

Dividend Policy

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Reviewed by	Hamish Dobbie, Hurunui District Council Chief Executive Officer
Significance	Low

Purpose

The purpose of this report is to recommend that Kaikōura Hurunui Water Services Limited adopts the proposed dividend policy.

Summary

- Under the Shareholders' Agreement, Kaikōura Hurunui Water Services Limited (KHWS) may only pay dividends in accordance with a dividend policy adopted by the Shareholders.
- The Interim Statement of Expectations stated that KHWS will "adopt a dividend policy that states that dividends will not be paid to shareholders". It is proposed that the Board adopts a policy to this effect.

Officer recommendation

That the Board adopts the proposed Dividend Policy.

Reasons for recommendation

1. The Interim Statement of Expectations sets out the council shareholders' expectation that KHWS will "adopt a dividend policy that states that dividends will not be paid to shareholders".
2. The recommendation reflects the importance of working towards revenue sufficiency and strengthening the financial position of the water organisation. The payment of dividends would make it more challenging to achieve the full funding of depreciation on assets and to meet Local Government Funding Agency covenants.
3. While it is not mandatory for a water organisation to have a dividend policy, this is a matter of interest to the Commerce Commission.
4. KHWS can modify its dividend policy at any time.

Alternative options considered

5. KHWS could adopt a different dividend policy or it could decide to defer adoption of a dividend policy. The payment of dividends is permitted by the Companies Act and Shareholders' Agreement, provided the relevant criteria are met.

Background

6. KHWS was incorporated on 23 March 2026. It is expected that the Hurunui District Council will transfer around \$80 million debt to KHWS effective from 1 July 2026. There will also be a small amount of debt transferred to KHWS by the Kaikōura District Council.
7. KHWS is currently working towards accession to the Local Government Funding Agency (LGFA). Current projections for the period to 2033/34 (which do not include the payment of

any dividends) indicate that it will be challenging meeting the LGFA funding covenants within the specified period, particularly the covenants for Free Funds from Operations to Net Debt and Free Funds from Operations to Cash Interest Coverage ratios.

8. The Interim Statement of Expectations states that KHWS would “adopt a dividend policy that states that dividends will not be paid to shareholders”. Both documents recognise the potential for the policy to be modified at a later date.
9. Under Clause 7.1 of the Shareholders’ Agreement, the Board may authorise dividends only in accordance with a dividend policy adopted by the Shareholders. While the council shareholders have not adopted a dividend policy relating to KHWS, it is not proposed that any dividends will be paid. Accordingly, it is not necessary for the shareholders to adopt a dividend policy in relation to KHWS at this time.

Legal and policy implications

The following regulatory matters are relevant to the dividend policy.

Companies Act 1993

10. Section 52(1) of the Companies Act 1993 permits the payment of dividends to shareholders subject to the solvency test, section 53 and the company’s constitution.

Local Government (Water Services) Act 2025

11. Under section 18(1)(b) of the Local Government (Water Services) Act 2025, water organisations must ensure that sufficient revenue is collected to sustain long-term investment in its water services. Under section 18(3)(b), water organisations are unable to pay dividends if doing so would impact their ability to comply with that provision.

Commerce Commission Information Disclosure Determination 2026

12. Under clause 4.6 of the Commerce Commission Water Services Information Disclosure Determination 2026, a regulated supplier must disclose its dividends policy or a statement to that effect within 10 working days of adoption of the policy. Alternatively, it must disclose if it does not have a dividends policy.

Delegations

13. This decision must be made by the Board.

Financial implications

Requirement	Explanation
What is the cost?	Nil
Is this budgeted in the Water Services Strategy or Annual Plan?	N/a
Are there any future budget implications?	N/a

Significance and engagement assessment

Requirement	Explanation
Level of significance and rationale	The significance of the policy is low because there is an expectation that dividends will not be paid in the first instance.

Next steps

Date	Action	Detail
No later than 30 June 2027	Principal and interest is repaid	

Appendices

Appendix 1: Proposed dividend policy

Kaikōura Hurunui Water Services Limited

Dividends Policy

Review Date: 25 May 2028

Adopted Date: 25 May 2026

Approved by: The Board of Kaikōura Hurunui Water Services Limited

Related Documents

- Shareholders' Agreement

Relevant Legislation

- Companies Act 1991
- Local Government (Water Service) Act 2025

Purpose/Background

The purpose of this policy is to set out Kaikōura Hurunui Water Services Limited's approach to the payment of dividends.

Intent/Scope

The intent of this policy is to provide clarity about whether dividends may be paid to shareholders.

Principles/Definitions

Section 18 of the Local Government (Water Services) Act 2025 sets out the financial principles for water services providers. Relevant principles in this section include that water services providers shall:

- spend the revenue received for providing water services on the water services it provides (including on maintenance, improvements, infrastructure renewal, servicing debt relating to the services it provides, and providing for growth); and
- provide transparency to the public regarding revenue, funding, expenses, and dividends.

It is noted that any rights to dividends that may arise in the future would attach to ordinary shares and Class B shares, but not to Class A shares.

Policy

Dividends will not be paid to shareholders.

Responsibilities

In the event that it is decided at a future date to change this policy and to commence paying dividends to shareholders, then under the Shareholders' Agreement states it is necessary for the Shareholders to adopt a dividend policy to that effect.