

Three Waters Reform Programme

Entity B meeting – 5 August 2021

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Three pillars of reform in three waters

- 1. *Regulatory reform.*** The Water Services Bill is expected to be enacted by the end of 2021
 - This provides the ‘teeth’ to hold suppliers to account for **current** drinking water standards (as set by the WHO) to ensure all suppliers meet these standards
 - Stronger environmental regulation of wastewater and stormwater by regional councils
- 2. *Establishment of Taumata Arowai.*** Taumata Arowai will ‘go live’ alongside the above regulations as a dedicated water services regulator to administer the regulatory regime and ‘shine a light’ on performance
 - Taumata Arowai will enforce current drinking water standards and have oversight of compliance with wastewater and stormwater regulations, including setting wastewater infrastructure performance standards
- 3. *Service delivery reform.*** To ensure communities have access to more affordable and reliable water services that meet these and other community expectations now and into the future
 - Introduction of an economic regulator to drive efficiencies and investment for consumers

The national case for change

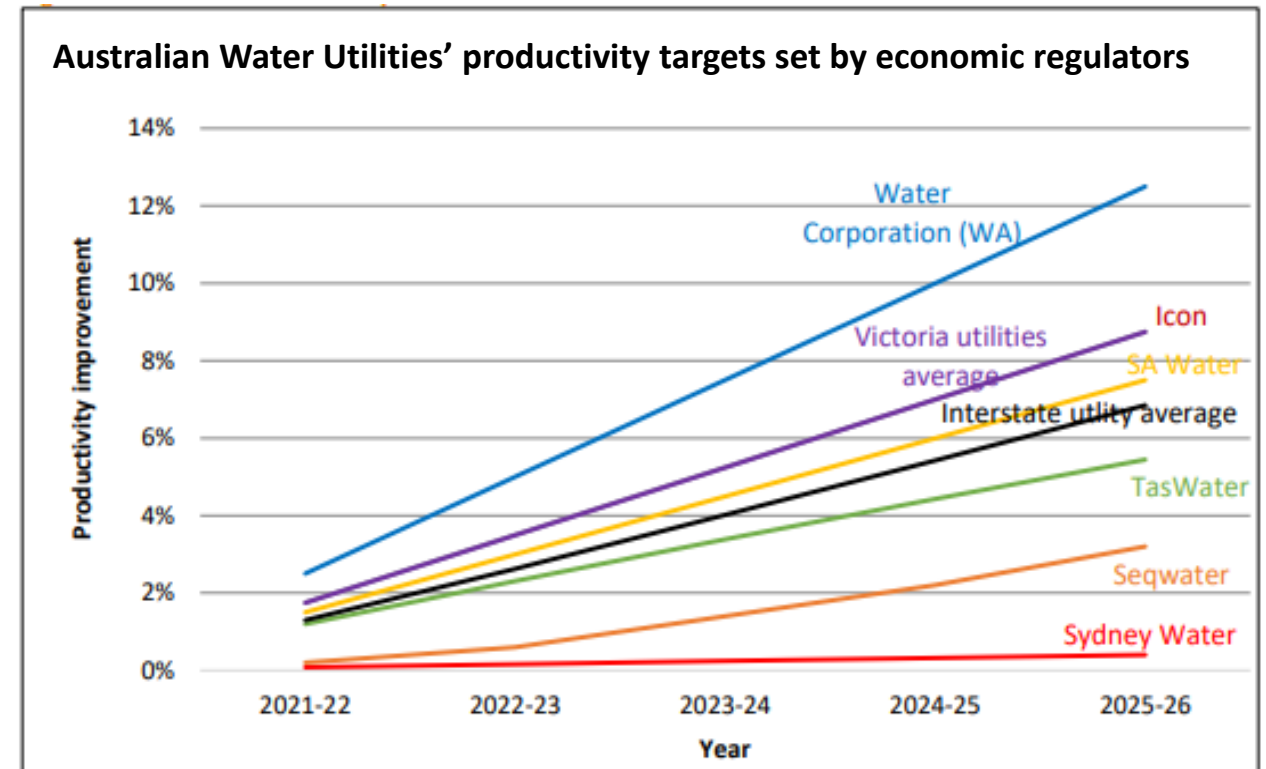
- Historically, there has been a poor information base about New Zealand's three waters infrastructure, assets and operations
- In recent years a substantial body of analysis and evidence on the sector has been developing
- On 2 June DIA released information to advance our understanding of these essential services at a **national level**. Key findings include:
 - An investment requirement for New Zealand's three waters services over the next 30+ years of between **\$120bn - \$185bn** without reform
 - Efficiencies in the range of **45% over 15-30 years** could be achieved through the reform process
 - The Reforms could result in an additional **5,800 to 9,300 jobs** and increase in GDP of between **\$14b to \$23b** in NPV terms over 30 years
 - Evidence and modelling suggests between one and four entities would provide the most efficiencies
- Since then, DIA has released council-level analysis and modelling

About efficiencies

- WICS have found that New Zealand has the potential to achieve efficiencies in the realm of 45% through the reforms – **equivalent to 2% annual improvement in operating efficiency over 30 years or 3.9% per annum over 15 years**
- The benefits of scale are not primarily the result of more joined up networks. They come from:
 - Greater borrowing capability and improved access to capital markets
 - Strengthened governance and workforce capabilities
 - Procurement efficiencies
 - Smarter asset management and strategic planning/investment
 - A more predictable pipeline of investment
 - Economic regulation to drive improved performance
- These efficiencies are not available under current arrangements. E.g. even Watercare suffers financing challenges while it is tied to Auckland Council's borrowing constraints, **preventing it from investing to save**

2-4% per-year efficiency in context

- A 2-4% efficiency target per year for our new entities is conservative
- International experience in Australia, the UK and Scotland shows these efficiencies are gained through:
 - the use of data capture, storage and analytics technologies to improve water and sewerage maintenance activities;
 - digital automation/transformation and investment in data and predictive analysis
 - improving business processes and savings from better contract management
 - savings from strategic procurement and sourcing in collaboration with industry, improved management of contractors
 - optimised asset management
 - improved procurement practices, operational processes / business activities



Summary of the reform proposals

The Government proposed an integrated and extensive package of reform. The package includes the following core components:

- establish four, publicly-owned water services entities to provide safe, reliable and efficient three waters services – with protections against future privatisation
- the entities will own and operate three waters infrastructure on behalf of territorial authorities, including transferring ownership of three waters assets and associated debt
- independent, competency-based boards to govern each entity
- a suite of mechanisms to protect and promote iwi/Māori rights and interests
- an economic regulatory regime to protect consumer interests and provide strong incentives for investment and performance
- stewardship arrangements for the new system to ensure it adapts to shifts in national objectives and priorities and remains fit for purpose

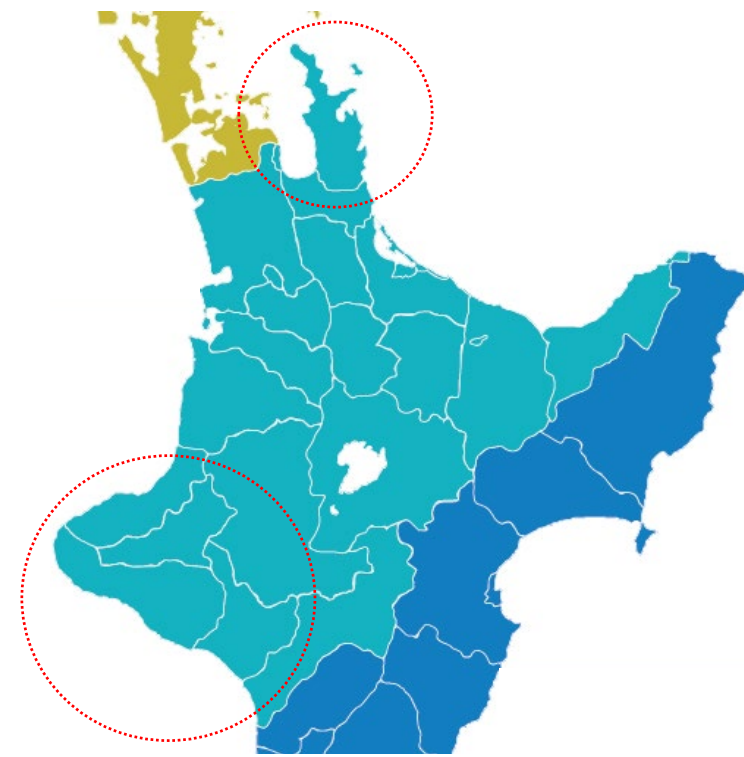
Step change for iwi/Māori rights and interests

- The reforms provide opportunities for a step change in the way iwi/Māori rights and interests are recognised. These are woven throughout the new system through:
 - statutory recognition of the **Treaty of Waitangi** and **Te Mana o te Wai**
 - Creating a **mana whenua group in the oversight and strategic direction** of each entity, with equal rights to local government
 - **Te Mana o te Wai statements**
 - Each entities' board will be required to have:
 - Treaty of Waitangi, mātauranga Māori, tikanga Māori, and Te Ao Māori competencies
 - specific expertise in kaitiakitanga, tikanga and mātauranga Māori in delivering water services
 - Entities will fund and support **capability and capacity** of mana whenua to participate in its activities

Entity B

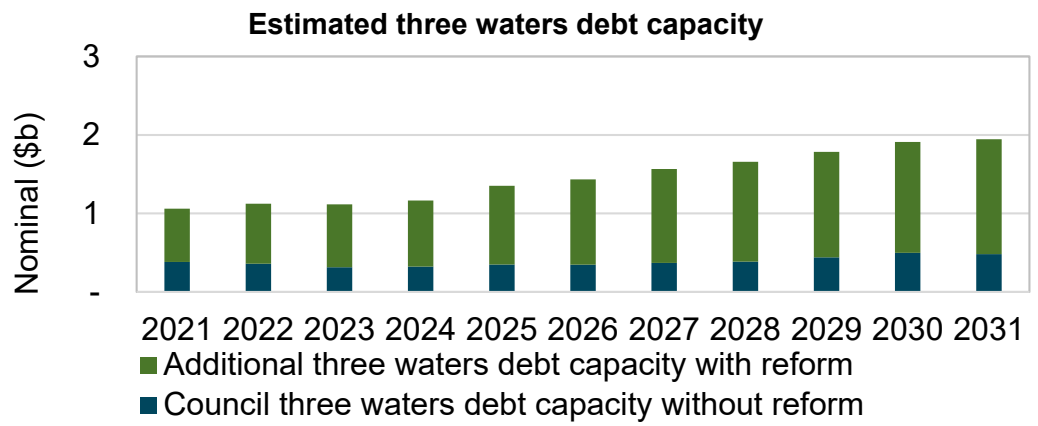
Includes all districts from the Waikato, Bay of Plenty and Taranaki regions and the upper parts of Manawatū-Whanganui region:

- | | | |
|----------------|-------------------|-----------------------|
| Hamilton | Rotorua Lakes | Waikato |
| Hauraki | Ruapehu | Waipa |
| Kawerau | South Taranaki | Waitomo |
| Matamata-Piako | South Waikato | Western Bay of Plenty |
| New Plymouth | Stratford | Whakatane |
| Opotiki | Taupo | Whanganui |
| Otorohanga | Tauranga | |
| Rangitikei | Thames-Coromandel | |

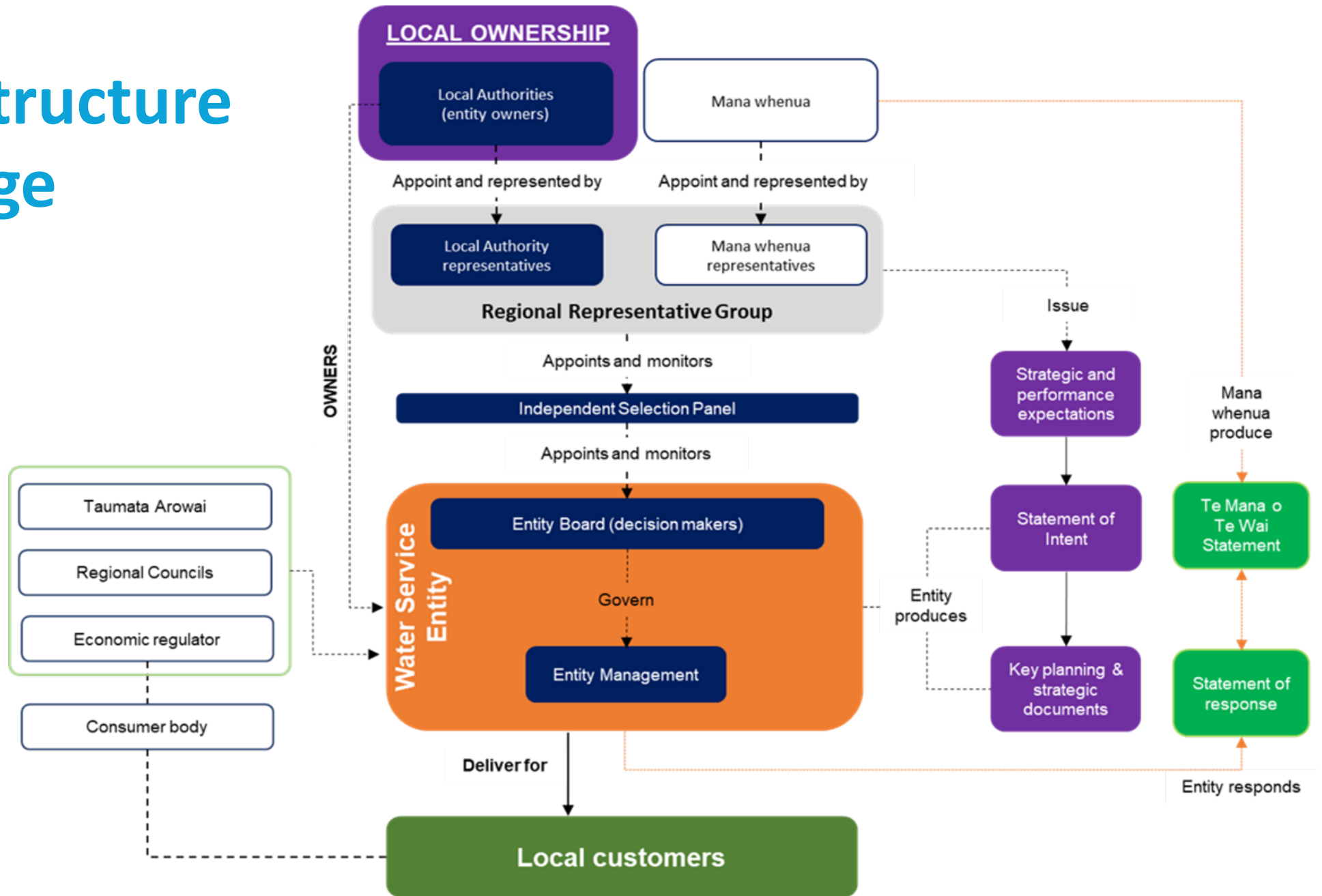


Connected population (2020) 0.8m

Average household cost (2051)
 With reform \$1,220
 Without reform \$4,300



Entity structure on a page



Maintaining community influence

- Each entity will have a regional **Representative Group** that provides for proportionate representation of local government and mana whenua
 - Representative Group will issue a Statement of **Strategic and Performance Expectations** to inform the entity's planning
 - Entities will produce a **Statement of Intent** in response to the Statement of Expectations
- The entities will also be subject to:
 - **consultation requirements** on their strategic direction, investment plans, and prices/charges, water metering
 - mechanisms that enable communities and consumers to participate in entities' decision-making processes – **including a consumer forum**
 - **economic regulation**, to protect consumer interests and drive efficiencies
 - **charging and pricing frameworks** to protect consumers
- MBIE are developing advice on the new economic regulation regime and consumer protection mechanisms and will consult local government and the public on this
- As a 'last resort', an intervention framework with a risk-based approach, will be introduced

LG planning influence and responding to growth

- The ***purpose and objectives*** of the entities would be set in legislation – including:
 - delivering water services and infrastructure, in an **efficient and financially sustainable** manner
 - supporting and **enabling housing and urban development**
- Entities will be required to **engage in a meaningful and effective manner on** key documents, including the investment prioritisation methodology
 - this would allow for communities to comment on how investment should be prioritised
 - entities will need to balance growth requirements, Strategic Expectations, and any directions provided in a Government Policy Statement
 - entities will be required to take this feedback into account before finalising the documents and to report on how consumer and community feedback was incorporated into decision making
- **Local government would continue to have primary accountability for urban and land-use planning.**
 - The entities will be required to identify and make provision for infrastructure to support growth and development identified in relevant plans
 - Entities will have much stronger balance sheets to be respond to growth and community needs

Financial support package



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Financial support package

- In July 2020 the Government announced **\$761m** stimulus funding for waters infrastructure and partnership to progress the reforms
- In Budget 2021 a package of **\$296 million** was announced to assist with the costs of transitioning to the new three waters arrangements, including provision for certain council costs of transition
- In July 2021 the Government announced a further **\$2.5bn** package to support transition to the new three waters system and position the local government sector for the future. The package comprises:
 - **A ‘better off’ element:** an investment of **\$2 billion** into the future for local government and community wellbeing, not tied to investment in water infrastructure
 - **A ‘no council worse off’ element:** an allocation of around **\$500 million** to ensure that no local authority is in a materially worse position financially to continue to provide services to its community as a direct result of the reform
 - the vast majority of councils are likely to be financially better off through the reforms – councils likely to need the most support are those with a low level of water debt to revenue and a high level of non-water debt to revenue

The 'better off' package

- The **better off package** is an investment into the future for local government and community wellbeing
- It will be allocated to councils based on a nationally-consistent formula agreed to by the Government and LGNZ based on:
 - a 75% allocation based on population size
 - a 20% allocation based on the New Zealand deprivation index
 - a 5% allocation based on land area (excluding national parks)
- Territorial authorities will be able to use this funding to support the delivery of local wellbeing outcomes through meeting some or all of the following criteria:
 - supporting communities to transition to a sustainable and low-emissions economy, including by building resilience to climate change and natural hazards
 - delivery of infrastructure and/or services that:
 - enable housing development and growth, with a focus on brownfield and infill development opportunities where those are available
 - support local place-making and improvements in community wellbeing

The 'no council worse off' package

- The **no council worse off** component of the package is intended to address the financial impacts on territorial authorities directly as a result of the reform programme and associated transfer of assets, liabilities and revenues to the proposed entities. It includes:
 - up to **\$250 million** to support councils to meet unavoidable costs of stranded overheads, based on:
 - \$150 million allocated on a per capita rate recognising that smaller councils face disproportionately greater potential stranded costs than larger councils
 - Up to \$50 million allocated to the larger councils based on a detailed assessment of reasonable and unavoidable stranded costs
 - Up to \$50 million able to be allocated to councils that have demonstrable, unavoidable and materially greater stranded costs than provided for by the per capita rate
 - The remainder will be used to address adverse impacts on the financial sustainability of councils
- **DIA will work with LGNZ and Taituarā to develop agreed principles for how the assessment of financial sustainability support will be undertaken, the methodology for quantifying this support requirement, and the process for undertaking the associated due diligence process with councils**

Aug & Sept LG engagement



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8-week LG engagement on proposals...

- LGNZ will work directly with councils over 8 weeks in August and September to help councils consider their local case for change and the reform proposals
- The purpose of this period is to provide time for all local authorities to:
 - **engage with and understand the information** that has been released on the nature of the challenges facing the sector, the case for change, and the proposed package of reforms, including the recently announced support package
 - **take advantage of the range of engagement opportunities** to fully understand the proposal and how it affects your local authority and your community
 - **identify issues of local concern and provide feedback to LGNZ** on what these are and suggestions for how the proposal could be strengthened.
- **You are not expected to make any formal decisions regarding the reform through this period**
- **Following this 8-week window, the Government will take further decisions on the next steps of the reform pathway**

8-week LG engagement continued

Over the next eight weeks:

- DIA and the Steering Committee will continue to work on policy development to refine and enhance the model based on feedback from the sector
- LGNZ and Taituarā will support councils to understand their individual council data and the potential impacts the proposal will have on them and their communities
- LGNZ will facilitate workshops and council meetings to gather your feedback and provide clear guidance and ideas to DIA, the Steering Group and the Minister on the remaining unresolved areas of concern
- The Steering Committee will maintain a role in informing ongoing policy issues, informing the implementation of the reform package, and providing oversight of and input into the transition processes
- Councils can use this time to work through the proposal and information provided by DIA, including to test the 'no worse off'/'better off' proposition underpinning the financial support package

What councils should do during the 8 weeks

- In this period Chief Executives should provide advice, **for noting**, to their council on the implications for the district/city - Taituarā will develop a pro forma report for CEs to use
- A decision on the advice, apart from noting, **is not required**, - therefore consultation requirements **are not triggered**
- From now till 1 October, councils should carry out analysis to understand the potential impact of the reform by taking these steps (LGNZ will provide resources to help with these):
 1. Understand the key features of the proposed model and how it is intended to work
 2. Apply the proposed model to your circumstances (consider impacts on your community) for today and for the future - a 30+ year horizon
 3. Consider the model holistically – in terms of service, finance and funding, workforce, delivery and capability and social, cultural, environmental and economic well-being
 4. Using the Taituarā pro forma report framework CEs should report the outcome of this analysis as advice to their councils, for noting - **Please provide a copy of the advice to LGNZ**

Areas for feedback to LGNZ

- LGNZ will hold targeted workshops to develop solutions on three areas of outstanding issues:
 - 1. Ensuring all communities have both a voice in the system and influence over local decisions.** Including assurance that entities will respond to communities' needs and wants, and localised concerns
 - 2. Effective representation on the entities' boards** so that there is strong strategic guidance from, and accountability to, the communities they serve, including iwi/mana whenua participation. Including protections against future privatisation
 - 3. Ensuring councils' plans for growth are integrated with water services planning.** Including that planning and delivery of water infrastructure investment is integrated with transport and other related infrastructure
- You can either provide potential solutions and refinement ideas in writing to us or participate in targeted workshops - please email feedback@lgnz.co.nz

Next steps

August– September 2021

- 8 week LGNZ-led local government sector engagement on the reform proposals
- **Following this 8-week window to consider the reform proposals, the Government will take further decisions on the next steps of the reform pathway**
- Cabinet is also expected to confirm boundary choices at the end of this period

Also ongoing

- DIA will continue to lead engagement with our Treaty Partners through targeted and group based hui with iwi/Māori
- Early, no-regrets discussions on transition with chief executives/nominated leads

Workforce and Transition

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Establishment and transition overview

- Transition planning is being undertaken on a ‘no regrets’ basis and do not pre-empt decisions on whether the reforms will proceed as proposed
- The key objectives of a transition work programme, should the reforms proceed, are:
 - To advance the Government’s reform objectives with the sector in a way that successfully supports adoption of the reform with stakeholders.
 - To ensure that the reform objectives are supported by a smooth transition and implementation approach that is efficient, effective and minimises disruption to communities and consumers.
- We also will look to leverage the transition for strategic transformation opportunities

Transition activities

Transition activities are distinct to service delivery and policy activities, which will continue to be undertaken by councils and DIA respectively throughout transition

Water service delivery activities remain with council until the new entities become operational (1 July 2024)

- Councils will continue to deliver three waters services until at least early 2024
- We are targeting water service entities commencing operations on 1 July 2024
- This means councils will remain responsible for all tasks associated with water service delivery for the establishment and transition period
- Through the transition there may need to be central oversight to ensure council decisions align with/complement the transition process and activities of the new entities once operational

Policy activities remain with the DIA policy team throughout the reform process

- There will be ongoing policy, legislative and stewardship activities required throughout the water reform process
- 'Policy' refers to decisions requiring Ministerial approval
- This is distinct from operational policy that will inform transition activities
- The objective of transition activities will be to ensure that policy decisions are supported by a smooth transition and implementation approach that is efficient, effective and minimises disruption

Transition activities are distinct from service delivery and policy (the focus of today's presentation)

- Transition activities refer to the tasks required to ensure the new entities are able to commence operations from 1 July 2024
- These tasks are distinct to service delivery and policy activities
- Transition activities will be focussed on **managing and mitigating transition risks** to ensure reform objectives are delivered - this highlights the need for council oversight

Transition – How will it be delivered?

- National Unit and Local Establishment Entities
- Working more closely with Councils/representative groups
- Establishing more structured engagement with the water industry
- Methods and regularity of engagement

Proposed council involvement

Council governance/executive involvement

- We are proposing that the partnership between central government and local government should continue throughout transition (this is important to local authorities)
- Central government will need to continue to have a leadership and coordination role to deliver the reform outcomes
- We believe the above can be achieved through:
 - A trusted advisor role to the transition unit and establishment entities
 - Consultation during governance appointments
 - Significant involvement at an operational level see right hand side
- The “trusted advisor role” still needs to be designed to be fit for purpose (with learnings from the current steering group)
- We could see this requiring a more streamlined structure with more executive input (rather than political) given the focus of transition will be operationalisation

Council operational involvement

- We need to design an effective mechanism to facilitate council operational input while ensuring council staff can continue their day jobs (delivering water services for their communities)
- Based on feedback to date this is likely to primarily involve:
 - Utilising working groups where councils can nominate staff with relevant expertise across all the major activity areas
 - This will enable input while the transition unit / establishment entities undertake the time intensive work
 - Some backfilling of roles will be required (and may be able to be achieved through non-water specific competencies such as communications or financial)
- There will be an opportunity for some secondment however this is likely to be limited to the major centres where there are greater staff to share load
- The above needs to be tested further with the sector
- We believe creating a small number of example working groups for critical path activities in the short term may assist councils to understand what is being proposed

Supporting the workforce through transition

- A major focus of both central and local government is ensuring reform does not result in a loss of current staff - but creates a platform to attract, develop and retain talent and enhance local expertise
- We know the workforce is highly diligent, motivated and competent - we want to provide these staff with certainty, noting there is still more work to be done in this space
- Any member of staff who works primarily on water will be guaranteed a role at the new entities that retains key features of their current role:
 - **Title**
 - **Salary**
 - **Location**
 - **Leave**
 - **Hours/days of work**
- A more bespoke approach is required for senior executives (e.g. ELT members), other staff and contractors. We will work with councils, staff, and unions further on this through the transition

Key Principles

- Workers should be assured that their wellbeing is a critical objective for both central and local government through the reforms. Key principles we are applying are:
 - All employees to be treated fairly and equitably across the country
 - All employees to have the right to a reasonable opportunity to seek independent representation and advice throughout the process with employees encouraged to access support and advice from unions, other representatives and support people
 - All employees will have access to Employee Assistance Programme services
 - All employees will be regularly updated on the progress on employment related matters throughout the transition period
 - Employee wellbeing will be prioritised
- It is recognized that a number of employees will perform both water and non-water related functions for their Local Authorities. Principles on how to manage these situations will need to be developed in partnership with councils

Transition vs. Transformation



Transition is making sure the lights stay on

- To ensure that the reform objectives are supported by a smooth transition and implementation approach that is efficient, effective and minimises disruption to communities and consumers



Transformation is about making the lights shine brighter

- Developing an aspirational, yet pragmatic and implementable, blue-print for success over a long-term horizon



Opportunities for firms to scale up to meet the investment requirement



Opportunities to address current workforce shortages



Opportunities for improved productivity and innovation



Easier access to capital to fund water infrastructure

How will transformation be delivered

- **A dedicated team** of subject matter experts with **strong industry experience**
- **Developed** with significant input from the sector and local/central government players, capturing the views, concerns and aspirations of the leaders, workforce and partners impacted by it
- **Managed holistically** to ensure efficiency, workstream interdependencies are effectively managed, and for relationship management purposes
 - Relationship management is crucial as this is a significant undertaking for the sector and we are cognisant of the need to be efficient with personnel time and manage both expectations and conflicts.
- Be **effectively transitioned** to the emerging water service entities

Governance arrangements and design features

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Governance

- Each entity will have a regional **Representative Group** that provides for proportionate representation of the local government and mana whenua
- The Representative Group will issue a Statement of **Strategic and Performance Expectations** to inform the entity's planning and **monitor performance** against these documents
- Entities will be required to produce a **Statement of Intent** in response to the Strategic and Performance Expectations
- The Representative Group will also establish and monitor the **Independent Selection Panel (ISP)** that appoints and removes members to the entity's board
- The **independent board**, appointed by the ISP, will **govern the new entities** and will require relevant competencies – to be set out in legislation
- A Government Policy Statement will provide direction to entities on national policy priorities

Appointment to the Representative Group

- Local authorities and mana whenua will appoint representatives to their Regional Representative Group likely via a nomination and voting process
- Representatives would be elected members (or a relevant and appropriately qualified senior council officer) and iwi/Māori representatives
 - Preferably 10 – 12 representatives per entity
 - Appointments of iwi/Māori representatives will be guided by a kaupapa Māori approach
- Representatives will need to:
 - comprise a distribution of metropolitan, provincial and rural local authorities and
 - represent a geographical spread across the jurisdiction of the entity
- The Minister of Local Government will have the ability to appoint a group to work with councils and mana whenua, if needed to facilitate the appointments of Representatives

Shaping governance and accountability arrangements

Early steps councils can take to shape the governance and accountability arrangements

- Establishing well-functioning representative oversight and accountability mechanisms is critical to the success of the reforms
- There is an opportunity to start early and shape the design of these arrangements in a way that fits with the Entity B council grouping:
 - Size and shape of the representative oversight group (e.g., how representatives are appointed)
 - Aspirations and performance expectations for the new entity
 - How you wish to hold the Board of the new entities to account on behalf of your communities
- Engage with Transition and Establishment processes, including accessing Crown transition support

Engagement with iwi/Māori

- Within Entity B, iwi/Māori are well advanced in their thinking about these opportunities:
 - Using a Kaupapa Māori approach to establish their collective priorities – at an iwi leaders level in the first instance (including recent hui)
 - Considering the core policy proposals and where they would like to see improvements or changes
 - Thinking about the range of influence mechanisms and how they prioritise, influence and effect change
- The Government intends to ensure that iwi/Māori rights and interests are well understood in the transition. This work is supported by a technical advisory group as well as informed by direct engagement with iwi/Māori
- There is a significant opportunity to work with iwi/Māori to advance a joint approach to Entity B

Ngā mihi, Thank you

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Email: threewaters@dia.govt.nz



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Ownership and protections against privatisation

Entity Ownership

- **local authorities** are the **'owners'** of the entity, **on behalf of their communities** – This is a 'no shareholding' ownership with **no financial recognition** of ownership
- **mana whenua** will have a joint **oversight** role

Protections

- protections in legislation **against future privatisation** – local government will be written into legislation as owners on behalf of their communities
- any proposal for privatisation would need to be endorsed by the Regional Representative Group (by at least a 75 per cent majority) and then put to a public referendum (that also requires at least 75 per cent of votes to be in favour of the proposal for it to proceed)
- no provision for financial recognition of ownership, including no shareholdings and a prohibition on dividends

Boundaries of entities

- The Government has agreed to ‘preferred options’ for the boundaries of these entities
- Key considerations on the size and shape of entities were that they:
 - have a **sufficient asset and customer base** to be financially sustainable, have economically efficient **scale**, and deliver services at an **affordable price**
 - operate effectively in relation to **water catchments** and achieve environmental outcomes
 - engage **meaningfully with iwi/Māori**, which requires decisions on boundaries to be informed by an understanding of rohe/takiwā boundaries and a ki uta, ki tai approach
 - understand and reflect **relevant community interests**, particularly existing relationships or a shared identities between neighbouring communities
 - have access to a **skilled local workforce**
- The Government is interested in continuing discussion with local government and iwi/Māori ***most affected by the proposed boundaries*** before confirming them

Better off package – Entity B council allocations

Council	Allocation
Hamilton	\$ 58,605,366
Hauraki	\$ 15,124,992
Kawerau	\$ 17,270,505
Matamata-Piako	\$ 17,271,819
New Plymouth	\$ 31,586,541
Opotiki	\$ 18,715,493
Otorohanga	\$ 10,647,671
Rangitikei	\$ 13,317,834
Rotorua Lakes	\$ 32,193,519
Ruapehu	\$ 16,463,190
South Taranaki	\$ 18,196,605

Council	Allocation
South Waikato	\$ 18,564,602
Stratford	\$ 10,269,524
Taupo	\$ 19,736,070
Tauranga	\$ 48,405,014
Thames-Coromandel	\$ 16,196,086
Waikato	\$ 31,531,126
Waipa	\$ 20,975,278
Waitomo	\$ 14,181,798
Western Bay of Plenty	\$ 21,377,135
Whakatane	\$ 22,657,555
Whanganui	\$ 23,921,616
Total	\$497,209,339