO is wholly or partially owned by a council, LGFA will take the approach of assessing the credit quality and potential borrowing capacity of the water CCO and the parent council(s) separately. This is subject to LGFA being satisfied of the ability of such council and water CCO to meet their financing obligations on a prudent basis.
- **There are real benefits for councils that establish water CCOs to access the additional debt financing LGFA can provide. We encourage councils to consider what a water CCO could achieve for your council and communities.**

The following slide summarises the key benefits of utilising LGFA financing for water services.

Benefits for councils and communities enabled by LGFA financing

LGFA have agreed in principle to lend up to an equivalent of 500% of revenues to council-controlled water organisations.

This creates additional debt borrowing capacity for both the water organisation and for owning councils.

Having access to additional debt has positive implications for the affordability and sustainability of water services delivery.

Potential to reduce to cost to ratepayers	Utilising debt financing for capital investment reduces the requirement to generate operating revenues and surpluses to direct fund capital expenditure. This leads to lower charges for ratepayers.
Spreading the cost over time	Debt financing allows the CCO to spread the cost of large investments over years or decades. By using debt, the council ensures that the cost of the asset is shared across those who will benefit from it in the future.
Immediate access to funding	Debt provides immediate access to large amounts of capital, enabling the council to undertake necessary investments without having to wait years to accumulate sufficient rates revenue. For water assets, this reduces the risk of further degradation.
Maintaining service levels	Debt financing allows the council to avoid steep rate hikes while still being able to fund important projects and maintain or improve service levels for the community.
Utilising rates for opex and debt servicing	By using debt to fund capital expenditure, critical services are not being compromised or traded off to fund large projects. Operating revenues can be set to the minimum level required to cover the operating cost of service (including servicing debt) only.
Cash reserve and flexibility	Debt financing can allow the council to preserve financial reserves for emergencies or other priority areas.

A Manawatu-Whanganui Water CCO would enable the adoption of a fit-for-purpose financial strategy for water services delivery

An efficient financing strategy for water services enabled by a water CCO that can borrow through LGFA

- **Operating revenues should pay for operating costs.**
- **Capital investment requirements should be funded by capital - i.e., capital revenues (such as Development Contributions) and debt financing.**
- It is highly inefficient to fund capital investment of long-lived water services infrastructure through operating revenues.
- In LTPs, councils nationally are proposing approximately $40 billion of capital investment for water services over ten years. Only $13.4 billion of this investment is proposed to be debt funded (34% of the total); with operating revenues proposed to fund $20.7 billion worth of investment (53% of the total).
- Councils have the opportunity through the new structural and financing tools under Local Water Done Well to reset this imbalance in Water Services Delivery Plans, to increase the amount of debt financing for capital investment and decrease the use of operating revenues to pay for capital investment.

'Operating revenues should pay for operating costs'

- Financial sustainability and ringfencing requirements mean that operating revenues should be set to a level that covers the operating cost (including servicing debt) of water services.
- Operating revenues should cover all cash operating expenses plus a minimum FFO requirement (indicatively equivalent to 8 – 12% of net debt each year, depending on credit profile).
- This ensures that sufficient operating cashflows are secured to support borrowing and investment requirements (including staying below borrowing limits).
- Setting operating revenues to levels higher than needed to cover cash operating costs and debt servicing/support requirements is inefficient when there is available debt capacity to fund investment requirements.
- Operating cashflows should be used to manage or repay existing debt, rather than fund new capital expenditure.

'Capital should pay for capital'

- Capital revenues (such as Development Contributions and capital subsidy revenues) should be applied to capital expenditure.
- Capital expenditure into water services infrastructure assets should be funded from capital sources – i.e., capital revenues and debt financing.
- New debt drawdowns for capital investment reduce the cost burden on current ratepayers and consumers and enable this cost to be spread over the useful life of the asset.
- Capital inflows (including new borrowings) and capital outflows (i.e., investment) should balance, once accounting for any free operating cash flow generated from revenues that is used to manage or pay down debt.
- This means that all new capital investment is funded from capital sources, with surplus cashflows from operations used to pay down debt on existing debt for current infrastructure, rather than to pay for new investment.

Characteristics of a Manawatu-Whanganui Water CCO established under Local Water Done Well

The establishment of a council owned water CCO under Local Water Done Well will enable:

1. Retained local ownership of and direction setting for water services and infrastructure assets, at minimal financial cost to councils;
2. Reform of the water services industry that will create opportunities for new capital and operating efficiencies for water CCOs; and
3. Additional flexibility and financial resilience to ensure financially sustainable water services provision.

Characteristics of water services CCOs established under Local Water Done Well

1. Retained local ownership of and direction setting for water services and infrastructure assets, at minimal financial cost to councils

This means:

- ✓ Councils **retain local ownership** of water services and infrastructure assets.
- ✓ **Direct ownership interest** for councils in the water CCO.
- ✓ Councils **appoint Board members** of a water CCO.
- ✓ Ability to **set performance expectations** to a new water CCO under a new planning and accountability framework.
- ✓ The water CCO will be required to provide a **Water Services Strategy** to shareholding councils under a new planning and accountability framework.
- ✓ Owning council **guarantee (or uncalled capital)** in place to ensure **ongoing ownership and support** arrangement, and enduring interests in the successful and financially sustainable delivery of water services to communities.

2. Reform of the water services industry that will create opportunities for new capital and operating efficiencies for water CCOs

This means:

- ✓ **Professional, skilled, and independent directors** appointed.
- ✓ An **effective and appropriate capital structure** for infrastructure business.
- ✓ **Meeting LGFA's prudent credit criteria** for additional financing.
- ✓ Providing **operational and investment certainty**.
- ✓ Easier to comply with **ringfencing and economic regulation** requirements.
- ✓ Focus on **operational and capital efficiencies** to deliver investment and services to communities at a more optimal cost.

3. Additional flexibility and financial resilience to ensure financially sustainable water services provision

This means:

- ✓ Increased **access to debt financing** through LGFA for water services (to an equivalent 500% of water revenues).
- ✓ **Increased borrowing capacity for owning council**, which enables councils to utilise new borrowing headroom to fund non-water infrastructure requirements and **reduce non-water rates**.
- ✓ Ability to **plan long-term** around investment and financing requirements.
- ✓ **Increase proportion of investment that is debt-funded** rather than rates funded.
- ✓ **Spread the cost of infrastructure over its life**, ensuring intergenerational equity and minimising current consumers' subsidisation of future consumers use of long-lived assets being built now.
- ✓ **More financial resilience and investment** achievable.
- ✓ **Potentially lower charges** to consumers than would be the case under status quo in-house water services delivery arrangements.

Increased access to debt financing for a Manawatu-Whanganui Water CCO delivers significant benefits to communities

The establishment of a water CCO under Local Water Done Well and more effective utilisation of debt financing provided by LGFA will enable:

1. Improved financial resilience for water services delivery and councils;
2. Increased or accelerated investment against what councils can currently fund or deliver in-house;
3. Lower prices for communities than achievable under the status quo; and
4. Increased borrowing headroom and financial resilience for owning councils.

Benefits from increased access to debt financing for council owned water CCOs

1. Improved financial resilience for water services delivery and councils

This means:

- ✓ An equivalent five times revenue borrowing limit will **increase the borrowing capacity for water services investment**.
- ✓ This provides **enhanced resilience and ability to respond** to shocks or adverse events.
- ✓ Able to **borrow longer term** to minimise refinance risk and gain **long term financing certainty**.

2. Increased or accelerated investment against what councils can currently fund or deliver in-house

This means:

- ✓ Additional borrowing capacity could be utilised to **deliver additional capital investment** against existing revenue and price paths.
- ✓ Required **capital investment could be accelerated** as financing barriers are reduced.
- ✓ Financing certainty will enable effective signalling of the investment pipeline to the sector to e**nable the sector to invest and grow capacity** and ability to meet the demand of infrastructure investment.

3. Lower prices for communities than achievable under the status quo

This means:

- ✓ Revenues to set to the **minimum level required to cover the efficient cost** of service.
- ✓ Utilising debt financing for capital investment means **less revenue is required to deliver required levels of investment**.
- ✓ Debt financing of investment means **lower charges for current consumers**.
- ✓ Reduces the requirement to fund capital investment for long lived assets that will benefit several generations with rates or charges paid today by current consumers.

4. Increased borrowing headroom and financial resilience for owning councils

This means:

- ✓ Separating water revenues and debt can **create significant borrowing headroom for owning councils**.
- ✓ **Improved financial resiliency for councils**.
- ✓ Created borrowing headroom could be **utilised for non-water services capital investment** requirements to **reduce projected rates rises**.

Manawatu-Whanganui Water CCO: financial sustainability assessment

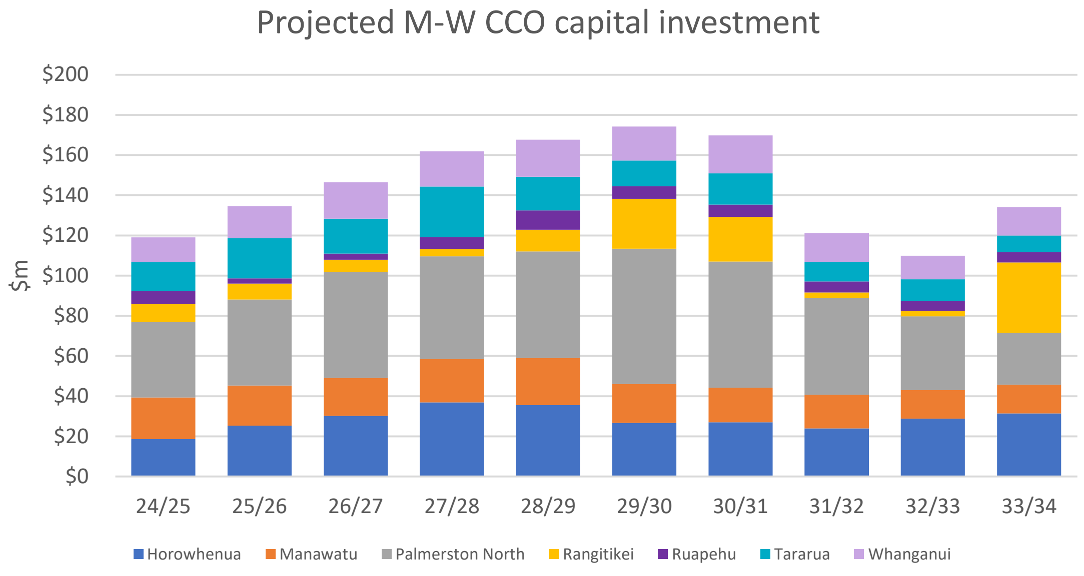
ANNEX 2

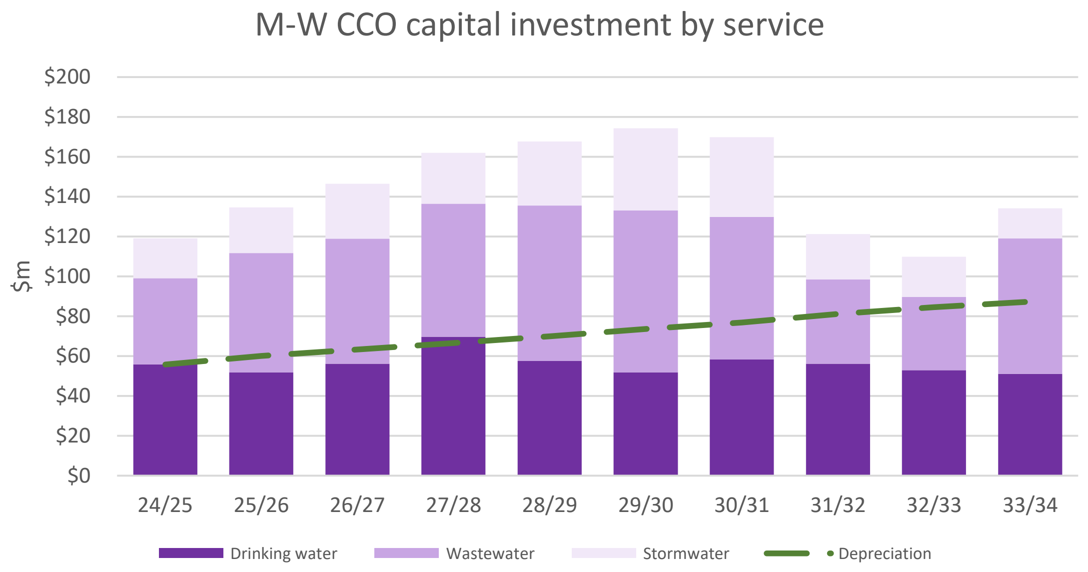
Manawatu-Whanganui combined water services capital investment

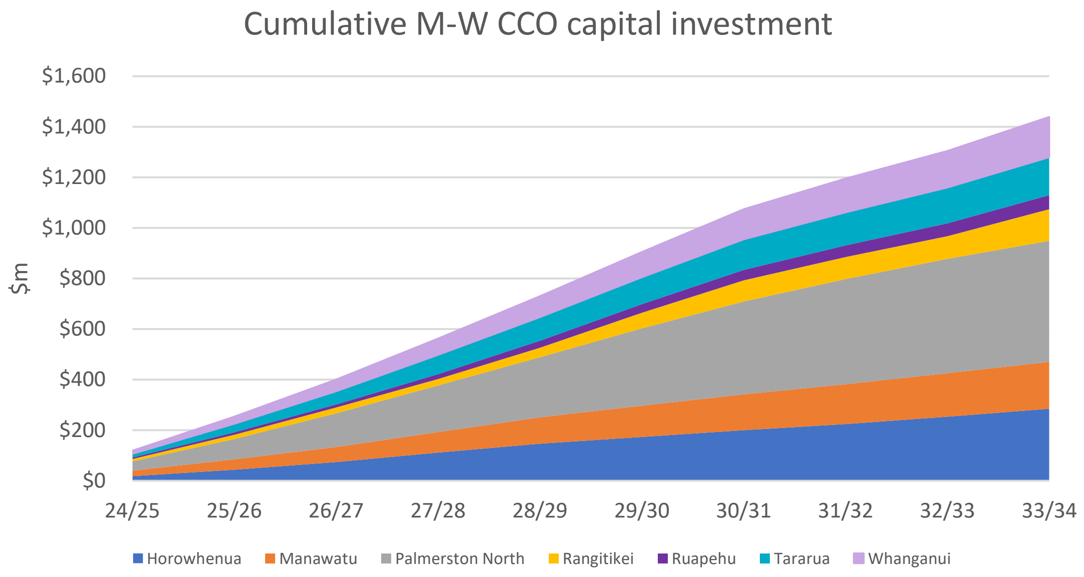
Overview of Manawatu-Whanganui water services capital investment

Manawatu-Whanganui councils are projecting $1.439 billion of capital investment into water services infrastructure over ten years. This proposed level of investment is substantial – and is approximately double projected depreciation charges over ten years.

While this capital programme is fundable under for a Manawatu-Whanganui Water CCO, there would be merit in the Manawatu-Whanganui councils working together on a joint investment programme to determine the most efficient and deliverable phasing of investment, and to identify opportunities to reduce costs.







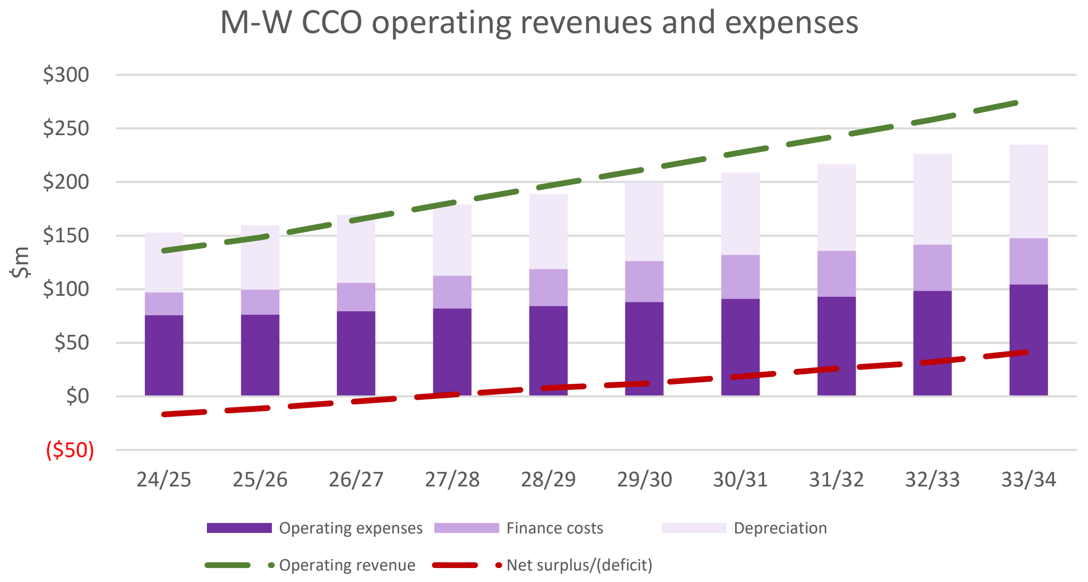
Manawatu-Whanganui combined revenues and debt financing

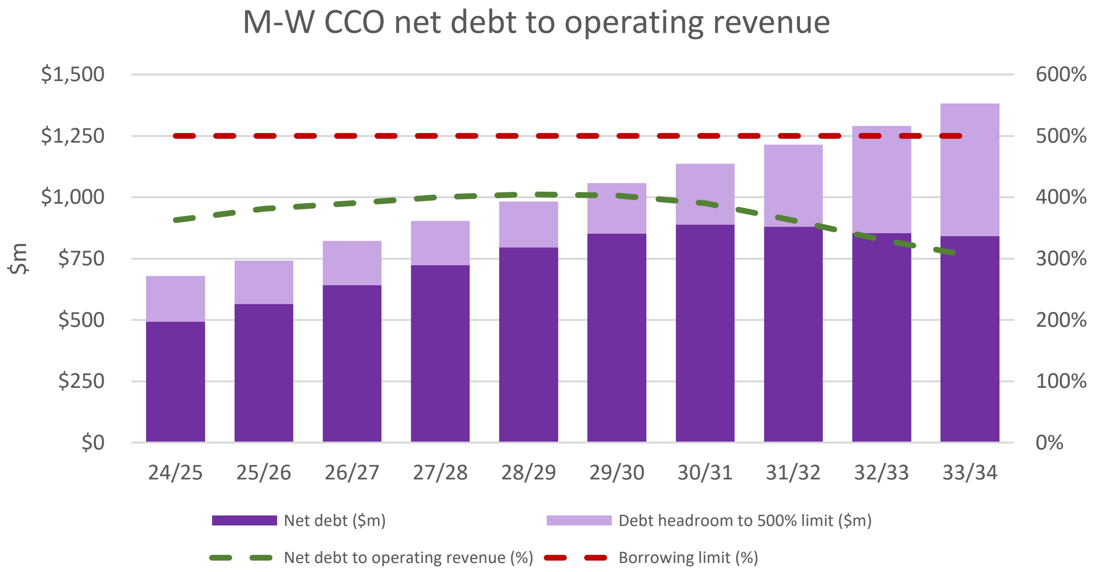
Overview of Manawatu-Whanganui water services revenues and debt financing

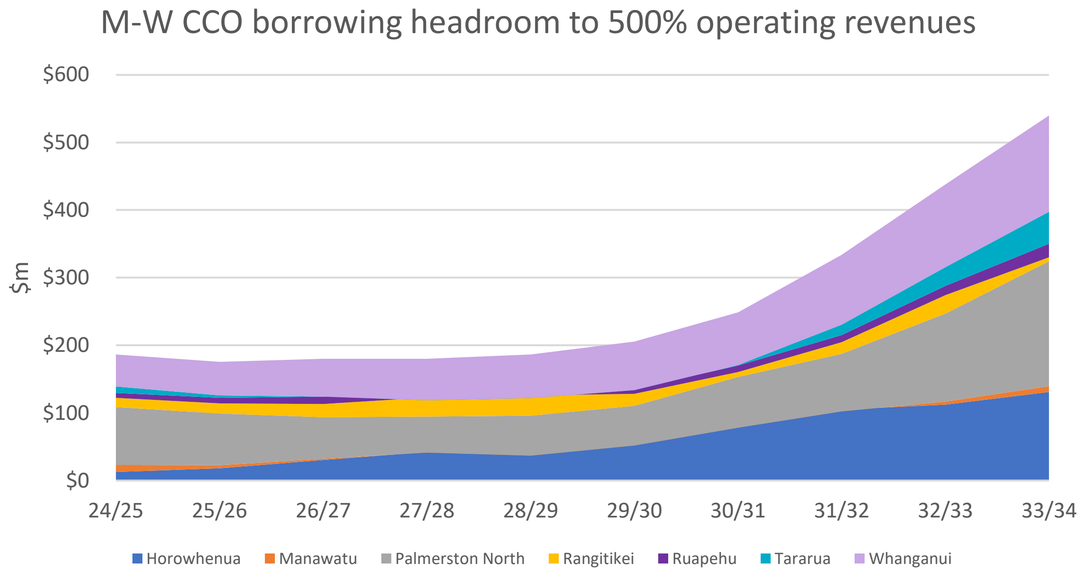
The projected levels of water services revenues are sufficient for the level of investment and expenditure proposed, and fully cover all operating costs including depreciation from FY28/29.

At a consolidated level, there is significant borrowing headroom against a 5x operating revenue debt limit. Based on projected levels of investment and revenues, a Manawatu-Whanganui CCO would retain unutilised borrowing capacity across the entire LTP period, with this capacity increasing over the last five years due to projected revenue increases.

Each council has trade-off decisions to make between levels of revenue, investment and debt financing to strike an appropriate balance for consumers, as part of a Manawatu-Whanganui Water CCO. **There is scope for Manawatu-Whanganui councils to reevaluate the level of water services revenues required, for the level of investment proposed, to potentially pass on savings to consumers. Effectively utilising debt financing is the key to unlocking this.**







Manawatu-Whanganui Water CCO: Revenue sufficiency

Projected statement of comprehensive revenue and expense

Statement of comprehensive revenue and expense ($000)	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Operating revenue	135,828	148,349	164,524	180,801	196,635	211,596	227,431	242,871	258,307	276,393
Other revenue	9,110	12,281	11,527	12,333	17,305	32,786	38,572	21,858	20,054	16,695
Total revenue	144,938	160,630	176,051	193,134	213,940	244,382	266,003	264,729	278,361	293,088
Operating expenses	60,076	60,306	61,990	64,332	66,307	68,440	70,525	71,738	76,075	81,618
Finance costs	21,101	23,066	26,607	30,567	34,443	38,134	41,086	42,642	43,286	43,056
Overheads and support costs	15,755	16,130	17,453	17,730	18,063	19,621	20,418	21,340	22,293	22,803
Depreciation & amortisation	55,769	60,047	63,271	66,498	69,863	73,582	76,890	81,110	84,547	87,329
Total expenses	152,701	159,549	169,321	179,127	188,676	199,777	208,919	216,830	226,201	234,806
Net surplus / (deficit)	(7,763)	1,081	6,730	14,007	25,264	44,605	57,084	47,899	52,160	58,282
Revaluation of infrastructure assets	153,794	70,273	69,128	70,255	98,058	57,470	73,868	158,690	58,080	75,497
Total comprehensive income	146,031	71,354	75,858	84,262	123,322	102,075	130,952	206,589	110,240	133,779
Cash surplus / (deficit) from operations (excl depreciation)	48,006	61,128	70,001	80,505	95,127	118,187	133,974	129,009	136,707	145,611

Key water services metrics

Metrics	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Rates increase	13.6%	10.6%	11.8%	10.4%	9.1%	7.8%	7.7%	7.0%	6.5%	7.2%
Operating revenue increase	14.0%	9.2%	10.9%	9.9%	8.8%	7.6%	7.5%	6.8%	6.4%	7.0%
Operating expenses increase	11.1%	0.8%	3.9%	3.3%	2.8%	4.4%	3.3%	2.3%	5.7%	6.2%
Net debt to operating revenue	362.7%	381.6%	390.5%	400.4%	405.1%	402.9%	390.6%	362.6%	330.5%	304.7%
FFO to net debt	7.9%	8.6%	9.1%	9.4%	9.8%	10.0%	10.7%	12.2%	13.7%	15.3%

Commentary on water services revenue and expenses

- There was an average 13.6% increase in water services operating revenues in FY24/25 across Manawatu-Whanganui councils, which is primarily due to an 11.1% increase in operating expenses.
- Double digit average operating revenue increases are projected for FY25/26 - FY27/28, with subsequent increases between 6.5% - 9.1% per year over the remainder of the 2024-34 LTP period.
- **The projected levels of water services revenues are sufficient for the level of investment and expenditure proposed, and fully cover all operating costs including depreciation.**
- In years 6 – 10 of the LTP period, water services revenues generate cashflows which decrease leverage. Net debt to operating revenue peaks at 405% in FY28/29 before reducing to 305% in FY33/34.
- Water services are projected to provide funds from operations ('FFO', i.e., operating cashflows) of $39 million in FY24/25, which represents 7.9% of water services debt.
- Due to projected revenue increases, free funds from operations increase to $129 million in FY33/34, which represents 15.3% of projected FY33/34 water services debt.
- **A Manawatu-Whanganui Water CCO that borrows through LGFA would be likely required to maintain a minimum FFO to debt ratio of 8 -10%.**
- **There is scope for Manawatu-Whanganui councils to individually reevaluate the level of water services revenues required, for the level of investment proposed by each council.**
- **Establishing a water CCO that could borrow to 5x operating revenues could provide an opportunity to reduce revenue requirements for water services where projected FFO exceeds the minimum requirement.**

Revenue sufficiency performance measures

Average charge per connection including GST

Average charge per connection including GST	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Average drinking water bill (including GST)	703	767	845	925	1,002	1,053	1,124	1,204	1,242	1,305
Average wastewater bill (including GST)	715	787	880	960	1,041	1,122	1,205	1,245	1,332	1,422
Average stormwater bill (including GST)	221	242	263	287	304	329	343	379	408	437
Average charge per connection including GST	1,640	1,796	1,988	2,172	2,347	2,505	2,672	2,828	2,982	3,164
Projected increase	47.7%	9.5%	10.7%	9.3%	8.0%	6.7%	6.7%	5.9%	5.4%	6.1%

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

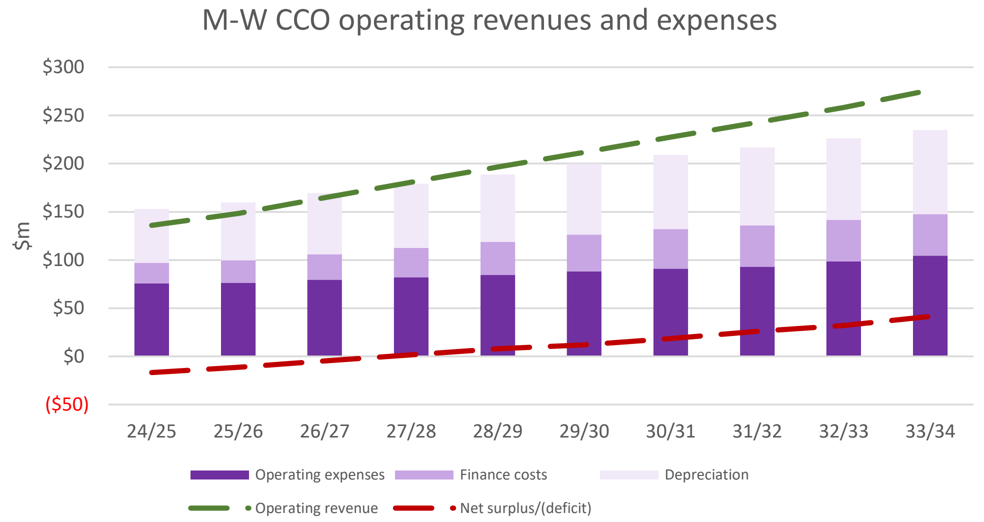
Operating surplus ratio	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34	Total
Operating surplus/(deficit) excluding capital revenues	(16,873)	(11,200)	(4,797)	1,674	7,959	11,819	18,512	26,041	32,106	41,587	106,828
Total operating revenue	135,828	148,349	164,524	180,801	196,635	211,596	227,431	242,871	258,307	276,393	2,042,735
Operating surplus ratio	(12.4%)	(7.5%)	(2.9%)	0.9%	4.0%	5.6%	8.1%	10.7%	12.4%	15.0%	5.2%

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

Operating cash ratio	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34	Total
Operating surplus/(deficit) + depreciation + interest costs - capital revenue	38,896	48,847	58,474	68,172	77,822	85,401	95,402	107,151	116,653	128,916	825,734
Total operating revenue	135,828	148,349	164,524	180,801	196,635	211,596	227,431	242,871	258,307	276,393	2,042,735
Operating cash ratio	28.6%	32.9%	35.5%	37.7%	39.6%	40.4%	41.9%	44.1%	45.2%	46.6%	40.4%

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

- Projected operating revenues cover projected operating costs including depreciation from FY27/28.
- Funds from operations are in line with the requirement for LGFA if a Manawatu-Whanganui Water CCO is established.
- **Proposed revenues for water services would meet the 'revenue sufficiency' test.**



Manawatu-Whanganui Water CCO: Investment sufficiency

Projected water services investment

Projected investment by water service ($000)	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34	Total
Drinking water											
Capital expenditure - to meet additional demand	8,150	10,001	14,929	15,190	10,312	11,520	15,666	15,950	11,416	14,585	127,719
Capital expenditure - to improve levels of services	24,003	19,840	14,850	16,452	18,250	14,074	7,972	14,998	14,631	10,898	155,968
Capital expenditure - to replace existing assets	23,588	21,922	26,379	38,012	29,007	26,265	34,613	25,121	26,845	25,559	277,311
Total projected investment in drinking water	55,741	51,763	56,158	69,654	57,569	51,859	58,251	56,069	52,892	51,042	560,998
Wastewater											
Capital expenditure - to meet additional demand	8,187	7,516	10,754	17,162	24,256	40,912	33,791	12,081	9,556	38,141	202,356
Capital expenditure - to improve levels of services	11,981	24,909	26,286	19,043	18,660	11,588	13,238	11,146	6,264	5,645	148,760
Capital expenditure - to replace existing assets	23,120	27,497	25,630	30,572	35,049	28,739	24,474	19,207	20,904	24,249	259,441
Total projected investment in wastewater	43,288	59,922	62,670	66,777	77,965	81,239	71,503	42,434	36,724	68,035	610,557
Stormwater											
Capital expenditure - to meet additional demand	8,281	11,151	11,814	9,067	16,260	22,467	22,153	3,306	3,236	3,951	111,686
Capital expenditure - to improve levels of services	10,245	9,637	12,793	13,563	12,961	15,591	14,805	16,599	13,975	8,232	128,401
Capital expenditure - to replace existing assets	1,444	2,089	2,981	2,858	2,934	3,065	3,113	2,769	3,016	2,913	27,182
Total projected investment in stormwater	19,970	22,877	27,588	25,488	32,155	41,123	40,071	22,674	20,227	15,096	267,269
Total projected investment in water services	118,999	134,562	146,416	161,919	167,689	174,221	169,825	121,177	109,843	134,173	1,438,824

Funding sources of projected investment

Projected investment by classification and funding source ($000)	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34	Total
Capital expenditure - to meet additional demand	24,618	28,668	37,497	41,419	50,828	74,899	71,610	31,337	24,208	56,677	441,761
Capital expenditure - to improve levels of services	46,229	54,386	53,929	49,058	49,871	41,253	36,015	42,743	34,870	24,775	433,129
Capital expenditure - to replace existing assets	48,152	51,508	54,990	71,442	66,990	58,069	62,200	47,097	50,765	52,721	563,934
Total investment	118,999	134,562	146,416	161,919	167,689	174,221	169,825	121,177	109,843	134,173	1,438,824
Capital revenues	9,110	12,281	11,527	12,333	17,305	32,786	38,572	21,858	20,054	16,695	192,521
Increase/(decrease) in debt	61,966	58,315	60,699	67,129	66,874	54,018	39,722	4,281	(19,908)	(6,490)	386,606
Funds from operations	47,923	63,966	74,190	82,457	83,510	87,417	91,531	95,038	109,697	123,968	859,697
Total investment funding	118,999	134,562	146,416	161,919	167,689	174,221	169,825	121,177	109,843	134,173	1,438,824

Commentary on water services investment

- Manawatu-Whanganui councils are projecting $1.439 billion of capital investment into water services infrastructure over ten years.
- $564 million of this is for renewals, against ten-year depreciation charges of $718 million.
- $875 million investment is provided for improving levels of service and growth (which excludes PNCC's proposed IFF funded wastewater treatment plant).
- $387 million of this total capital investment requirement is currently projected to be funded by new borrowings over ten years (27% of the total). Revenues are projected to fund $860 million of the total investment (60% of the total).
- **There is scope for Manawatu-Whanganui councils to individually reevaluate the revenue versus debt financing split of projected investment, given the additional borrowing capability for a water CCO that is funded by the LGFA.**
- **Should a Manawatu-Whanganui Water CCO be pursued, councils should consider increasing the proportion of capital investment that is debt funded, which spreads the burden of this investment on ratepayers over a longer period.**
- **Increasing the proportion of capital investment that is debt funded could deliver a corresponding reduction in operating revenues required. This could mean that projected water charges could be reduced for consumers.**

Investment sufficiency performance measures

Asset sustainability ratio: *comparison of renewals capital expenditure to depreciation*

Asset sustainability ratio	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34	Total
Capital expenditure on renewals	48,152	51,508	54,990	71,442	66,990	58,069	62,200	47,097	50,765	52,721	563,934
Depreciation	55,769	60,047	63,271	66,498	69,863	73,582	76,890	81,110	84,547	87,329	718,906
Asset sustainability ratio	(13.7%)	(14.2%)	(13.1%)	7.4%	(4.1%)	(21.1%)	(19.1%)	(41.9%)	(40.0%)	(39.6%)	(21.6%)

Asset investment ratio: *comparison of total capital expenditure to depreciation*

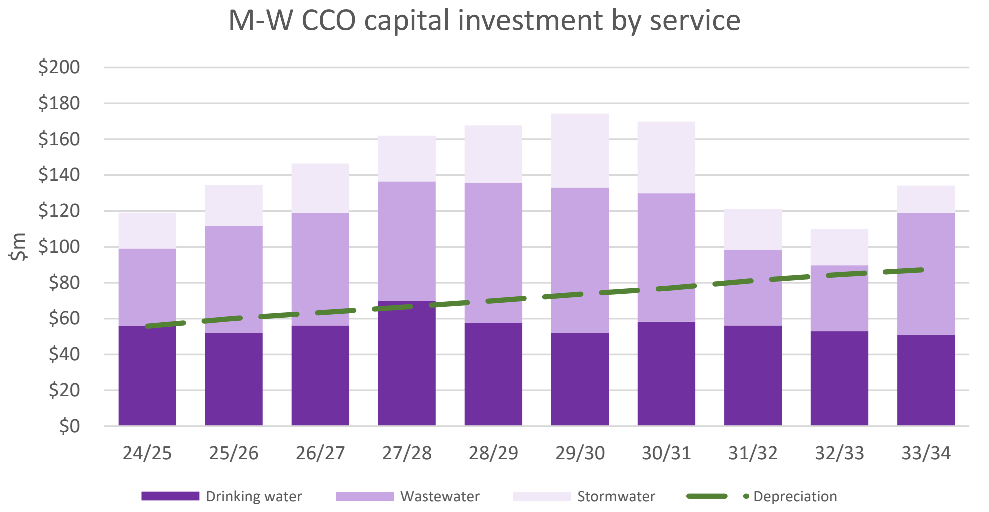
Asset investment ratio	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34	Total
Capital expenditure	118,999	134,562	146,416	161,919	167,689	174,221	169,825	121,177	109,843	134,173	1,438,824
Depreciation	55,769	60,047	63,271	66,498	69,863	73,582	76,890	81,110	84,547	87,329	718,906
Asset investment ratio	113.4%	124.1%	131.4%	143.5%	140.0%	136.8%	120.9%	49.4%	29.9%	53.6%	100.1%

Asset consumption ratio: *comparison of book value to replacement value*

Asset consumption ratio	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Book value of infrastructure assets	2,803,127	2,947,916	3,100,189	3,265,865	3,461,750	3,619,859	3,786,661	3,985,418	4,068,794	4,191,134
Total estimated replacement value of infrastructure assets	4,712,310	4,960,992	5,226,753	5,511,966	5,838,437	6,111,443	6,413,566	6,794,990	7,006,785	7,280,518
Asset consumption ratio	59.5%	59.4%	59.3%	59.3%	59.3%	59.2%	59.0%	58.7%	58.1%	57.6%

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

- Manawatu-Whanganui councils are projecting $1.439 billion of capital investment into water services infrastructure over ten years. This proposed level of investment is substantial – and approximately double projected depreciation charges over ten years.
- **The proposed level of investment for water services would likely meet the 'investment sufficiency' test, subject to confirmation from each council that their projected investment meets the requirements of Water Services Delivery Plans.**



Manawatu-Whanganui Water CCO: Financing sufficiency

Financing sufficiency measures

Net debt to operating revenue ratio

Net debt to operating revenue	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Total net debt (gross debt less cash)	492,668	566,102	642,517	723,931	796,493	852,527	888,378	880,545	853,721	842,283
Operating revenue	135,828	148,349	164,524	180,801	196,635	211,596	227,431	242,871	258,307	276,393
Net debt to operating revenue	363%	382%	391%	400%	405%	403%	391%	363%	331%	305%

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

Borrowings headroom/(shortfall) against limit	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Operating revenue	135,828	148,349	164,524	180,801	196,635	211,596	227,431	242,871	258,307	276,393
Debt to revenue limit	500%	500%	500%	500%	500%	500%	500%	500%	500%	500%
Maximum allowable net debt	679,140	741,745	822,620	904,005	983,175	1,057,980	1,137,155	1,214,355	1,291,535	1,381,965
Total net debt	492,668	566,102	642,517	723,931	796,493	852,527	888,378	880,545	853,721	842,283
Borrowing headroom/ (shortfall) against limit	186,472	175,643	180,103	180,074	186,682	205,453	248,777	333,810	437,814	539,682

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

Free funds from operations (FFO) to debt ratio	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Total net debt	492,668	566,102	642,517	723,931	796,493	852,527	888,378	880,545	853,721	842,283
Funds from operations	38,896	48,847	58,474	68,172	77,822	85,401	95,402	107,151	116,653	128,916
FFO to debt ratio	7.9%	8.6%	9.1%	9.4%	9.8%	10.0%	10.7%	12.2%	13.7%	15.3%

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

- Net debt to revenue for water services peaks at 405% before reducing to 305% by FY33/34.
- The projected level of investment in the 2024-34 LTP is bankable, with the level of projected borrowings well within expected borrowing limits for a Manawatu-Whanganui Water CCO.
- Projected water services revenues provide sufficient operating cashflow to support borrowing requirements.
- A Manawatu-Whanganui Water CCO that could borrow to 5x operating revenues would provide significant borrowing headroom, and an opportunity to reduce revenue requirements for water services or increase projected levels of investment.

Projected debt to revenue by water service

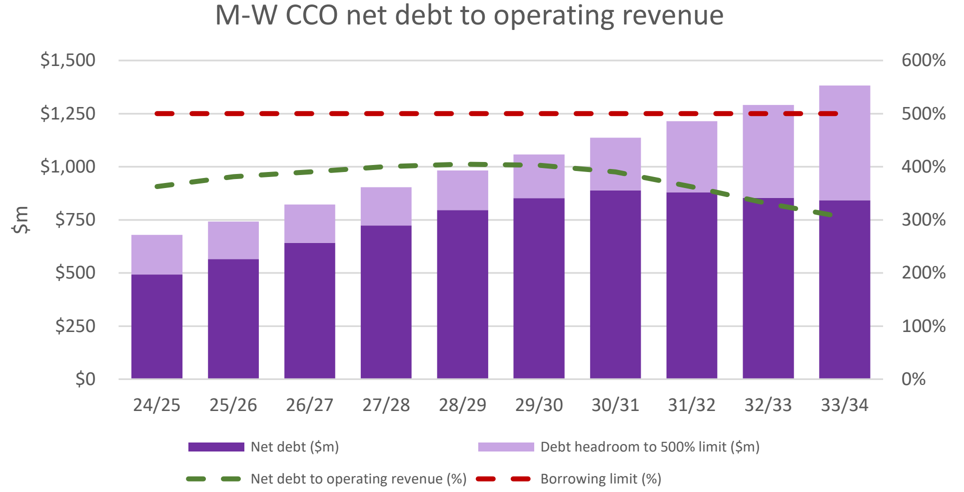
Debt to revenue by water service ($k)	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Drinking water - operating revenue	55,778	60,870	67,338	74,348	81,257	86,237	92,856	100,435	104,662	111,036
Drinking water - net debt	165,609	194,030	223,721	261,384	281,244	291,763	299,540	299,057	294,891	282,028
Drinking water - net debt to operating revenue %	297%	319%	332%	352%	346%	338%	323%	298%	282%	254%
Wastewater - operating revenue	62,070	67,671	75,437	82,454	89,718	97,313	105,098	109,491	117,848	126,641
Wastewater - net debt	234,786	268,334	300,261	331,112	368,075	403,256	424,073	412,693	390,396	398,312
Wastewater - net debt to operating revenue %	378%	397%	398%	402%	410%	414%	404%	377%	331%	315%
Stormwater - operating revenue	17,980	19,808	21,749	23,999	25,660	28,046	29,477	32,945	35,797	38,716
Stormwater - net debt	92,272	103,737	118,534	131,434	147,173	157,507	164,764	168,794	168,433	161,942
Stormwater - net debt to operating revenue %	513%	524%	545%	548%	574%	562%	559%	512%	471%	418%
Water services - net debt to operating revenue %	363%	382%	391%	400%	405%	403%	391%	363%	331%	305%
Two Waters - net debt to operating revenue %	340%	360%	367%	378%	380%	379%	366%	339%	308%	286%

Funding source of investment

Investment funding source ($000)	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34	Total
Capital revenues	9,110	12,281	11,527	12,333	17,305	32,786	38,572	21,858	20,054	16,695	192,521
Increase/(decrease) in debt	61,966	58,315	60,699	67,129	66,874	54,018	39,722	4,281	(19,908)	(6,490)	386,606
Funds from operations	47,923	63,966	74,190	82,457	83,510	87,417	91,531	95,038	109,697	123,968	859,697
Total investment funding	118,999	134,562	146,416	161,919	167,689	174,221	169,825	121,177	109,843	134,173	1,438,824

There is scope for Manawatu-Whanganui councils to individually reevaluate the revenue versus debt financing split of projected investment, given the additional borrowing capability for a Manawatu-Whanganui Water CCO that is funded by the LGFA.

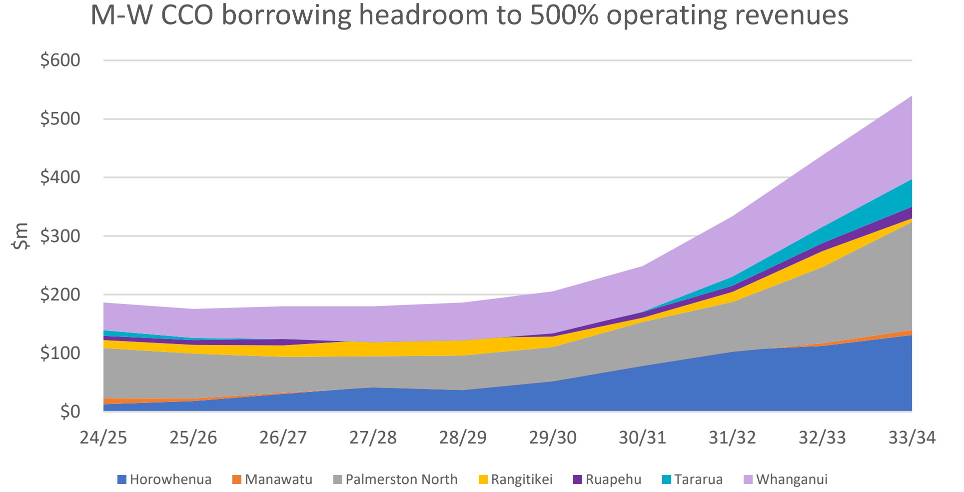
Water services financing – Manawatu-Whanganui Water CCO



At a consolidated level, there is significant borrowing headroom against a 5x operating revenue debt limit.

Based on projected levels of investment and revenues, a Manawatu-Whanganui CCO would retain unutilised borrowing capacity across the entire LTP period, with this capacity increasing over the last four years due to projected revenue increases.

Remaining borrowing headroom to 5x operating revenues



Comparison of Manawatu-Whanganui councils’ water services

ANNEX 3

Per connection comparison of Manawatu-Whanganui councils (over five years)

A Manawatu-Whanganui Water CCO could operate as an aggregation of the participating councils' individual water services requirements and maintain regional differences

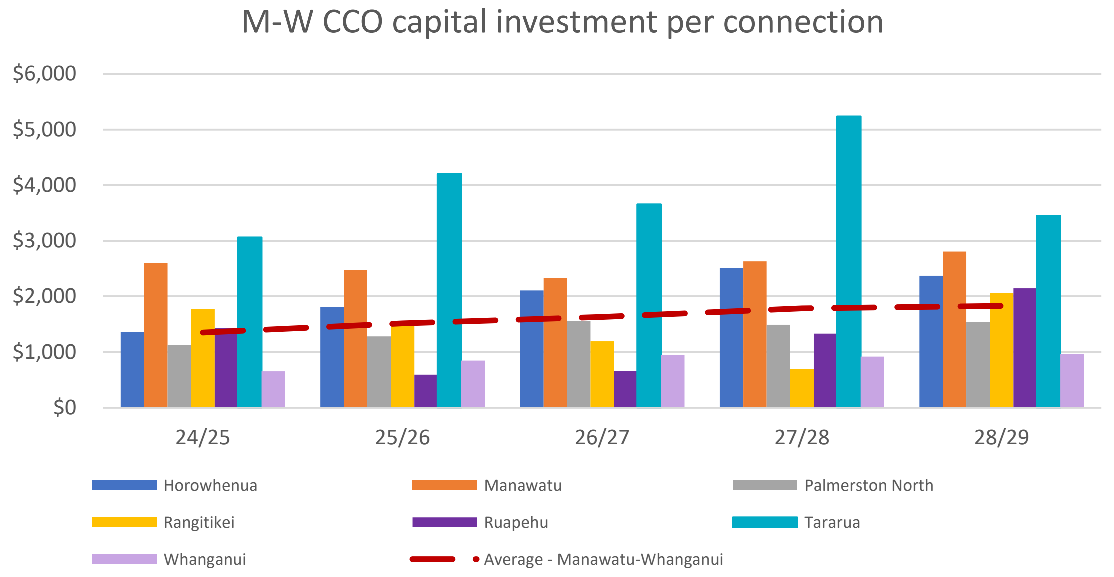
Under Local Water Done Well **there is no requirement to harmonise prices** across councils where a regional model is progressed.

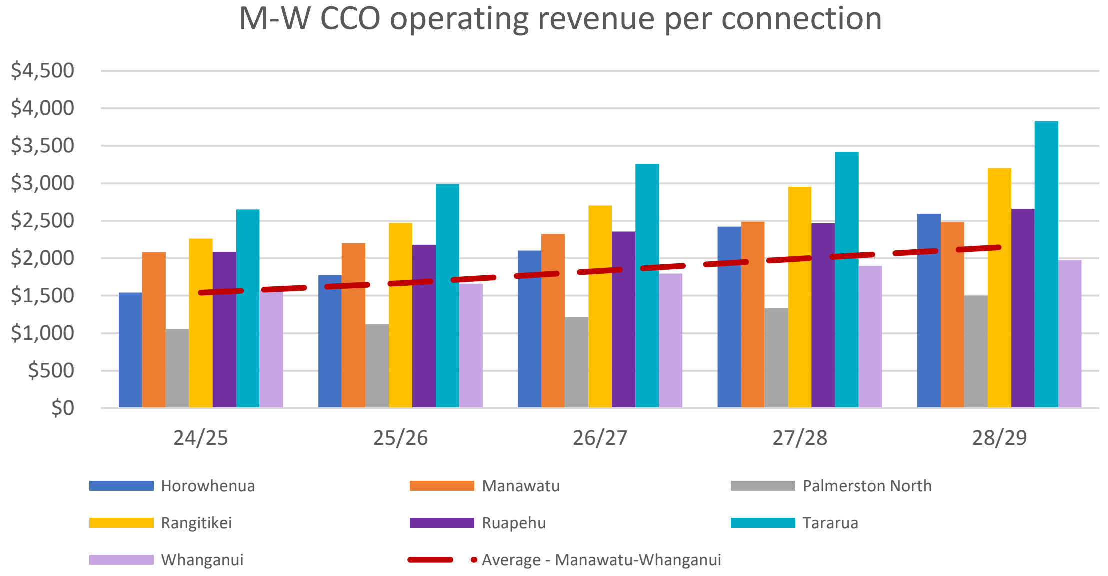
Each council's water services network, investment requirements and costs of service are unique and different to other Manawatu-Whanganui councils.

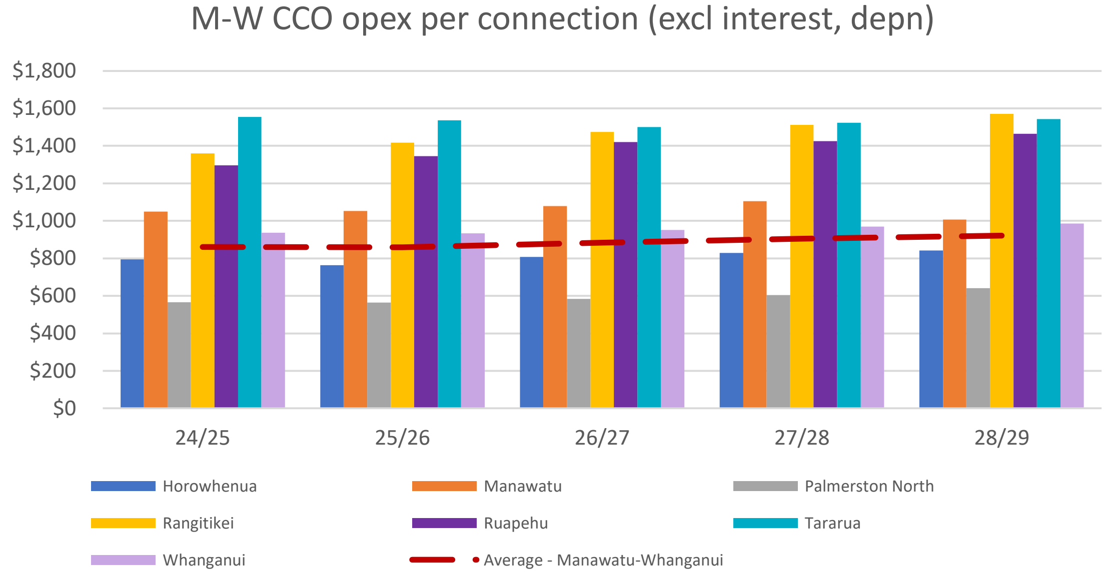
We recommend that Manawatu-Whanganui councils look to initially **maintain regional pricing differences that reflect regional differences in the costs of service**.

Operating revenues, costs and investment are shown to enable comparison across the Manawatu-Whanganui councils. A weighted average across Manawatu-Whanganui councils is shown indicatively.

Each council has trade-off decisions to make between levels of revenue, investment and debt financing to strike an appropriate balance for consumers, as part of a Manawatu-Whanganui Water CCO.





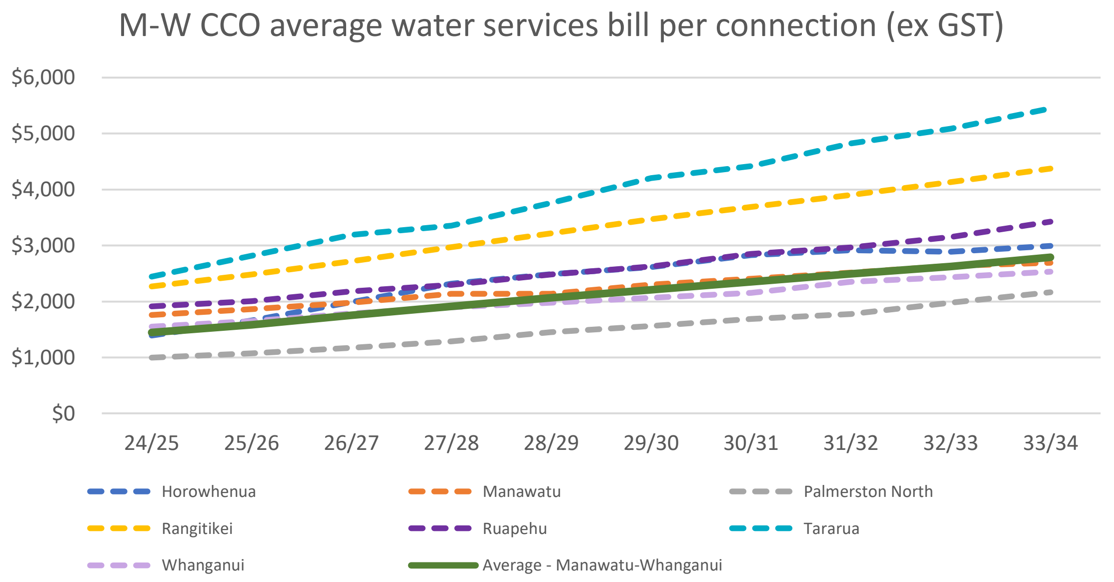


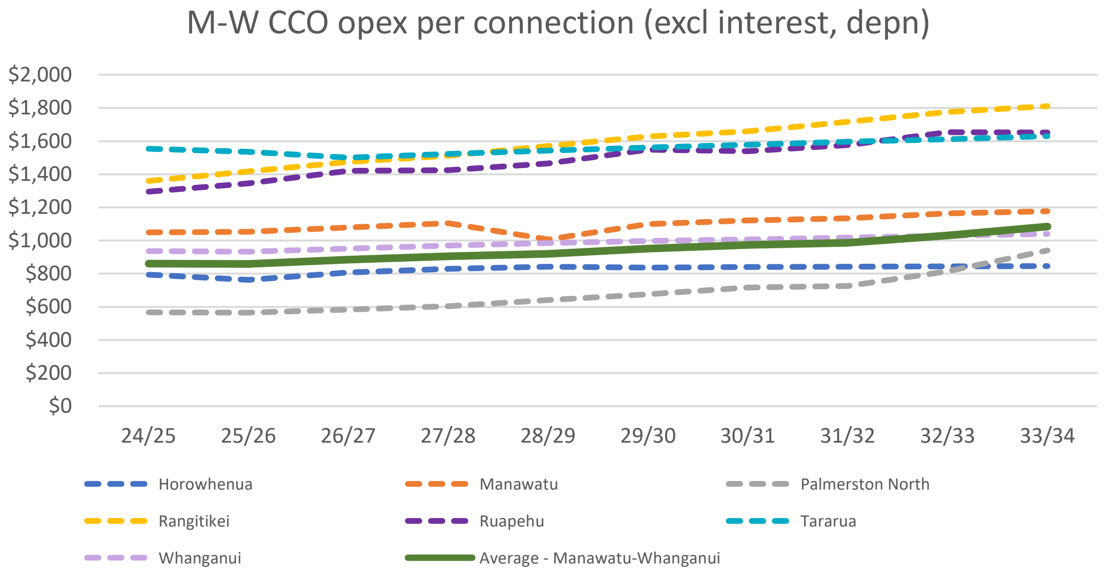
Further comparison of Manawatu-Whanganui councils on a per connection basis

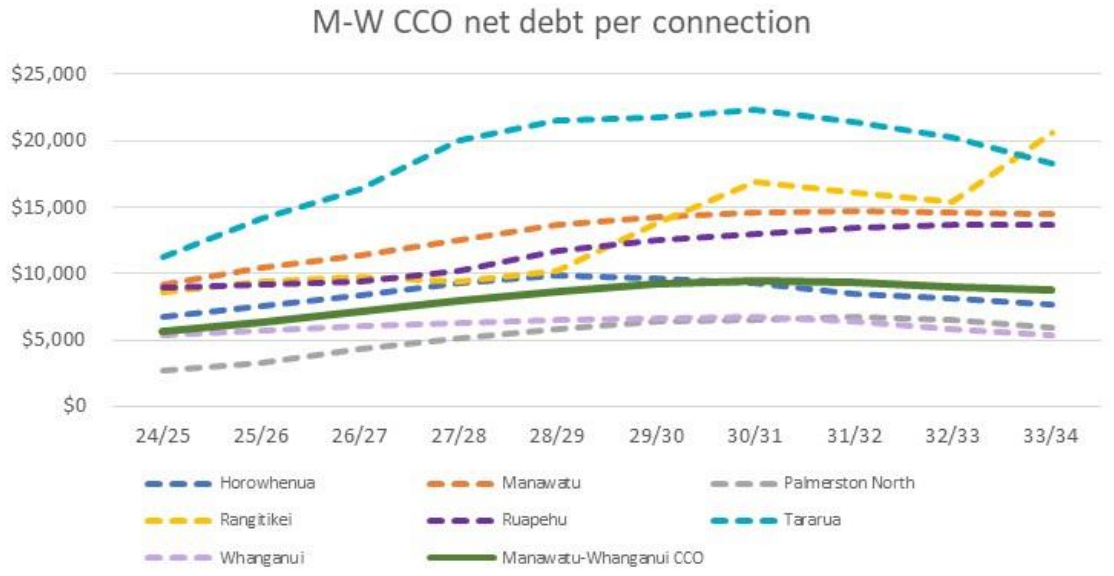
Household charges are a function of costs of service and levels of investment required

Average water charges are directly impacted by proposed levels of investment, operating expenses and the utilisation of debt financing versus revenue funding of investment. Each council is facing trade-off decisions on these factors to strike the right balance for their communities.

Each council should separately determine the financial projections that should be used for subsequent Manawatu-Whanganui Water CCO analysis, implementation planning and for Water Services Delivery Plans.







Comparing water services financing across Manawatu-Whanganui councils

A Manawatu-Whanganui Water CCO could access sufficient debt financing from LGFA; however, there are regional differences across councils

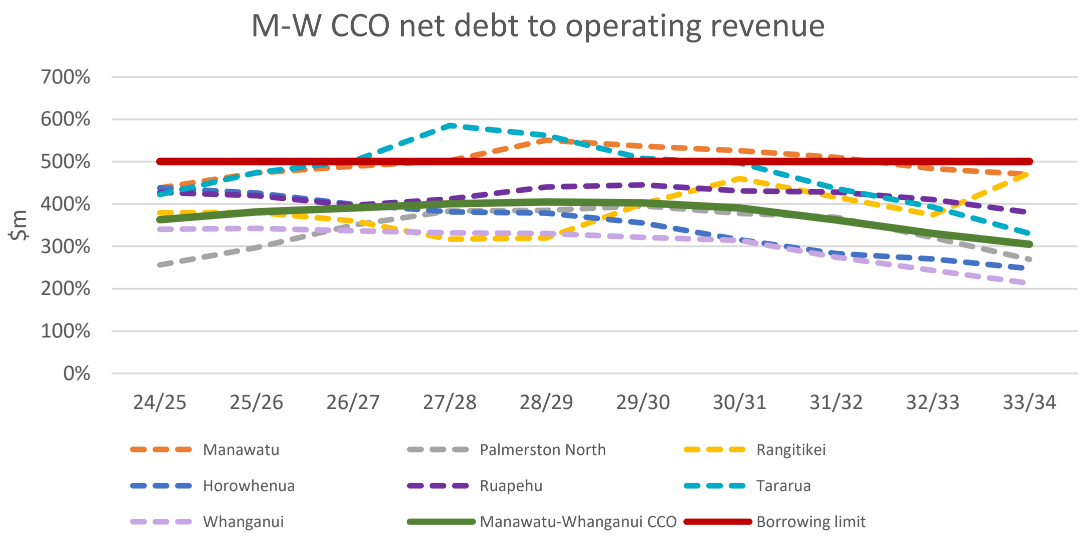
A consolidated Manawatu-Whanganui Water CCO could comfortably access the necessary debt financing required to deliver the proposed levels of investment as set out in the financial projections included in this pack.

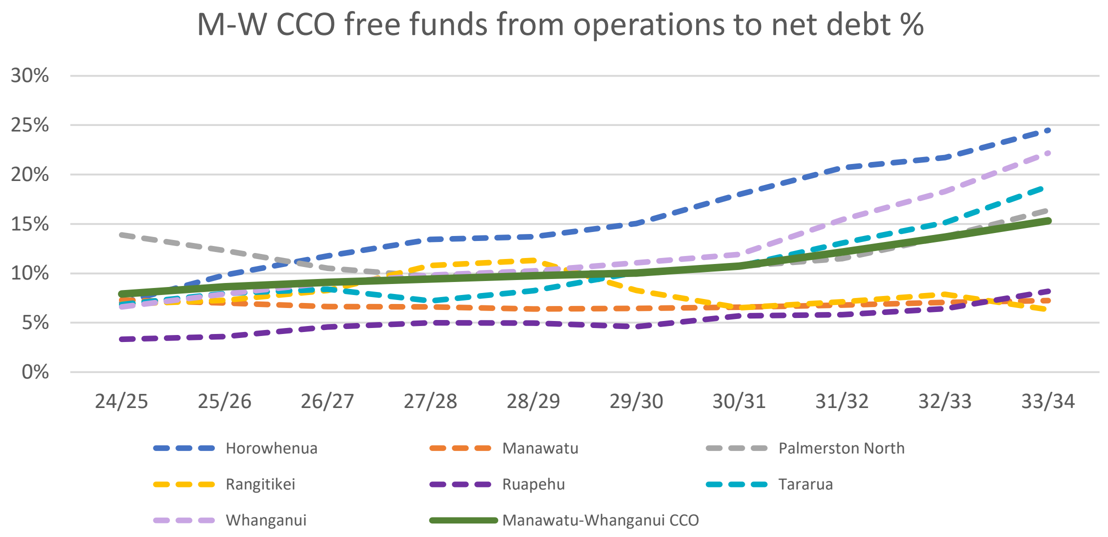
Manawatu-Whanganui councils may wish to consider trade-offs between levels of revenue and investment, and of debt financing versus revenue funding of investment.

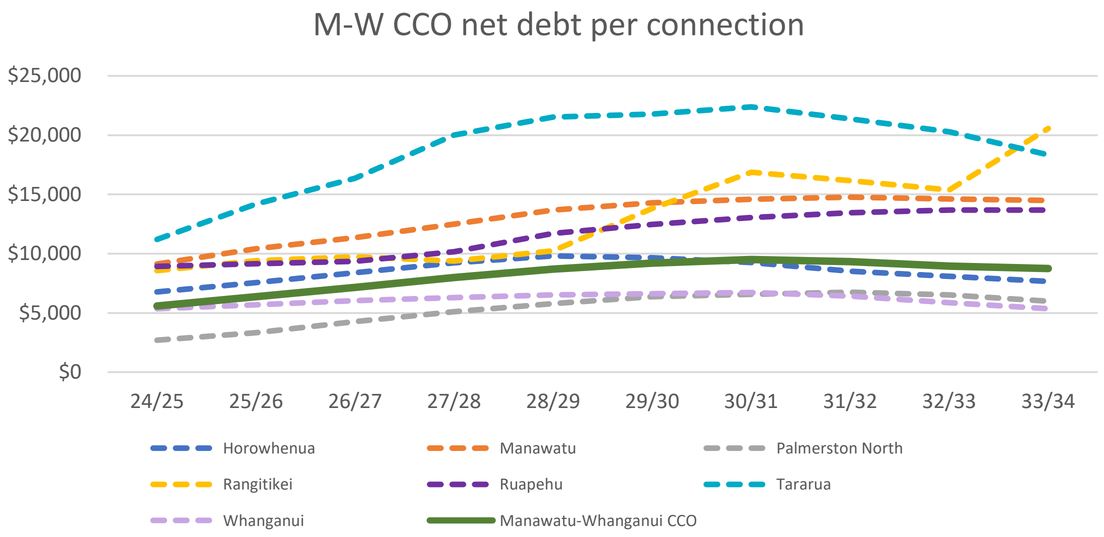
When considering these trade-offs each council should aim to:

- Keep debt to revenue at or below 500% of revenues (where possible); and
- Ensure a minimum FFO to debt ratio of 8 -10% is maintained.

Where a council's FFO to debt is below 8% beyond FY27/28, consideration should be given to rebalancing revenues, operating costs and/or investment levels to ensure a minimum 8-10% FFO to debt ratio is maintained.







Manawatu-Whanganui Water CCO: projected consolidated water services financials

ANNEX 4

Financial projections: consolidated funding impact statement

Funding impact statement ($000)	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34	Total
Sources of operating funding											
General rates	852	968	1,081	1,158	1,233	1,343	1,458	1,513	1,595	1,668	12,869
Targeted rates	125,715	138,991	155,375	171,503	187,107	201,720	217,243	232,436	247,591	265,417	1,943,098
Subsidies and grants for operating purposes	1,596	1,056	515	515	515	515	515	515	515	515	6,772
Local authorities fuel tax, fines, infringement fees and other receipts	2,328	1,974	2,025	1,976	2,025	2,070	2,115	2,161	2,206	2,261	21,141
Fees and charges	5,337	5,360	5,528	5,649	5,755	5,948	6,100	6,246	6,400	6,532	58,855
Total operating funding	135,828	148,349	164,524	180,801	196,635	211,596	227,431	242,871	258,307	276,393	2,042,735
Applications of operating funding											
Payments to staff and suppliers	60,076	60,306	61,990	64,332	66,307	68,440	70,525	71,738	76,075	81,618	681,407
Finance costs	21,101	23,066	26,607	30,567	34,443	38,134	41,086	42,642	43,286	43,056	343,988
Internal charges and overheads applied	15,755	16,130	17,453	17,730	18,063	19,621	20,418	21,340	22,293	22,803	191,606
Total applications of operating funding	96,932	99,502	106,050	112,629	118,813	126,195	132,029	135,720	141,654	147,477	1,217,001
Surplus/(deficit) of operating funding	38,896	48,847	58,474	68,172	77,822	85,401	95,402	107,151	116,653	128,916	825,734
Sources of capital funding											
Subsidies and grants for capital expenditure	3,232	5,901	3,198	1,395	5,038	19,891	25,200	8,288	6,338	2,963	81,444
Development and financial contributions	5,878	6,380	8,329	10,938	12,267	12,895	13,372	13,570	13,716	13,732	111,077
Increase/(decrease) in debt	61,966	58,315	60,699	67,129	66,874	54,018	39,722	4,281	(19,908)	(6,490)	386,606
Total sources of capital funding	71,076	70,596	72,226	79,462	84,179	86,804	78,294	26,139	146	10,205	579,127
Applications of capital funding											
Capital expenditure - to meet additional demand	24,618	28,668	37,497	41,419	50,828	74,899	71,610	31,337	24,208	56,677	441,761
Capital expenditure - to improve levels of services	46,229	54,386	53,929	49,058	49,871	41,253	36,015	42,743	34,870	24,775	433,129
Capital expenditure - to replace existing assets	48,152	51,508	54,990	71,442	66,990	58,069	62,200	47,097	50,765	52,721	563,934
Increase/(decrease) in reserves	(9,027)	(15,122)	(15,715)	(14,282)	(5,691)	(2,014)	3,865	12,116	6,913	4,953	(34,004)
Total applications of capital funding	109,972	119,440	130,701	147,637	161,998	172,207	173,690	133,293	116,756	139,126	1,404,820
Surplus/(deficit) of capital funding	(38,896)	(48,844)	(58,475)	(68,175)	(77,819)	(85,403)	(95,396)	(107,154)	(116,610)	(128,921)	(825,693)
Funding balance	0	3	(1)	(3)	3	(2)	6	(3)	43	(5)	41

Financial projections: consolidated P&L and cashflows

Statement of comprehensive revenue and expense ($000)	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Operating revenue	135,828	148,349	164,524	180,801	196,635	211,596	227,431	242,871	258,307	276,393
Other revenue	9,110	12,281	11,527	12,333	17,305	32,786	38,572	21,858	20,054	16,695
Total revenue	144,938	160,630	176,051	193,134	213,940	244,382	266,003	264,729	278,361	293,088
Operating expenses	60,076	60,306	61,990	64,332	66,307	68,440	70,525	71,738	76,075	81,618
Finance costs	21,101	23,066	26,607	30,567	34,443	38,134	41,086	42,642	43,286	43,056
Overheads and support costs	15,755	16,130	17,453	17,730	18,063	19,621	20,418	21,340	22,293	22,803
Depreciation & amortisation	55,769	60,047	63,271	66,498	69,863	73,582	76,890	81,110	84,547	87,329
Total expenses	152,701	159,549	169,321	179,127	188,676	199,777	208,919	216,830	226,201	234,806
Net surplus / (deficit)	(7,763)	1,081	6,730	14,007	25,264	44,605	57,084	47,899	52,160	58,282
Revaluation of infrastructure assets	153,794	70,273	69,128	70,255	98,058	57,470	73,868	158,690	58,080	75,497
Total comprehensive income	146,031	71,354	75,858	84,262	123,322	102,075	130,952	206,589	110,240	133,779
Cash surplus / (deficit) from operations (excl depreciation)	48,006	61,128	70,001	80,505	95,127	118,187	133,974	129,009	136,707	145,611

Statement of cashflows ($000)	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Cashflows from operating activities										
Cash surplus / (deficit) from operations	48,006	61,128	70,001	80,505	95,127	118,187	133,974	129,009	136,707	145,611
Net cashflows from operating activities	48,006	61,128	70,001	80,505	95,127	118,187	133,974	129,009	136,707	145,611
Cashflows from investment activities										
Capital expenditure	(118,999)	(134,562)	(146,416)	(161,919)	(167,689)	(174,221)	(169,825)	(121,177)	(109,843)	(134,173)
Net cashflows from investment activities	(118,999)	(134,562)	(146,416)	(161,919)	(167,689)	(174,221)	(169,825)	(121,177)	(109,843)	(134,173)
Cashflows from financing activities										
Movements in external debt	61,966	58,315	60,699	67,129	66,874	54,018	39,722	4,281	(19,908)	(6,490)
Movements in internal debt	0	0	0	0	0	0	0	0	0	0
Net cashflows from financing activities	61,966	58,315	60,699	67,129	66,874	54,018	39,722	4,281	(19,908)	(6,490)
Net increase/(decrease) in cash and cash equivalents	(9,027)	(15,119)	(15,716)	(14,285)	(5,688)	(2,016)	3,871	12,113	6,956	4,948
Cash and cash equivalents at beginning of year	(35,243)	(44,270)	(59,389)	(75,105)	(89,390)	(95,078)	(97,094)	(93,223)	(81,110)	(74,154)
Cash and cash equivalents at end of year	(44,270)	(59,389)	(75,105)	(89,390)	(95,078)	(97,094)	(93,223)	(81,110)	(74,154)	(69,206)

Negative projected cash balances occur due to internal borrowings arrangements and cash shortfalls set out in water services funding impact statements (through the movements in reserves line). These negative projected cash balances are included in 'net debt' analysis within this pack. Manawatu-Whanganui councils should rebalance external borrowings, internal borrowings and cash, by adjusting projected capital movements to ensure that there is sufficient positive working capital included in a submitted Water Services Delivery Plan.

Financial projections: consolidated balance sheet

Statement of financial position ($000)	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34
Assets										
Cash and cash equivalents	(44,270)	(59,389)	(75,105)	(89,390)	(95,078)	(97,094)	(93,223)	(81,110)	(74,154)	(69,206)
Infrastructure assets	2,803,127	2,947,916	3,100,189	3,265,865	3,461,750	3,619,859	3,786,661	3,985,418	4,068,794	4,191,134
Total assets	2,758,857	2,888,527	3,025,084	3,176,475	3,366,672	3,522,765	3,693,438	3,904,308	3,994,640	4,121,928
Liabilities										
External borrowings	448,398	506,713	567,412	634,541	701,415	755,433	795,155	799,436	779,528	773,038
Total liabilities	448,398	506,713	567,414	634,541	701,415	755,433	795,155	799,436	779,528	773,038
Net assets	2,310,459	2,381,814	2,457,670	2,541,934	2,665,257	2,767,332	2,898,283	3,104,872	3,215,112	3,348,890
Equity										
Revaluation reserve	1,277,787	1,348,061	1,417,189	1,487,444	1,585,503	1,642,973	1,716,840	1,875,530	1,933,610	2,009,106
Other reserves	1,032,672	1,033,753	1,040,483	1,054,490	1,079,754	1,124,359	1,181,443	1,229,342	1,281,502	1,339,784
Total equity	2,310,459	2,381,814	2,457,672	2,541,934	2,665,257	2,767,332	2,898,283	3,104,872	3,215,112	3,348,890

Negative projected cash balances occur due to internal borrowings arrangements and cash shortfalls set out in water services funding impact statements (through the movements in reserves line). These negative projected cash balances are included in ‘net debt’ analysis within this pack.

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