



**CENTRAL
HAWKE'S BAY**
DISTRICT COUNCIL

Late Items

Extraordinary Council Meeting Agenda

Thursday, 24 July 2025

9:00 am

Council Chamber

28-32 Ruataniwha Street

Waipawa

Order Of Business

5 Report Section 3

5.2 Local Water Done Well - Endorsement of Capital Programme Principles 3

5 REPORT SECTION

5.2 LOCAL WATER DONE WELL - ENDORSEMENT OF CAPITAL PROGRAMME PRINCIPLES

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Authoriser: Doug Tate, Chief Executive

Attachments: Nil

RECOMMENDATION(S)

That Council:

- 1. Approves the principles set out in this report for revising the water services programme from those outlined in the Three-Year Plan 2024 - 2027.**
- 2. Acknowledges the risks associated with the principles proposed for the capital investment programme for drinking water and wastewater.**
- 3. Further directs the Chief Executive to develop a revised water services programme for approval at the 21 August 2025 Finance, Infrastructure & Performance Committee meeting.**

PURPOSE

To seek approval on the investment principles for a revised affordable water services plan, to be included as an addendum to the Regional Water Services Delivery Plan (RWSDP).

EXECUTIVE SUMMARY

The Council has implemented a series of long-term plans to renew critical three waters infrastructure, addressing the impacts of decades of underinvestment. However, the current Local Water Done Well legislation and associated policy changes do not immediately resolve affordability issues for the Council. As a result, it is necessary to reassess the three waters programme to address the short-term challenges to community affordability.

This report seeks Council approval of investment principles to develop a revised three waters investment programme, for inclusion in the Regional Water Services Delivery Plan (RWSDP) and to inform the current years (2025/2026) capital and renewal programme and future LTP.

The proposed long-term changes to the Three-Year Plan 2024–2027 are significant due to proposed reduced capital investment and increased residual risks over the next decade. The report emphasises the need for a revised 10-year plan that balances affordability with maintaining essential services for drinking water quality, wastewater, and stormwater management.

It highlights the challenges of affordability and the historical underinvestment in the three waters programme.

Five main principles are outlined:

1. drinking water compliance will not be compromised
2. wastewater discharge investment is minimised
3. new network resilience is deprioritised

4. growth investment is a 'just in time' approach; and
5. addressing historic underinvestment is slowed.

The final programme is proposed to be presented for approval at the 21 August Finance, Infrastructure and Performance Committee meeting

SIGNIFICANCE AND ENGAGEMENT

The proposed changes to a revised Three Waters investment plan has been assessed as being of high significance. This is resulting from a forecasted reduction in capital investment and a greater level of residual risks for water service provision over the next 10 years.

While short term changes are possible, a long-term change of this nature would be significant and would likely need to be consulted on as part of an Annual Plan 2026-27 process or Long-term Plan 2027-2037 process. There also may be an opportunity to this to be considered as part of the Water Services Strategy to be developed by the proposed water entity.

BACKGROUND

Council has recently completed consultation on the Governments Local Water Done Well Legislative Framework. Through the feedback from community and as resolved by Council at its [3 July 2025 Council Meeting](#) were a range of actions to make the overall three waters programme more affordable.

Specifically, Council resolved to *develop 'a revised 10-year water services plan with a reduce level of investment, whilst maintaining community levels of service for drinking water quality and wastewater and stormwater management'*.

This report sets out appropriate background to consider an approach to develop a revised 10-year water services programme and a range of principles for Council to consider, for Officers to develop a revised three waters investment programme.

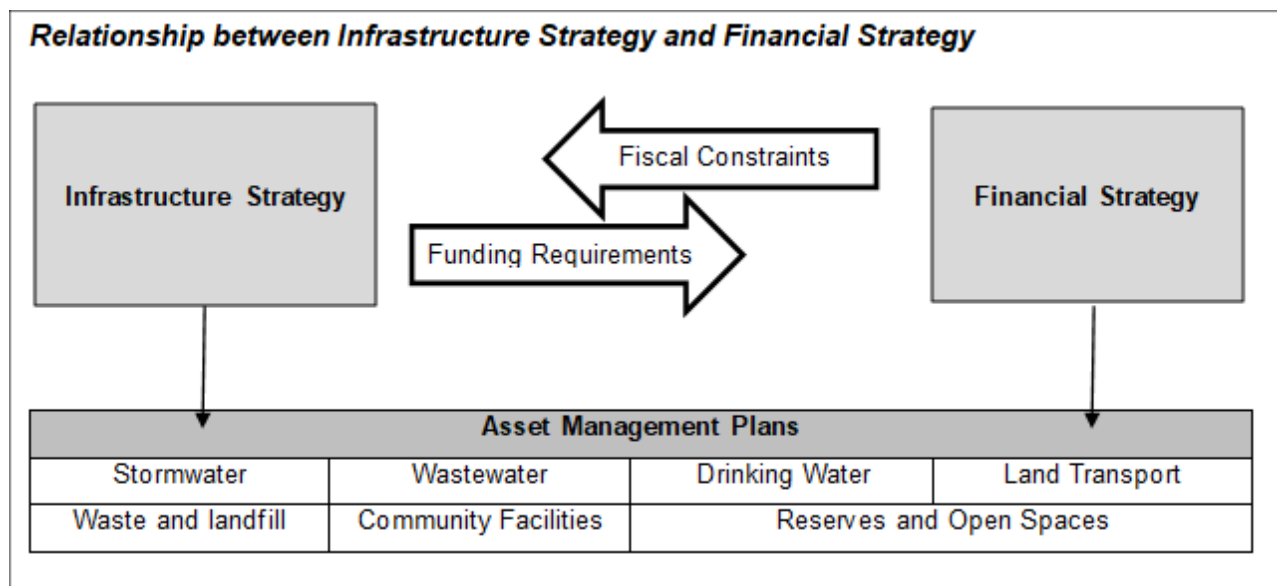
Infrastructure Strategy and Financial Strategy Relationship

The key driver of Councils financial requirements are the levels of service and renewal requirements set out in Council asset management plans and summarised in the Infrastructure Strategy. These set out the plans for renewals, major capital investment and outlines what is required and when.

The financial strategy identifies other key financial principles of the organisation, including how the investment programme will be funded, what the rating requirement may be, what debt is required and how Council will fund that debt. It also sets out key principles relating to affordability.

The requirement of both an Infrastructure Strategy and a Financial Strategy are set out in the Local Government Act 2002.

The relationship between these two documents is critical with the Financial Strategy needing to adjust to the infrastructure investment requirements. Subsequently, the asset response needing to be adjusted based on the fiscal constraints of Council. This can be an iterative process in the development of a Long-Term Plan and in the development of these two key strategies. The relationship between these documents is outlined in the diagram below:



Council, in reviewing its investment approach, is essentially re-examining the relationship between the infrastructure and financial strategies. This involves assessing what Council can realistically fund given existing constraints and acknowledging that the current LTP is unaffordable, despite being necessary investment. This report outlines the asset-based approaches that officers recommend Council consider supporting the development of a revised capital programme.

Capital Programme Affordability

Affordability has been a long-stated challenge for the delivery of Council's three waters programme.

While potentially new to recent residents of the district, the challenges of affordability saw Council make lower and short-term investment decisions in its wastewater treatment in both Waipawa and Waipukurau in early 2010's.

The consequence of this low investment subsequently led to solutions that were not fit for purpose and with the Environment Court later prosecuting Council for ongoing non-complying wastewater discharges despite the upgrades. Subsequently court orders are now in place that Council must meet within a set timeline.

2015-2025 Long-Term Plan

The 2015-2025 LTP outlined a programme aimed at maintaining rates at levels considered affordable. The primary focus of the LTP was on affordability, which was defined as meeting the needs of current ratepayers without limiting the ability of future generations to meet their own needs.

An average rating increase of 2.6% was proposed, while Council did not meet the balanced prudential benchmarks, indicating that investment levels were insufficient. The plan included \$21 million of investment in three waters, although the costs of future wastewater upgrades remained undetermined.

2018-2028 Long-Term Plan

The 2018-2028 LTP was developed with a limited level of asset management information. The Council identified the 'ability to fund' as a significant infrastructure consideration in its Infrastructure Strategy, and the plan allocated comparatively low levels of investment while the Council worked to gather information and establish the foundation for its #thebigwaterstory, which included community expos to inform future capital projects.

#Thebigwaterstory was one of four main initiatives for investment in the LTP. \$28 million in capital and renewal funding was proposed; however, these figures were considerably less than the forecasted values updated in 2021. At the time this LTP was prepared, the Council did not yet have clarity on what wastewater treatment would be required, though it recognised that this would likely be substantial.

Due to the lower level of investment, debt affordability remained within acceptable parameters, and Council met its rates affordability benchmark. During this period, Council also engaged in extensive advocacy with Central Government and contributed to the Hawke's Bay Three Waters Review at the regional level.

2021-2031 Long-Term Plan

Between 2018 and 2020, the Council enhanced its understanding of the district's three waters infrastructure, including network condition, renewal profiles, and the investment needed to address wastewater non-compliances. The resulting plan took a structured approach to address underinvestment, accommodating significant rating requirements for upgrading three waters infrastructure.

During this LTP, the Council consulted on three options for its wastewater systems, including a proposed 15-year programme to upgrade and eliminate wastewater discharges into waterways. At this stage, the Council recognised the considerable costs associated with these upgrades.

The Council also considered an option to use debt funding for renewals in the short term to address backlog, instead of relying solely on rating income, with the intention of increasing rates over five years to reduce long-term debt reliance. Additionally, a more comprehensive Development Contributions Policy was introduced to ensure that growth-related costs were appropriately funded.

A capital programme totalling \$151 million was proposed (\$46.8m for water, \$90.8m for wastewater, and \$13.9m for other components). The financial strategy outlined four options to implement the programme:

- obtain a credit rating
- the realisation of previous government reform programmes
- securing a capital contribution, or
- postponing infrastructure upgrades until alternative funding became available.

Average annual rate increases of 7.2% over ten years were projected, though this would not fully achieve a balanced budget due to affordability considerations.

2024–2027 Three-Year Plan

The 2024–2027 Three-Year Plan (3YP) was developed during a period marked by rapid change, uncertainty, and increased risk following Cyclone Gabrielle. This resulted in an unaudited three-year plan that was subject to consultation, with affordability identified as a key consideration.

Affordability continued to present challenges throughout the planning process. The Council was operating in a dynamic environment after Covid-19, characterised by high inflation rates (30% over three years) and increased borrowing costs, further contributing to affordability issues.

The previous Government's Three Waters programme, initially set for implementation by October 2024 for Hawke's Bay, was undergoing repeal, and there was no confirmed timeline for the Local Water Done Well framework. Additional ongoing reviews, including the Upper Tukituki Scheme review, were also expected to impact future programmes.

As a result, investment in the early years of the 3YP focused primarily on essential drinking water infrastructure upgrades, particularly drinking water reservoirs and the Waipukurau/Waipawa Second Supply project. Wastewater programmes were deferred.

The plan also included significant long-term rating increases, consistent with the 2021 LTP. Over the coming decade, rating increases are largely attributed to the current \$201 million prioritised investment in aging three waters infrastructure, which is a major aspect of the 3YP through initiatives like #thebigwaterstory and #thebigwastewaterstory. The plan prioritises essential water and wastewater projects as outlined below:

- \$77m for drinking water (Second Supply; Reservoir Replacement Programme; Water Metering; Backflow Preventors; Pipe Renewals; etc)
- \$123.8m for wastewater (Treatment Plant Upgrades Waipawa, Otāne, Waipukurau Porangahau; Takapau; Pipe Renewals; etc)

Constraints in amending the programme

Court Orders and meeting legal requirements

A key constraint in the revised programme is the current Environment Court Orders, which were established following the prosecution of Council for non-compliance with wastewater requirements in 2016.

Although new wastewater standards are under consideration, existing enforcement orders will serve as the basis for developing the revised programme. In the future, there may be opportunities to work with the regulator regarding possible extensions to court-ordered timelines.

However, relying on such extensions at this stage has been determined to be a risk in the development of the revised programme. This matter may be revisited during the development of the Water Services Strategy when there is greater clarity on new wastewater standards and further discussion with the regulator about enforcement timelines can occur.

Levels of Service

The Councils 3 July 2025 resolution aims to maintain current service levels, which are set by the Department of Internal Affairs for Water and Wastewater. Councils reporting shows mixed results, highlighting the need for more investment in water and wastewater networks to meet targets.

As service levels are externally determined, Council has limited flexibility to change provision levels. Looking ahead, Taumata Arowai will introduce new regulatory standards under the Local Water Done Well framework. Although some requirements may be eased, such as new wastewater standards, substantial investment remains necessary.

Meeting Local Water Done Well Investment Sufficiency Requirements

As detailed in the supporting report within the Local Water Done Well Update, preliminary feedback from the Department of Internal Affairs regarding the draft Water Services Delivery Plan has already raised concerns about whether adequate investment is being allocated to Council assets. This highlights the ongoing link between asset requirements and funding limitations, where a substantial programme expansion is considered financially unfeasible.

Council will need to continuously monitor this sufficiency requirement as it advances through the implementation of the Water Services Delivery Plan.

Growth Funding

It is recommended that Council maintains its policy approach adopted in the 2021 LTP, which specifies that growth is funded by growth. The timing and scope of growth-funded projects will need to be assessed, including potential implications for development contributions.

This assessment should also consider the recently proposed changes to Government Levies. Further analysis will be necessary.

Local Water Done Well

The values modelled in the Local Water Done Well modelling is Councils capital programme from the 3YP, based on the 2021 capital modelling. The inflationary period of the 2021–2024 was notable on the programme, significantly driving up programme costs.

Based on the existing modelling, Central Hawke's Bay residents are forecast to save on average \$415 per year, or around \$4500 over the ten-year period.

During engagement, affordability was by far the biggest issue raised by the Central Hawke's Bay community throughout the consultation period. The projected \$7,000/annum for water rates per connection (by year 2034) is deemed completely unaffordable for the community, however is not inconsistent with subsequent LTPs in place since 2015 citing affordability as a major challenge. The escalating costs and compliance needs since that time have simply exacerbated the subsequent affordability challenges even further.

This programme is informed by previous plans and principles, acknowledging that Councils existing infrastructure networks have deteriorated and underperformed because of historic underinvestment and sub-optimal investment decisions. Consequently, Central Hawke's Bay continues to rely on four reservoirs, each over 100 years old, to supply Waipukurau and Waipawa, with water sources that may present water quality risks and lack interconnected or backup options.

The district also operates five wastewater treatment plants that currently do not meet effluent quality standards required by resource consents, and many reticulation networks that have not been renewed or maintained to an adequate standard, with investment levels insufficient even to match depreciation.

With affordability remaining the most significant issue long term, Council now needs to explore the development of a revised 10-year water services programme with a reduced level of investment, whilst generally maintaining community levels of service for drinking water, wastewater and stormwater management. This alternative plan will require Council to adopt revised key principles that determine how the three waters assets are managed over the next decade.

Officers and technical service providers are currently reviewing the current water services programme and options for drinking water and wastewater. This will be presented for approval in the August 2025 Finance, Infrastructure and Performance (FIP) Committee.

It should be noted that stormwater options have not been reviewed as the projected investment is significantly less than the other two waters services (\$9.86 million) and is therefore not a key driver of the unaffordable rate projections.

The Local Water Done Well Legislative Framework is the government's response to address affordability challenges faced by councils like ours. While this framework will provide long-term benefits and cost efficiencies, an alternative approach is needed to address short-term affordability challenges.

Other options to address affordability

Consistent with the Council's approach adopted in the 2021–2031 LTP, the Council continues to have alternative options available to address affordability concerns. One such example is collaboration under the Local Done Well Legislative framework, which may present future

opportunities for the district to support more cost-effective programme delivery. Another option includes the previously evaluated capital contribution model.

Additionally, the Council could consider accelerating the implementation of universal water metering across all connections. This would enable a more efficient management of pipe renewal prioritisation, allow the Council to appropriately size infrastructure for growth, and permit low water users to pay only for the water they consume rather than a flat rate.

The immediate priority is to deliver a revised 10-year water services plan, to be submitted alongside the RWSDP, highlighting a proposed updated capital programme for CHBDC. Other strategies to achieve affordability, as well as further long-term options, will need to be examined as part of the 2027 LTP and/or the development of the Water Services Strategy. These initiatives and their implications must be carefully assessed and consulted on with the community.

DISCUSSION

This section of the report outlines the proposed approach and key principles being adopted to produce a revised water services programme.

Approach

Given the context within which Council operates, the current task is to assess how to balance the options available for reducing its capital programme alongside associated community risks.

As previously noted, the existing programme 2024-2027 3YP has been developed to meet legislative, capital upgrade, and renewal obligations. Despite being financially challenging, it does not fully address all major renewal and upgrade needs within the district. Reducing the programme further may increase these challenges.

A reduction in the programme requires adjustments to Council's risk tolerance and acceptance that some risk controls, as outlined in the Council's Risk Framework, may be compromised or altered.

When reviewing the current year's programme, Council should consider the long-term effects of any changes and develop an updated Asset Management Strategy to manage new risks arising from modifications to the programme. This should align with the proposed Water Services Strategy, to be developed by the future Hawke's Bay Water Services Council Controlled Organisation (HBSCCO), prioritising considerations related to long-term asset management and risk consequences.

Changes in the current years' programme are not intended to trigger Significance and Engagement requirements. However long-term changes may require consultation as part of an Annual Plan 2026/2027 or potentially Long-Term Plan Amendment. Triggering a LTP amendment for Council would be a significant activity, requiring major out of cycle audit costs.

Principles for a Revised Water Services Programme

To develop a revised programme, Officers have developed a set of principles to help guide investment.

The intention is that by endorsing these principles, Officers will finalise an updated programme for approval at the 21 August 2025 Finance, Infrastructure and Performance Committee meeting. At this time, Officers will also be seeking confirmation of the 2025/2026 programme for delivery, based on an understanding of what a longer-term revised programme may mean for the current years' programme.

Endorsing these principles will form the basis for Officers to devise an alternative capital programme, which will be at a lower cost. Early indications based on work to date suggest that a revised programme may reduce the projected household rate from \$7,000 per annum to about \$5,500 per annum.

In reducing the scope and cost of the programme through these principles is expected to result in residual service delivery risks for the community. We have outlined these in the development of the principles.

Five principles have been identified to develop a revised programme. These include:

- Principle #1 - Drinking water compliance will not be compromised
- Principle #2 – Wastewater discharge investment is minimised
- Principle #3 – New network resilience is deprioritised
- Principle #4 – Growth investment is a ‘just in time’ approach
- Principle #5 – Addressing historic underinvestment is slowed

A description of the five principles and what this will mean for customers is outlined below:

Principle #1: Drinking water compliance will not be compromised

The revised water services programme should provide for a high degree of confidence in ensuring the provision of drinking water that meets Taumata Arowai’s Drinking Water Quality Assurance Rules. This focus on critical drinking water infrastructure has been a high priority for Council with successful results and should not be compromised.

This means that treated drinking water from customers’ taps will remain safe and healthy, as many upgrades to water treatment plants have already been completed.

Principle #2: Wastewater discharge investment is minimised

For wastewater discharges, the current strategy timeframes are unaffordable and therefore will be abandoned. In the interim more cost-effective upgrades are required.

The revised programme should aim to achieve compliance with the proposed national wastewater standards and future discharge consents within 10 years of the 3YP (2034), based on the assumption that discharges will be directed to surface water. Ongoing investment is likely to be required over time.

This means changes to wastewater management and treatment plants will result in ongoing discharge of lower quality water into rivers for a longer period.

Principle #3: New network resilience is deprioritised

A reduced scope for new infrastructure will lead to a diminished emphasis on resilience, especially regarding the tolerance to significant shocks and events. Due to the prohibitive costs of delivering fully resilient infrastructure, it is recommended to adopt a pragmatic investment strategy that prioritises ensuring daily water services are fit for purpose and right sized for the scale of the community.

This reduction in scope will direct investment predominantly toward critical assets that have a significant impact on service delivery across broader or more sensitive areas. Consequently, there is an increased likelihood of service interruptions resulting from failures of non-critical assets, which must be managed by anticipating higher operational costs.

This means that connected households can expect to be inconvenienced more often through unplanned shutdowns and a greater risk to service delivery from network failures.

Principle #4: Growth investment is a ‘Just in time’ approach

Officers are working on the basis that the revised plan will allow for anticipated growth to mid-century. This is with the assumption that infrastructure components can be added 'just in time' in a modular fashion to ensure value for money for the community. Furthermore, it is assumed that growth will continue to pay for growth related infrastructure.

This means that our networks and systems will only have limited capacity for growth at any point in time and that infrastructure will be developed 'just in time' to respond to actual growth and paid for by developers.

Principle #5: Addressing historic underinvestment is slowed

The renewal strategy will involve funding at the level required by economic regulation. This aligns with investment levels seen before the 2021-31 LTP and will not address the historical backlog of renewals.

Asset management efforts will focus on critical pipelines, though the reduction in the rate of renewals will be observed across the networks. Furthermore, Council is projected not to meet prudential benchmarks.

This means that along with households being inconvenienced more often through unplanned shutdowns, future generations will continue to carry the burden of the historic underinvestment and the impacts of this on service continuity.

Indicative modelling

Based on these five principles, Officers have developed early scenario modelling which will be further refined and updated once the principles have been confirmed by Council.

Again, the intention is that by endorsing these principles, Officers will finalise an updated programme for approval at the 21 August 2025 Finance, Infrastructure and Performance Committee meeting. At this time, Officers will also be seeking confirmation of the 2025/2026 programme for delivery, based on an understanding of what a longer-term revised programme may mean for the current year's programme.

According to the work completed to date, the revised three waters programme is expected to include the following changes based:

Activity	Original 3 Year Plan scope (2024-2027)	Original 3 Year Plan Costs	Potential options for a revised water services programme	Potential revised water services programme cost ranges (10 years to 2034)
Drinking Water	Second Supply, Reservoir Replacement Programme, Water Metering, Backflow Preventors Pipe Renewals	\$77m	Defer the Second Supply or Reservoir Replacements. Reduce pipe Renewals programme. Continue with water metering and Backflow programmes.	\$52-57m
Wastewater	Treatment Plant Upgrades Waipawa, Otane, Waipukurau Porangahau, Takapau.	\$123.8m	Bare minimum approach to Treatment upgrades. Reduce pipe renewals	\$37-50m

Activity	Original 3 Year Plan scope (2024-2027)	Original 3 Year Plan Costs	Potential options for a revised water services programme	Potential revised water services programme cost ranges (10 years to 2034)
	Pipe renewals		programme.	
Total	Circa \$201 million		Circa \$89-107 million	

Preliminary modelling indicates that three waters rating requirements for Year 10 (2034) are expected to decrease from \$7,000 to approximately \$5,500. However, this figure remains at the upper end of affordability when assessed against international benchmarks.

It should be noted that reducing the capital programme does not yield a proportional reduction in overall costs with only borrowing costs reducing accordingly. There is also a potential for operational expenditure to increase as a result.

Regardless of international benchmarks, an iterative process focused on affordability should be conducted to establish sustainable levels of investment for the CHB community.

Risks

Based on the principles set out above and the adoption of an alternative water services programme, there are several risks:

- Following a national standards pathway for consenting may not align with mana whenua and community expectations.
- Reducing capex investment will inevitably increase operational costs.
- A reduced capex investment will reduce embedded infrastructure resilience.
- Where external funding agreements are in place (such as the Infrastructure Acceleration Fund), further work is required to confirm with those funding partners that the specified outcomes in the agreements are still able to be achieved.

A strong risk management framework will be crucial to identify, assess, and mitigate the potential consequences of a reduced capital programme long term. This should include regular monitoring and reporting on key risks which will be essential for Council to consider in the next stage, on the basis that it approves the programme on the 21 August 2025.

Inclusion in Regional Water Services Delivery Plan

Subject to Council endorsing the investment principles set out in this paper, Officers will develop a revised water services programme and commission a re-run of the PWC financial model for the CHBDC component only.

It is anticipated that this output will be included in the Regional WSDP, as an addendum, to the DIA by 3 September 2025.

STRATEGIC ALIGNMENT

Water services play an important role in supporting the seven outcomes identified in Project Thrive.

Affordability has been highlighted as a primary concern by the Central Hawke's Bay community during the Local Water Done Well consultation. As a result, revising the 3YP to lower projected investment levels and subsequent rating costs will begin to address community concerns. However, will not address all the affordability challenges the district faces.

This programme is a significant variation from that set out in the 2021-2031 LTP and 3YP. It also varies from the strategies adopted in the Infrastructure Strategies for 2021 and 2024.

All these matters will need to be carefully considered

COMMUNICATION

It is likely that a revised water services programme would be of interest to community. Following planned approval and submission as part of the Regional Water Service Delivery Plan on 3 September this will be communicated through Council's media channels.

NEXT STEPS

Subject to Council approval of the principles and direction, officers will:

Bring a proposed revised water services programme for discussion at the 7 August workshop

Finalise a revised water services programme and present the plan for approval in the August 2025 Finance Infrastructure and Performance Committee

Arrange for the PWC model to be re-run for the Central Hawke's Bay component only

Subject to the Finance Infrastructure and Performance Committee decision in August, include the amended plan as an addendum to the Regional Water Service Delivery Plan to be submitted to the Department of Internal Affairs on 3 September 2025.