

ORDER PAPER

ORDINARY COUNCIL MEETING

Date: Thursday, 9 September 2021

Time: 1.00 pm

Venue: Council Chamber
Rangitikei District Council
46 High Street
Marton

Chair: HWTM, Andy Watson

Deputy Chair: Cr Nigel Belsham

Membership: Cr Brian Carter
Cr Fi Dalgety
Cr Gill Duncan
Cr Angus Gordon
Cr Richard Lambert
Cr Tracey Hiroa
Cr Waru Panapa
Cr Dave Wilson
Cr Cath Ash
Cr Coral Raukawa

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Notice is hereby given that an Ordinary Meeting of Council of the Rangitikei District Council will be held in the Council Chamber, Rangitikei District Council, 46 High Street, Marton on Thursday, 9 September 2021 at 1.00 pm.

Order Of Business

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AGENDA

1 Welcome / Prayer

2 Apologies

3 Public Forum

4 Conflict of Interest Declarations

Members are reminded of their obligation to declare any conflicts of interest they might have in respect of items on this agenda.

5 Confirmation of Order of Business

That, taking into account the explanation provided why the item is not on the meeting agenda and why the discussion of the item cannot be delayed until a subsequent meeting, [enter item number](#) be dealt with as a late item at this meeting.

6 Reports for Decision

6.1 Report to Council on Central Government Proposed Reform of Three Waters (Drinking Water, Wastewater and Storm Water) Service Delivery

Author: Arno Benadie, Chief Operating Officer

Authoriser: Peter Beggs, Chief Executive

1. Reason for Report

1.1 This report is to provide an update to Council on the following:

- the Government's 30 June 2021 and 15 July 2021 Three Waters Reform announcements, which change the reform process previously outlined in 2020;
- the specific data and modelling Council has received to date;
- the implications of the revised Three Waters Reform proposal for Council and alternative service delivery options;
- next steps (including uncertainties);
- the work undertaken during the 8-week period (ending 30 September 2021) offered by Central Government that allowed Council to:
 - engage with and understand the large amount of 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 support package.
 - understand the proposal and how it affects Council and our community; and
 - identify issues of local concern and provide feedback to LGNZ on what these are and suggestions for how the proposal could be strengthened.

1.2 The full detail is provided in Attachment 1.

2. Decision Making Process

2.1 The future of water services delivery is a significant issue. This report however does not commit to the council to a decision relating to that reform. Instead, it provides initial analysis of the reform proposals for Council's information and highlights the uncertainties around information and next steps. As such the significance of this report is low.

Attachments

1. Report to Council on Central Government Proposed Reform of Three Waters Service Delivery

ITEM 6.1

Recommendations

- 1) That the Report to Council on Central Government Proposed Reform of Three Waters (Drinking Water, Wastewater and Storm Water) Service delivery, be received.

And that Council:

- 2) **notes** the Government's 30 June and 15 July 2021 Three Waters Reform announcements
- 3) **notes** officer's advice on the accuracy of the information provided to Council in June and July 2021 as a result of the RFI and Water Industry Commission for Scotland (WICS) modelling processes
- 4) **notes** officer's analysis of the impacts of the Government's proposed three water service delivery model on the Rangitikei community and its wellbeing, including the impacts on the delivery of water services and water related outcomes, capability and capacity, on Rangitikei District Council's sustainability (including rating impact, debt impact, and efficiency) and
 - a) Council staff will create a Communications plan to manage the distribution of relevant information to the community
 - b) Council will contribute to working group activities regarding the establishment of Entity B during this 8-week period
 - c) Council will compile a list of questions and concerns that will form the basis of a submission to Central Government at the end of the 8-week period ending 30 September 2021.
- 5) **notes** the analysis of three waters service delivery options available to Council at this time provided in the report "Three Waters Reform Update" presented at the 29 July 2021 Council meeting as well as the information supplied and discussed at the 25 August 2021 Council Workshop on Three Waters Reform.
- 6) **notes** that a decision to support the Government's preferred three waters service delivery option is not lawful (would be ultra vires) at present due to section 130 of the Local Government Act 2002 (LGA), which prohibits Council from divesting its ownership or interest in a water service except to another local government organisation, and what we currently know (and don't know) about the Government's preferred option
- 7) **notes** that Council cannot make a formal decision on a regional option for three waters service delivery without doing a Long Term Plan (LTP) amendment and ensuring it meets section 130 of the LGA
- 8) **notes** that the Government intends to make further decisions about the three waters service delivery model after 30 September 2021
- 9) **notes** that it would be desirable to gain an understanding of the community's views once Council has further information from the Government on the next steps in the reform process
- 10) **requests** the CEO to seek guidance on and/or give feedback to the Government on the following areas of the Government's proposal that Council needs more information on:
 - a) *Inset Councillors areas of interest*
 - b) *the following changes to the Government's proposal/process that are areas of interest to Councillors.*
- 11) **notes** that the CEO will report back further once they have received further information and guidance from Government, LGNZ and Taituarā on what the next steps look like and how these should be managed

- 12) **in noting the above, agrees** it has given consideration to sections 76, 77, 78, and 79 of the Local Government Act 2002 and in its judgment considers it has complied with the decision-making process that those sections require (including, but not limited to, having sufficient information and analysis that is proportionate to the decisions being made).

Report to Council on Central Government Proposed Reform of Three Waters (Drinking Water, Wastewater and Storm Water) Service Delivery

1. Summary

- 1.1. Over the past four years the central and local government have been considering the issues and opportunities facing the system for regulating and managing the three waters (drinking water, wastewater, and stormwater) – Three Water Reform. The background information provided in Attachment 1 and in previous Council meetings and Council workshops included information on Taumata Arowai (which became a new Crown entity in March 2021 and will become the dedicated water services regulator later this year).
- 1.2. The Government has concluded that the [case for change](#)¹ to the three waters service delivery system has been made (please see Attachment 2 for further information) and during June and July 2021 it released information and made announcements on:
 - the direction and form of Three Waters Reform, including proposed new Water Service Entities (four and their indicative boundaries), their governance arrangements and public ownership
 - individual (WICS) Council data based on the information supplied under the RFI process
 - a package of investment (\$2.5b) for councils to invest in the future for local government, urban development, and the wellbeing of communities, ensuring no council is worse off as a result of the reforms, and funding support for transition
 - an eight-week process for councils to understand the implications of the reform announcements, ask questions and propose solutions and for Government to work with councils and mana whenua on key aspects of the reform (including governance, integrated planning and community voice). This period ends 30 September 2021.
- 1.3. Council has been placed in Entity B and our better off funding allocation is \$13,317,834
- 1.4. While the Government and LGNZ consider that national case for change has been made, each council will ultimately need to make a decision based on its local context if the process to join one of the proposed entities remains voluntary.
- 1.5. This report provides Council with analysis of the information provided and assesses the Government's proposal and currently available service delivery options. In preparing it officers have used the Local Government New Zealand, Taituarā, and Te Tari Taiwhenua Internal Affairs [guidance](#)² and the Tūhura Partners Impact Assessment Matrix to assist Council to understand the information that has been provided to date and enable Council to prepare for future decisions and consultation and engagement with communities.
- 1.6. In summary,
 - Our Council specific information looks broadly correct

¹ [Transforming the system for delivering three waters services \(dia.govt.nz\);
https://www.dia.govt.nz/diawebsite.nsf/Files/Three-waters-reform-programme/\\$file/transforming-the-system-for-delivering-three-waters-services-the-case-for-change-and-summary-of-proposals-30-june-2021.pdf](https://www.dia.govt.nz/diawebsite.nsf/Files/Three-waters-reform-programme/$file/transforming-the-system-for-delivering-three-waters-services-the-case-for-change-and-summary-of-proposals-30-june-2021.pdf)

² <https://www.lgnz.co.nz/assets/Three-Waters-Guidance-for-councils-over-the-next-eight-weeks-FINAL.pdf>

- Given the peer reviews of the modelling and underlying assumptions (which always carry a degree of uncertainty) no further analysis of this work has been done or is proposed and staff have focussed on the reasonably practicable options and their implications for Council and the community.
- Doing nothing is not an option, as Council must continue to deliver services

- **Option A - Government proposal:** The greater financial capability, efficiency, affordability and community/water benefits (as published by Government) of delivering three waters to the community by the proposed new Water Services Entities are likely to be of significant value if they can be realised.

Our analysis suggests there should be reduced risk to council (non-compliance with standards and processes, lower costs for delivery, procurement). Council also would not be responsible if a non-council supplier couldn't meet standards.

There are risks that need to be mitigated including integration with spatial, growth and local planning and transparent prioritisation, households' ability to pay, and Council's financial sustainability. There are several risks associated with transition to this model, many of which are outside of Council's control and are noted in the transition section of this report.

- **Option B - Delivery of three water services by Council:** The potential benefits of this option include greater Council control and more certainty over local infrastructure integration (planning and delivery) with land use plans and council objectives. Council however faces risks over the short, medium and longer term, including potentially high costs, in meeting any new water standards, environmental requirements and achieving compliance. The ability of non-Council water supplies to meet standards and requirements also poses a high risk to Council and the community. Council initiated a project to investigate non-Council water supplies on Marae, Papakāinga and other related Whare to identify and evaluate future risks. This work will be completed by March 2022
- The causes of most of these risks are not within Council's control. This makes mitigation difficult, and many potential mitigation options (such as greater investment, larger costs than currently planned, lower levels of service, compliance risk) may not be palatable to Council or the community.
- Council's 2021-2031 Long Term Plan (LTP) includes considerable capital investment in three waters infrastructure.
- **Option C - Delivery of three water services by Council at a higher level of service level and investment:** This is a realistic but difficult to assess option within the eight-week timeframe. The issues and opportunities associated with this option are broadly the same as for Council delivering three waters at the service levels forecast in the LTP 2021-31. There is likely better integration with Council outcomes, objectives and plans, but even if Council can predict the investment required to meet any new water standards, environmental requirements and compliance requirements in the short term, the costs of service provision and levels of service may change significantly over the next 30 years, causing affordability issues for households, lower levels of service and compliance risks for Council.

- **Option D - Regional aggregation of three waters services in a Council Controlled Organisation [asset owning]:** While councils would still need to be satisfied that the changing regulatory environment was adequately provided for, including ensuring there was sufficient funding to meet legal and regulatory obligations due to scale, this option addresses the risk that the size of investment required to meet new standards and community expectations is greater than forecast by individual councils
 - it enables an organisation to focus on the group's three water challenges and prioritise investment decisions across the region, which should lead to better environmental and community outcomes
 - it provides for greater strategic, management and operational capacity and capability, workforce development and planning
 - it enables efficiencies (in planning, programming, procurement and delivery) and should as a result reduce household costs and increase affordability.

There are however integration risks with spatial, growth and local planning and uncertainties around the future costs to households.

- 1.7. Under all options except the Government proposal, Council bears the risk of meeting the new water standards, environmental requirements and achieving compliance. There are also implications and challenges for non-Council supplies to meet water quality requirements, with the risk that these supplies might default to Council in the future.
- 1.8. Other Government reforms (Resource Management Act, Future of Local Government) pose opportunities and challenges for each option.
- 1.9. Managing transition risks are likely to pose a greater challenge for Council (and others in its grouping) than the risks associated with the Government proposal. If the Government's proposal were to proceed, effective management of the transition by Council, Government and partners will be critical. Transition costs have not been factored into Council's LTP.
- 1.10. The law currently prohibits Council's deciding to opt-in to the current proposal (given section 130 of the Local Government Act 2002 and what we know about this option at present). Current decision-making requirements, including the need to take account of community views and strategic nature of the assets involved, would also preclude Council deciding to opt-in at this time without consultation.
- 1.11. Similar requirements apply if the council wishes to consider alternative arrangements that involve asset transfers, divestment, change in ownership and or the setting up of a Council Controlled Organisation (CCO) to deliver water services in the future.
- 1.12. There are a number of issues, concerns and uncertainties for the Government and councils to work through before a robust Council decision (and decision-making process) can be produced, including whether legislative change will enable or require the Water Services Entity or CCO approach to be adopted. Therefore, there is no expectation that councils will make a decision to opt-in (or out) or commence community engagement or consultation over the eight-week period.
- 1.13. Councils have been specifically asked to consider solutions to three outstanding issues during the next eight weeks:
 - ensuring all communities have both a voice in the system and influence over local decisions
 - effective representation on the new water service entities' oversight boards, including preventing future privatisation

- ensuring integration between growth planning and water services planning.

His Worship the Mayor and Council's Chief Executive have been working on these alongside our potential future "Entity B" partners.

- 1.14. Staff therefore request Elected Members consider the issues that arise from the Government's proposal and any potential solutions so these can be raised with Government and LGNZ before the end of September 2021.
- 1.15. Government decisions on entity boundaries, governance and transition and implementation arrangements will occur after the eight week-process ends (30 September 2021).
- 1.16. On the assumption that the reform goes ahead, it is anticipated that councils will continue to deliver water services until at least June 2024 and council involvement in transition will be required throughout.

2. Background and context

- 2.1. Following the serious campylobacter outbreak in 2016 and the Government's Inquiry into Havelock North Drinking Water, central and local government have been considering the issues and opportunities facing the system for regulating and managing the three waters (drinking water, wastewater, and stormwater).
- 2.2. The focus has been on how to ensure safe drinking water, improve the environmental performance and transparency of wastewater and stormwater network and deal with funding and affordability challenges, particularly for communities with small rating bases or high-growth areas that have reached their prudential borrowing limits.
- 2.3. The Government's stated direction of travel has been for publicly owned multi-regional models. The Department of Internal Affairs (DIA), in partnership with the Three Waters Steering Committee which includes elected members, staff from local government, commissioned specialists with economic, financial, regulatory and technical expertise to support the Three Waters Reform Programme and to inform policy advice to ministers.
- 2.4. The initial stage (Tranche 1 - MOU, Funding Agreement, Delivery Plan and RFI process) was an opt in, non-binding approach. It did not require councils to commit to future phases of the reform programme, to transfer their assets and/or liabilities, or establish new water entities. The 2020 indicative reform programme and then anticipated next steps can be found in Attachment 1
- 2.5. Council completed the RFI process over Christmas and New Year 2020/21 and the Government has used this information, evidence, and modelling to make preliminary decisions on the next stages of reform and has concluded that the case for change has been made

3. Government's June and July 2021 announcements and information releases

- 3.1. In June 2021 a suite of information was released by Government that covered estimated potential investment requirements for New Zealand, scope for efficiency gains from transformation of the three waters service and the potential economic (efficiency) impacts of various aggregation scenarios.³
- 3.2. In summary the modelling indicated a likely range for future investment requirements at a national level in the order of \$120 billion to \$185 billion, an average household cost for most councils on a standalone basis to be between \$1910 and \$8690 by 2051. It also estimated these average household costs could be reduced to between \$800 and \$1640 per household and efficiencies in the range of 45% over 15-30 years if the reform process went ahead. An additional 5,800 to 9,300 jobs and an increase in GDP of between \$14b to \$23b in (Nett Present Value, NPV terms over 30 years) were also forecast.
- 3.3. As a result of this modelling, the Government has proposed to:
- establish four statutory, publicly owned water services entities that own and operate three waters infrastructure on behalf of local authorities
 - establish independent, competency-based boards to govern
 - set a clear national policy direction for the three waters sector, including integration with any new spatial / resource management planning processes
 - establish an economic regulation regime
 - develop an industry transformation strategy.
- The proposed safeguards against privatisation can be found on page 26 of the DIA's [summary of the case for change](#).
- 3.4. Both DIA and LGNZ have produced two page national overviews, available on the DIA [website](#)⁴ and [LGNZ websites](#)⁵ respectively. Attachment 2 contains more detail on the national context and Attachment 3 provides the DIA/LGNZ overviews.
- 3.5. We have been placed in Water Services Entity B, although the precise boundaries are still up for discussion.

³ This information, including peer reviews and the Minister's briefing can be accessed at: <https://www.dia.govt.nz/Three-Waters-Reform-Programme> and [release-of-second-stage-evidence-base-released-june-2021](#).

⁴ [2872-DIA-A3-A New Water with-without reform Map 20210526 v2.7](#)

⁵ [Three-Waters-101-Infographic.pdf \(lgnz.co.nz\)](#)

Entity A



Entity A

Auckland
Far North
Kaipara
Whangarei

Entity A

Connected population (2020)	1.7m
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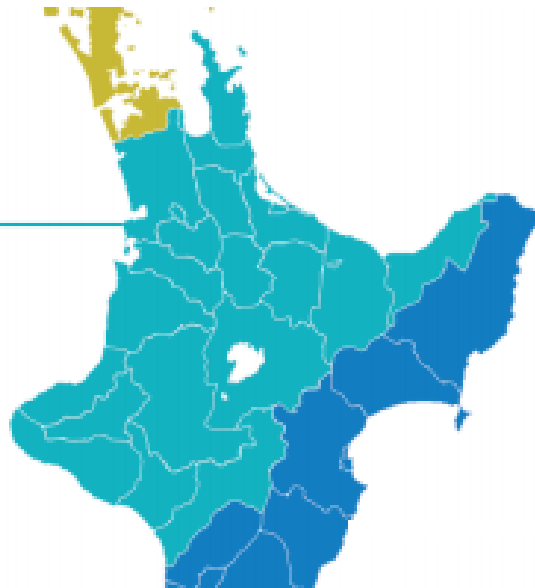
Average household cost (2051, real)¹

With reform	\$800
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Without reform	\$2,170
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Entity B

Entity B



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

Entity B

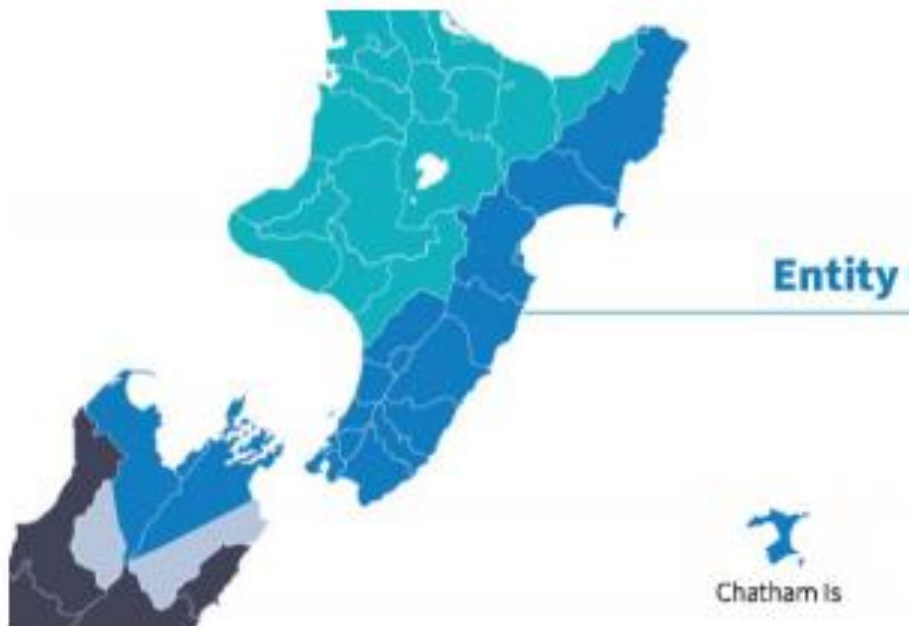
Connected population (2020)	0.8m
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Average household cost (2051, real)¹

With reform	\$1,220
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Without reform	\$4,300
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Entity C



Carterton
 Central Hawke's Bay
 Chatham Islands
 Gisborne
 Hastings
 Horowhenua
 Kapiti Coast

Lower Hutt
 Manawatu
 Marlborough
 Masterton
 Napier
 Nelson
 Palmerston North

Porirua
 South Wairarapa
 Tararua
 Tasman
 Upper Hutt
 Wairoa
 Wellington

Entity C

Connected population (2020)	1.0m
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Average household cost (2051, real)¹

With reform	\$1,260
Without reform	\$3,730

Entity D



Entity D

Ashburton	Grey	Southland
Buller	Hurunui	Timaru
Central Otago	Invercargill	Waimakariri
Christchurch	Kaikoura	Waimate
Clutha	Mackenzie	Waitaki
Dunedin	Queenstown	Westland
Gore	Lakes	
	Selwyn	

Entity D

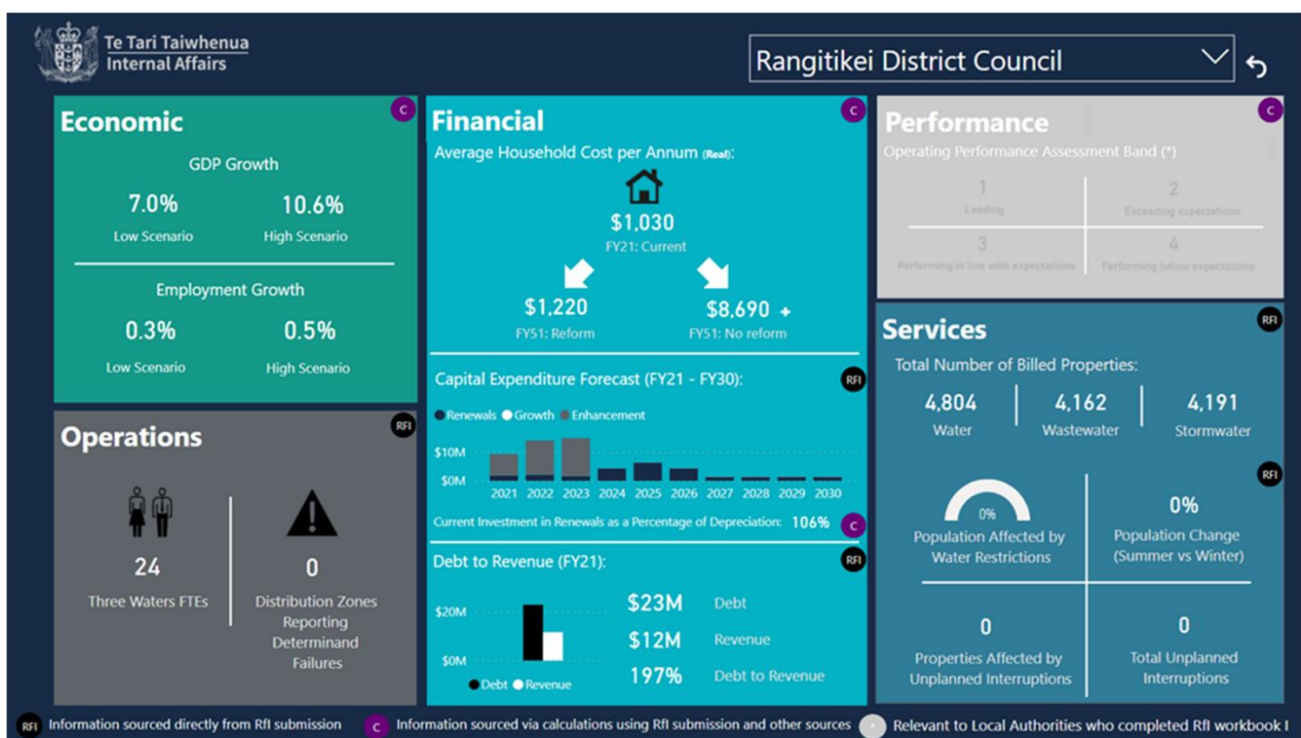
Connected population (2020)	0.9m
Average household cost (2051, real)¹	
With reform	\$1,640
Without reform	\$4,970

- 3.6. On 15 July, in partnership with LGNZ under a [Heads of Agreement](#)⁶, the Government announced a package of \$2.5 billion to support councils to transition to the new water entities and to invest in community wellbeing. This funding is made up of a ‘**better off**’ element (\$500 million will be available from 1 July 2022 with the investment funded \$1 billion from the Crown and \$1 billion from the new Water Services Entities) and ‘**no council worse off**’ element (available from July 2024 and funded by the Water Services Entities). The “**better off**” funding can be used to support the delivery of local wellbeing outcomes associated with climate change and resilience, housing and local placemaking, and there is an expectation that councils will engage with iwi/Māori in determining how to use their funding allocation.
- 3.7. **Council’s funding allocation is \$13,317,834.** The detail of the funding (including expectations around the use of reserves) and the full list of allocations found in Attachment 4. Conditions associated with the package of funding have yet to be worked through.
- 3.8. In addition to the funding announcements, the Government has committed to further discussions with local government and iwi/Māori during the next eight-week period on:
- the boundaries of the Water Service Entities
 - how local authorities can continue to have influence on service outcomes and other issues of importance to their communities (e.g., chlorine-free water)
 - ensuring there is appropriate integration between the needs, planning and priorities of local authorities and those of the Water Service Entities
 - how to strengthen the accountability of the Water Service Entities to the communities that they serve, for example through a water ombudsman.
- 3.9. As a result, the original timetable for implementing the reform (outlined in Attachment 1) and for councils to consult on a decision to opt-in (or not), no longer applies.
- 3.10. Next steps are expected to be announced after 30 September 2021, which would include the timeframes and responsibilities for any community or public consultation.
- 3.11. It is also important to note that the Government has not ruled out legislating for an “all-in” approach to reform to realise the national interest benefits of the reform.
- 3.12. In the interim the DIA continues to engage with council staff on transition matters on a no regrets should the reform proceed. These discussions do not pre-empt any decisions about whether to progress the reforms or whether any individual council will transition.
- 3.13. On the assumption that the reform goes ahead, it is anticipated that councils will continue to deliver water services until at least June 2024 and council involvement in transition will be required throughout.

⁶ [https://www.dia.govt.nz/diawebsite.nsf/Files/Three-waters-reform-programme/\\$file/heads-of-agreement-partnering-commitment-to-support-three-waters-service-delivery-reform.pdf](https://www.dia.govt.nz/diawebsite.nsf/Files/Three-waters-reform-programme/$file/heads-of-agreement-partnering-commitment-to-support-three-waters-service-delivery-reform.pdf)

4. Council specific information and analysis

- 4.1. While the Government and LGNZ consider that national case for change has been made, each council will ultimately need to make a decision based on its local context.
- 4.2. Councils do not have a national interest test for their decision making. Councils are required to act in the interests of their communities and the community's wellbeing (now and into the future), provide opportunities for Māori to contribute to their decision-making processes, ensure prudent stewardship and the efficient and effective use of its resources in the interests of the district or region (including planning effectively for the future management of its assets) and take a sustainable development approach⁷.
- 4.3. Council currently delivers three waters as a standalone entity making use of a shared service arrangement with Manawatu District Council.
- 4.4. Our dashboard looks like this:



- 4.5. It, and the dashboards of other councils, can be accessed on this [site](#)⁸.
- 4.6. The key aspects Council should note are detailed below.
- 4.7. Average cost of per household -
 - the DIA (based on several assumptions) states it is \$1,030; our council based on the 2021/22 Plan is \$2,925

⁷ See for example sections 5 and 14 of the LGA.

⁸

<https://app.powerbi.com/view?r=eyJrljoioGE1OTJlYWUtZDZkNy00YWZjLTgzN2EtOTY1MzQxNGM5NzJmliwidCI6ImY2NTJlYTVjLWZjNDctNGU5Ni1iMjRkLTE0YzkyZGYxM2FiYjI9>

- projected out to 2031 (again based on assumptions) is \$6,673 (DIA – inflation stripped out) and our council (based on year 10 of the LTP 2021-31) is \$4,609 (inflation stripped out)
- DIA's reform (Entity B) projects \$8,690 by 2051

4.8. Debt –

- Figures from the 2020 Annual Report show June 2020 debt figures of:
 - Water Debt - \$16.2mil
 - Wastewater Debt \$3.9mil
 - Stormwater Debt \$0.7mil
- The 2021 – 2031 LTP have substantial investment in the 3 waters activities included in the first three years of the LTP. By the 2023/24 financial year the respective debt levels will increase to the following levels:
 - Water Debt – \$26.9 mil
 - Wastewater Debt - \$32.1 mil
 - Stormwater Debt - \$2,2 mil
 - Total 3 water Debt - \$61.2 mil
- The remaining years of the current LTP does not include any further substantial investment in the 3 waters activities and the debt level will reduce at the end of the LTP period to the following levels:
 - Water Debt - \$9.4
 - Wastewater Debt - \$26.5
 - Stormwater Debt - \$0

Total 3 waters Debt - \$35.9
- The creation of the new Water Entities will remove the three waters debt from Council financial position and will allow debt funding of other activities such as Council buildings and parks. The maximum debt level available to Council will however reduce as the annual revenue reduces due to the loss of income from the three waters activities.

4.9. Capital Expenditure Forecast –

- The DIA are forecasting \$512 Mil over the 2021 – 2031 LTP period
- Our own information demonstrates that there is significant investment required over the next 10 years of our Long-Term Plan and out across 30 years in our infrastructure strategy, underpinned by assumptions that regulatory standards will tighten and that there will be more monitoring and enforcement in the future.
- In addition, Council is planning on further three waters upgrades beyond the LTP period to improve resilience and security of supply for the three waters activities. Additional upgrades to wastewater treatment have also been included to improve effluent quality in anticipation of higher environmental standards. The majority of the large capital investments to improve three waters services are included in the first 5 years of the current LTP as described in 4.8 above.

4.10. The main area of improvement with respect to data confidence is condition information. We are confident that we have captured all the three waters assets on the Asset Management system but aim to improve the asset condition information in that system. In an effort to improve asset data confidence, RDC initiated a revised Asset Management Strategy for the potable water, wastewater and storm water assets in 2019. This strategy includes more detailed assessments of asset performance and asset condition for the three waters networks. The work on collecting more accurate asset data will continue for the next three years and is expected to be completed by 2024. Our asset condition, performance (and confidence) levels for the three water services, as accepted by Audit, are:

- water confidence rating of condition assessment is average
- wastewater confidence rating of condition assessment is average
- stormwater confidence rating of condition assessment is average

Our maintenance budgets are adequate for today, and into the future.

4.11. Council expects climate change to be the cause of an increasing number of storm events. This will result in greater damage to the roading network, heavier demand on stormwater and wastewater systems and more call on staff and equipment available for emergency management. There is a risk that these severe storm events occur so frequently or so close to one another that Council is unable to fund all the necessary repairs in a reasonable time without breaching its liability management policy. Capital work on water and wastewater plants may be delayed and cause Council to be non-compliant with its resource consents.

4.12. It is unclear how Rural Water Supply schemes may be included in any future reform. Staff consider these schemes as stock water and not human drinking water and will therefore not be subject to drinking water quality standards. This has not been explicitly confirmed. As a result, there is the potential for Council to have to work with and potentially take over the following rural water supplies if they are considered part of the reform and they are unable to meet quality standards and regulatory requirements:

- Erewhon Rural Water Supply
- Hunterville Rural Water Supply
- Omatane Rural Water Supply
- Putorino Rural Water Supply

4.13. Council included sufficient capital and operational budgets in the current LTP to be in a position to comply with the law and any known applicable standards, rules or regulations or enforcement undertakings.

4.14. Against the above information, in general the Dashboard and underlying information for the next 10 to 30 years contains some inaccuracies but looks broadly accurate when compared with council's own information and LTP 2021-31.

- 4.15. While prepared at the national level, it has been peer reviewed by [Farrierswier](#) and [Beca](#) to ensure that both the modelling and underlying assumptions are reasonable in the New Zealand context. It therefore provides a reasonable indication of the “order of magnitude”⁹ of the gains that can be delivered through the new system and the level of future investment Council is likely to need to make over the next 30 years.
- 4.16. At this stage it is not possible to fully test the projections as the standards for Aotearoa/New Zealand out to 2051 are not known, although it is reasonable to assume that there will be greater community and mana whenua expectations around environmental performance and quality, tougher standards to meet for water quality (drinking and receiving environment) and that monitoring, compliance and enforcement will be greater than it is now. This affects both operational and capital expenditure (costs will go up), including the number of staff (or contractors) that council will need to ensure Council outcomes for water and community and legal requirements are met.
- 4.17. There is always a level of uncertainty and therefore risk around assumptions and forecasts, whether prepared by us for our LTPs or by others such as Government to facilitate policy decisions, such as the current Three Waters Reform process. Staff consider that it would not be a good use of Council’s limited resources to spend time and money on a detailed review of the assumptions and modelling.
- 4.18. Council staff have used the above dashboard and additional information, and Council plans and studies (as described above) to define the status quo option in section 5 below.
- 4.19. To assess whether the proposed better off and no worse funding to Council is sufficient Council needs further information on the conditions that will be associated with that funding. For the purposes of the following analysis, it is assumed that this funding would provide Council with an opportunity to address a range of issues and opportunities to improve community wellbeing in partnership with mana whenua and the communities Council serves.

⁹ Page iv, 2021, Farrierswier, Three Waters Reform, Review of methodology and assumptions underpinning economic analysis of aggregation available at [https://www.dia.govt.nz/diawebsite.nsf/Files/Three-waters-reform-programme/\\$file/farrierswier-three-waters-reform-programme-review-of-wics-methodology-and-assumptions-underpinning-economic-analysis-of-aggregation-released-june-2021.pdf](https://www.dia.govt.nz/diawebsite.nsf/Files/Three-waters-reform-programme/$file/farrierswier-three-waters-reform-programme-review-of-wics-methodology-and-assumptions-underpinning-economic-analysis-of-aggregation-released-june-2021.pdf)

5. Options available to Council for three waters service delivery

- 5.1. Section 5 provides an overview of the options available to Council and is followed by an analysis of the Council's reasonably practicable options.
- 5.2. This analysis will provide some of the required information to enable Council to make a decision and consult on opting in or out of the reform process at the end of the eight week period (but not all as there is further information to be developed and decisions to be made), although whether this is ultimately required will be dependent on where the Government gets to with the reform process and the decisions it makes after 30 September 2021.
- 5.3. Staff have used the Local Government New Zealand, Taituarā, and Te Tari Taiwhenua Internal Affairs [guidance](#)¹⁰ and our risk framework and policy to understand the potential impact of reform and other practicable options (both today and in the future) in terms of service, finance and funding, economic development and growth, workforce, delivery and capability and social, cultural and environmental wellbeing.

5.4. Option A - Government Proposal

- Under this option, we are in entity B, a publicly owned water services entity that owns and operates three waters infrastructure on behalf of councils, mana whenua and communities.
- The ownership and governance model is a bespoke model, with councils listed in legislation as owners, without shareholdings or financial interests, but an advocacy role on behalf of their communities. Iwi/Māori rights and interests are also recognised and representatives of local government and mana whenua will sit on the Regional Representative Group, issue a Statement of Strategic and Performance Expectations and receive a Statement of Intent from the Water Services Entity. Entities must also consult on their strategic direction, investment plans and prices / charges.
- The law currently prohibits Council deciding to opt-in to the current proposal (given section 130 of the LGA, which prevents councils from divesting their ownership or interest in a water service except to another local government organisation such as a Council Controlled Organisation) and what we know about this option at present.

5.5. Option B - Council as a standalone deliverer of three waters [for some the Status quo]

- Council currently delivers three waters services through a mixed model of in-house and contracted shared services.
- While the RFI information, dashboard and supporting information provided to Council suggests that this might not be a sustainable future model for the country, we have used the information in section 4 to analyse whether this is a viable option for Council and our communities.

¹⁰ <https://www.lgnz.co.nz/assets/Three-Waters-Guidance-for-councils-over-the-next-eight-weeks-FINAL.pdf>

5.6. Option C - Council continues to deliver three waters but at a higher level of service and investment [modified status quo]

- A modified version of Council continuing to deliver services to reflect the anticipated regulatory environment for three waters delivery.
- This option requires making assumptions about
 - the future regulatory requirement by potentially using the assumptions underpinning the WICS modelling and the Government's proposal and draft/emerging standards and compliance regimes e.g., those coming from Taumata Arowai.
 - the ability of non-Council water supplies to meet standards and requirements and the risks to Council

and would ideally include the production of business cases for investment and enhanced activity and asset management planning to be robust.

- Council staff have assessed our ability to do this work in the current operating environment (delivering business as usual, stimulus projects, other Government reform workloads, consultant availability etc) and concluded that only a very high level of analysis of this option could be done in the available timeframe. This is included in section 6 below.
- Please note that any changes to levels of service or material changes to the cost of service would require consultation and an LTP amendment (or consultation on those changes as part of the next LTP 2024-34 and potentially later ones).

5.7. Option D – Asset owning CCO

- In 2019 and 2020 a Regional Three Waters Service Delivery Review was undertaken by all Territorial Authorities in the wider Manawatu-Whanganui region.
- This Regional Three Waters Service Delivery Review ended after central government announced phase one of the national Three Waters Reform and RFI in October 2020. No further work has been completed since that time.
- The geographic region that has been assessed as part of the group delivering three water services under this option is Whanganui, Rangitikei, Manawatu, Horowhenua, Palmerston North, Ruapehu Horizons Regional Council and Tararua
- While it is possible that a group could be set up as a shared service, at scale this is likely to be suboptimal to the CCO option.¹¹
- This option has therefore been developed as council-controlled organisations (CCOs) as provided for in the LGA with governance, management and operational oversight.
- This option enables assets to be transferred.
- Although both a management CCO and an asset owning CCO have benefits, the detailed analysis in the [Hawkes Bay report](#) demonstrates that a regional asset owning CCO is a more effective service delivery model than the management CCO and best met the investment objectives and principles set by the participants in that review.
- This option has therefore been developed assuming that assets are owned by a CCO.

¹¹ [HB-3-Waters-Delivery-Detailed-Analysis-29.07.20-Full-Report.pdf \(hb3waters.nz\)](#)

- There are existing examples of CCOs such as [WaterCare](#) (water and wastewater services) and [Wellington Water](#) (who don't own but manage all three waters on behalf of their owners) and studies such as the Hawkes Bay study that have been considered in developing and analysing this option.

Please note that both the Auckland Council and the owners of Wellington Water are affected by the Government's proposal and are assessing their options, e.g., for Wellington Water to become an asset owning company.

5.8. Do-nothing

- While the do-nothing option is conceptually always an option, the reality is that Council needs to continue to deliver its water, wastewater and stormwater responsibilities. Doing nothing is therefore not a practicable option and is not assessed further.

6. Options analysis

6.1 Option A - Government Proposal

- 6.1.1 In summary, the greater financial capability, efficiency, affordability and community/water benefits (published by Government) of delivering three waters to the community are likely to be of significant value if they can be realised.
- 6.1.2 The key opportunities our own analysis identifies include reducing the Council's current risk profile (when considered against the status quo) including compliance risk and the risk of not meeting standards.
- 6.1.3 Our analysis suggests that (a) key risk theme(s) is/are:
- That the current analysis conducted by WICS, and Government is inaccurate, and the Water Entity cannot achieve the modelled outcomes used to make these decisions.
 - That the proposed efficiencies cannot be realised
 - Loss of skilled staff from the sector.
 - Costs to the customer exceeds the modelled projections supplied by WICS analysis
 - Ensuring all communities have both a voice in the system and influence over local decisions
 - Effective representation on the new water service entities' oversight boards so that there is strong strategic guidance from, and accountability to, the communities they serve, including iwi/mana whenua participation
 - Making sure councils' plans for growth, as reflected in spatial plans, district plans or LTPs, are appropriately integrated with water services planning
- 6.1.4 Risks that need to be mitigated include integration with spatial, growth and local planning and transparent prioritisation, households' ability to pay, and Council's financial sustainability.

6.2 Option B - Council as a standalone deliverer of three waters

- 6.2.1 In summary, the potential benefits of this option include greater Council control and more certainty over local infrastructure integration (planning and delivery) with land use plans and council objectives.
- 6.2.2 However, Council faces risks over the short, medium and longer term, including potentially high costs, in meeting any new water standards, environmental requirements and achieving compliance. In addition, contractor availability is limited, the construction pipeline is already substantial and inflationary pressures are growing, meaning costs are rising.
- 6.2.3 The ability of non-Council water supplies to meet standards and requirements also poses a risk to Council and the community.
- 6.2.4 These present affordability challenges for households in the future, exacerbating our current affordability challenges.
- 6.2.5 Council is also experiencing workforce challenges to meet the current requirements of three waters service delivery, Government reforms and an enlarged investment programme created by stimulus funding.

- 6.2.6 This option becomes less sustainable if those around us move to some form of aggregated model which will adversely affect our ability to retain and attract workers, access technical, financial or construction support, and procure cost effective contracts to deliver services and capital works.
- 6.2.7 The causes of most of these risks are not within Council's control. This makes mitigation difficult, and many potential mitigation options (such as greater investment, larger costs than currently planned, lower levels of service, compliance risk) may not be palatable to Council or the community.
- 6.2.8 Given the Government has rejected this as a sustainable solution for three waters service delivery there should not be an expectation that the Government would be willing to financially support councils to meet the new regulations beyond existing Tranche 1 stimulus funding.
- 6.2.9 There may also be broader implications for our relationship with Government, iwi/Māori and key stakeholders.
- 6.2.10 Given the analysis to date, Council continuing to deliver the three waters as a standalone entity is unlikely to be sustainable in the medium to long term.

6.3 Option C - Council continues to deliver three waters but at a higher level of service and investment [modified status quo]

- 6.3.1 The issues and opportunities associated with this option are broadly the same as for Council delivering three waters at the service levels forecast in the LTP 2021-31.
- 6.3.2 There is likely better integration with Council outcomes, objectives and plans, but even if Council can predict the investment required to meet the new water standards, environmental requirements and compliance requirements in the short term, the costs of service provision and levels of service may change significantly over the next 30 years.
- 6.3.3 As in the case of the status quo:
 - should one or more non-Council water supplies default to Council this would exacerbate Council's risk profile and financial position
 - if Council's neighbours voluntarily joined a larger water services grouping or entity, we would likely experience negative impacts on our workforce capability and capacity, on our pipeline of construction and ability to deliver cost effectively and on our ability to get professional services, advice and support.
- 6.3.4 There should not be an expectation that the Government would be willing to financially support councils to meet the new regulations beyond existing Tranche 1 stimulus funding.
- 6.3.5 This presents affordability challenges for households in the future and there may also be broader implications for our relationship with Government, iwi/Māori and key stakeholders.

6.4 Option D – CCO asset owning

- 6.4.1 Under this option the entity and councils would still need to be satisfied that the changing regulatory environment was adequately provided for, including ensuring there was sufficient funding to meet legal and regulatory obligations.
- 6.4.2 However, due to scale, this option addresses the risk that the size of investment required to meet new standards and community expectations is greater than forecast by individual councils;
- it enables an organisation to focus on the groups three water challenges and prioritise investment decisions across the region, which should lead to better environmental and community outcomes
 - it provides for greater strategic, management and operational capacity and capability, workforce development and planning
 - it enables efficiencies (in planning, programming, procurement and delivery) and should as a result reduce household costs and increase affordability.
- 6.4.3 As with the above options, should one or more non-Council water supplies default to the CCO then this would need to be funded from the group or consumers, however the risk may be reduced.
- 6.4.4 There are some integration risks with spatial, growth and local planning and ensuring transparent prioritisation, the achievement of Council objectives and ensuring there is sufficient funding and that costs are affordable.
- 6.4.5 There is Council oversight and input. A statement of intent would be prepared by the CCO (and it would be best practice for the councils to prepare a letter of expectation to guide this) and half yearly and annual reports would be prepared. Councils would need to monitor the performance of the CCO. Consideration would need to be given to governance arrangements, including the involvement of iwi/Māori in both decision making and governance, and how council, community and mana whenua aspirations and needs will be met.
- 6.4.6 This option is still constrained in its ability to raise debt as the connection to council balance sheets remains under the available funding models.
- 6.4.7 There would also need to be agreement from all councils, and each would need to undertake public consultation, which would take time and creates uncertainty about the outcome.
- 6.4.8 If a new CCO is to be set up this will require council(s) to use the Special Consultative Procedure (section 83 of the LGA) and arrangements (and a policy) for the appointment of directors or trustees will need to be made (as the councils appoint the “board”), as well as transition arrangements (including workforce transition), prioritisation of investment and integration with planning at the regional and local level.
- 6.4.9 Councils would need to adequately resource the establishment or transition process (if they are changing to an asset owning arrangement).

6.4.10 The Government has stated that it is “not clear if sector-led reform under existing legislation would deliver the kind of transformation required to address the root causes of the challenges the sector is facing” so there should not be an expectation that the Government would be willing to financially support councils to transition to this model or change the law to enable different funding setting.

7 Transition

7.1 Managing transition risks to the Government’s proposed model are likely to pose a greater challenge for Council and others in its grouping than the risks associated with the Government proposal. If the Government’s proposal were to proceed, effective management of the transition by Council, Government and partners will be critical.

Risks to consider includes:

- Staff/Contractor Retention
- Transfer of Contracted Services
- Maintaining Good Quality Assets
- Stranded Overheads
- Loss of Customer Experience
- Resistance to Change
- Speed of Change - an increase in mistakes
- Lack of Business Confidence
- Transition Team – would help but will require resourcing. Staff workloads
- Limited Transfer of Water Debt – reserve funds collected for water related services affecting Council’s financial position.
- Development / Financial Contribution Refunds - may affect Council’s charges linked to debt (including the possibility of refunds).
- Current System Unable to Cope
- Scope of Agency Service - continuing / picking up for e.g., stormwater [and / or wastewater]
- Different Local Approaches - to regional neighbours may reduce the economies of scale making regional water solutions more expensive.
- Unreasonable Economic Influence - from existing industry players
- Asset Valuation - returning a much different value than expected affecting Council’s financial position
- Deferred Decision Making - development projects to stall.
- Community Uncertainty - owners continue to call Council delays in resolving faults.
- Poor Transition Management - cause delays and confusion over responsibility exposing Council to liabilities and affecting continuity of service delivery.
- Existing Contract Liabilities - Council may be liable for compensation if contractors take legal action.
- Liability for Environmental Damage - Lack of clarity for monitoring environmental impacts may expose Council to liabilities

- Loss of Asset Management Systems & Data - unclear responsibilities - loss of data or failure of systems affecting continuity of service delivery.
- Impact on Bylaws.

7.2 That said, transition away from the status quo to any other option, carries inherent risks, with potential mitigations to reduce both impact and likelihood and therefore residual risk and sticking with the status quo may not be sustainable in the short, medium or long term.

8 Council decision making and consultation

- 8.1 Part 6 of the LGA, sections 76 to 90, provide the requirements for decision making and consultation, including the principles of consultation and information that needs to be provided including the reasons for the proposal and the reasonably practicable options.
- 8.2 In particular, section 76 requires that in making a significant decision, which a decision on the future management and or ownership of three waters assets will be, councils must comply with the decision-making provisions. This is a 'higher bar' than the "promote compliance with" that applies for ordinary decisions.
- 8.3 Section 77 states that councils must seek to identify all reasonably practicable options and then assess the advantages and disadvantages of each option.
- 8.4 Section 78 requires that in the course of making a decision a Council must consider community views, but section 78(3) explicitly says that consideration of community views does not require consultation, which is reinforced by case law.
- 8.5 Section 79 gives Council discretion to decide how the above Part 6 requirements are met including the extent of analysis done etc. Therefore, while a decision could be challenged, a judicial review is unlikely to be successful unless the decision made by council was manifestly unreasonable, the process was flawed or the decision was beyond its powers (as given in law, i.e., the council did not act within the law).
- 8.6 However, despite section 79 of the LGA, a decision to transfer the ownership or control of a strategic asset from the council (or to it) must explicitly be provided for in the council's Long Term Plan (and have been consulted on specifically in its consultation document).
- 8.7 Council's existing LTP and the consultation information and process used to develop it will not suffice to meet this test, as Council did not itself have adequate information on the options and the implications earlier this year when it consulted on the LTP. An LTP amendment and commensurate consultation process on the ownership and governance arrangements and asset transfers proposed would be necessary.
- 8.8 There are also provisions in the LGA that relate to unlawful decisions to sell or dispose of assets, which can be investigated by the Auditor-General.¹²

¹² See sections 43 to 47 of the LGA.

- 8.9 A decision to opt-out would also be affected by the consultation and decision-making requirements set out in this report, including the need to follow a robust process that could survive a judicial review, as well as make a final decision that was not manifestly unreasonable in the circumstances.
- 8.10 Given the Government's
- 8-week period of engagement with mana whenua and councils
 - commitment to explore issues such as council and community influence of service outcomes, integration with other reform proposals, spatial and local planning
 - request for councils to give feedback on the proposal, identify issues and solutions
 - and uncertainty around next steps, including whether the reform may become mandatory or legislative change will remove legal barriers to opting in
- it would be premature to make a decision to opt out of the reform process and may expose the Council to litigation risk.
- 8.11 A Government Bill to progress the reforms could address the issues raised above, for example removing the section 130 requirements has explicitly been raised.
- 8.12 At this stage no decision is required on future delivery arrangements. Based on the analysis in this report, Council should wait until it has further information before consulting on and/or making a decision on the Government's proposal.
- 8.13 It is recommended that the Council therefore notes the options canvassed in this report, the high-level analysis of them and the information and decisions that are yet to be made.
- 8.14 If reform is not made mandatory, to ensure sufficient information is available to meet the moral and legal requirements of Council decision-making staff will further develop the analysis of options (based on further information from the Government, advice on next steps, and regional discussions) prior to Council decision making and consultation on future water services delivery. Whether this is ultimately required will be dependent on where the Government gets to with the reform process and the decisions it makes after 30 September 2021.

9 Information that the Council requires or potential solutions to outstanding issues that it would like to convey to Government and LGNZ

- 9.1 There are still several issues that need to be resolved, including:
- the final boundaries
 - protections from privatisation
 - consultation with mana whenua and communities
 - how will community voice be heard and what influence will local authorities have (and what can the community realistically expect the council to influence particularly if it is not on the regional Representation Group)
 - representation from and on behalf of mana whenua
 - integration with other local government reform processes
 - integration with spatial and local planning processes and growth

- prioritisation of investment
- workforce and capability – we don't have enough of the right people now to deliver three waters and we need to retain our people through the transition
- what will a Government Bill cover and whether the reform will be mandatory
- conditions associated with the Government's package of funding for local government
- transition arrangements, including our own workforce challenges (without transition challenges on top) and due diligence for asset transfers etc.

9.2 Council is invited to discuss whether there are specific information needs, issues or solutions that the Council would like staff to convey to the DIA or LGNZ.

10 Conclusion

- 10.1 While there is uncertainty about the future steps in the Government's reform proposal, and current legislative impediments to it, the current eight-week period gives Council the opportunity to understand the information it has received (and will continue to receive) from the RFI and modelling processes.
- 10.2 It also provides an opportunity for Council to understand its potential options, including the financial, workforce and sustainability impacts for Council and the wider economic, social and cultural implications of each option, using the guidance that has been issued. It also provides an opportunity to engage in discussions with other councils in its entity grouping, share information and ask questions and propose solutions to issues it sees to Government and LGNZ.
- 10.3 All of this information will be useful to inform future decision making by both council and Government and consultation and engagement with mana whenua and communities.

11 Decision making compliance statements

Significance

The future of water services delivery is a significant issue. This report however does not commit to the council to a decision relating to that reform. Instead, it provides initial analysis of the reform proposals for Council's information and highlights the uncertainties around information and next steps. As such the significance of this report is low

Risks / Legal and Financial implications

Significant risks, legal responsibility and financial implications have been identified in analysing the reform proposals and completing an analysis of options for this report. However, there is not decision required, other than to note those issues and to request further information from Government if Council wishes to, to reduce the risks and implications to Council and its communities

Te Tiriti/Treaty of Waitangi and involvement of Māori in decision making considerations

The issues covered in this paper are important for Māori. The Crown is currently leading the engagement with iwi/Māori, mana whenua. Council engaged with local Iwi through Te Roopuu Ahi Kaa Komiti (TRAK) and regionally with all Iwi included in Entity B. Council is leading local Mana Whenua engagement mainly through TRAK.

Climate Change / environmental impact

Climate considerations (both mitigation and adaptation), resilience and environmental impacts are drivers of the reform process. While there are no specific impacts arising from this report the decisions that occur post September 2021 will have an impact on climate and environmental issues. Some of these impacts have been canvassed in this report as appropriate to the options analysis that can be done with currently available information.

Engagement and Consultation

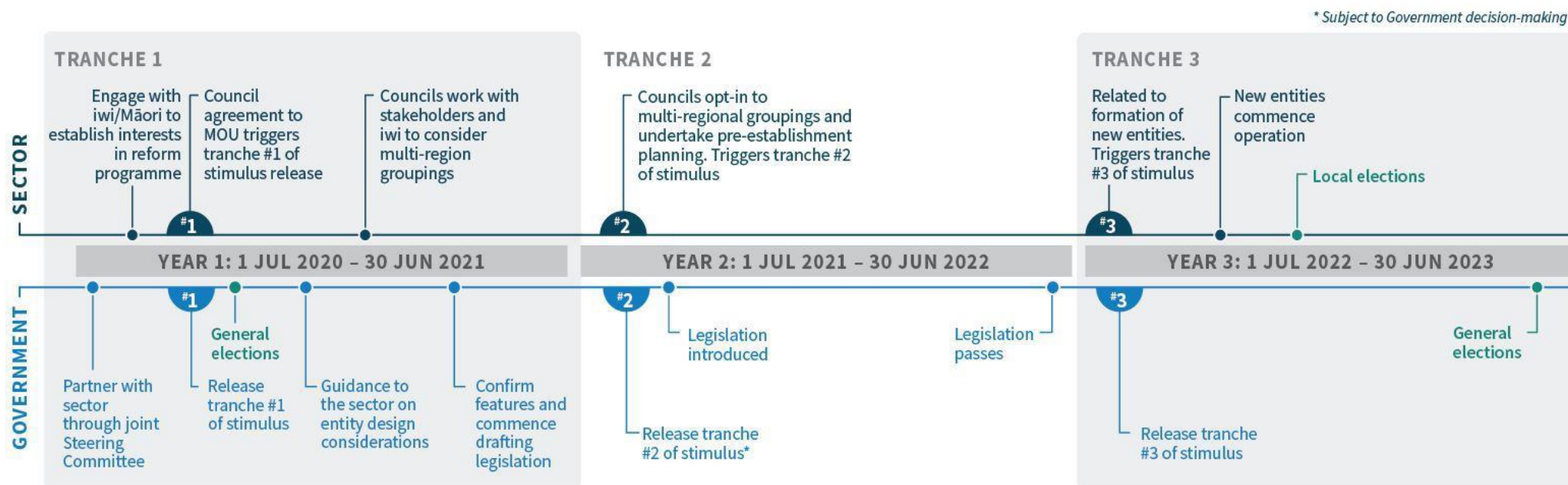
Council is not required to consult at this time as provided for in section 8 of this report. Further advice regarding any future consultation requirements will be provided after September 2021. In the interim Council has held a workshop for elected members, TRAK, Community Committees and Community Board Chairs. A community engagement communication plan is currently being developed based on feedback from elected members.

Attachment 1 – 2020 Background (including Taumata Arowai information and Indicative Reform Programme)

In July 2020, the Government launched the Three Waters Reform Programme to reform local government three waters service delivery arrangements, with the following objectives:

- improve the safety, quality, and environmental performance of water services
- ensure all New Zealanders have access to affordable three waters services
- move the supply of three waters services to a more financially sustainable footing, and address the affordability and capability challenges that currently exist in the sector
- improve transparency about, and accountability for, the delivery and costs of three waters services
- improve the coordination of resources and unlock opportunities to consider New Zealand's water infrastructure needs at a larger scale and alongside wider infrastructure and development needs
- increase the resilience of three waters service provision to both short and long-term risks and events, particularly climate change and natural hazards
- provide mechanisms for enabling iwi/Māori rights and interests.

The 2020 indicative timetable for the full reform programme is provided below. It was always subject to change as the reforms progressed, future Government budget decisions and Councils were advised that any further tranches of funding would be at the discretion of the Government and may depend on progress against reform objectives.



Also, in July 2020 the Government announced an initial funding package of \$761 million to provide a post COVID-19 stimulus to maintain and improve water three waters infrastructure, support a three-year programme of reform of local government water service delivery arrangements (reform programme), and support the establishment of Taumata Arowai, the new Waters Services Regulator.

Following initial reports (that used publicly available council information) from the Water Industry Commission for Scotland (WICS), between October 2020 and February 2021, (all) 67 councils participated in the Government's Request for Information (RfI) on council's three waters assets, including future investment requirements. In return they received what was known as Tranche 1 stimulus funding (under a MoU and funding agreements with Government) for operating or capital expenditure that supported the reform objectives, economic recovery through job creation and maintaining, increasing and/or accelerating investment in core water infrastructure delivery, renewals and maintenance. Council received \$4.82 Mil under this arrangement and is currently completing the agreed delivery plan.

In line with Government policy, Taumata Arowai became a new Crown entity in March 2021 and will become the dedicated water services regulator when the Water Services Bill passes, expected to be in the second half of 2021 (the Select Committee is due to report back on 11 August 2021). They will oversee and administer, and enforce a new, expanded and strengthened drinking-water regulatory system, to ensure all New Zealand communities have access to safe drinking water. They will also provide oversight of the regulation, management, and environmental performance of wastewater and storm-water networks, including promoting public understanding of that performance.

An overview of local authority obligations under the Bill is provided below. The Bill provides for a range of compliance and enforcement tools including compliance orders, enforceable undertakings, infringement offences, and criminal proceedings, which can be taken against council officers (but not elected officials).

Taumata Arowai will have the authority to prepare standards and rules that water suppliers (such as councils) must comply with. Their [initial working drafts](#) are available online¹³ and are currently being updated. Consultation will occur later this year. Guidance to support the operational compliance rules is also being developed and will be available when the rules are consulted on.

It is anticipated that monitoring, compliance and enforcement of standards will increase substantially on the status quo with the passing of the Water Services Bill and as Taumata Arowai begins to operate. It is also likely that the drinking water standards and their coverage (including non-Council water suppliers) and environmental standards will become more rigorous over time. This creates risks for council in meeting future standards and mana whenua and community aspirations (such as greater investment required than currently planned, risk of enforcement action).

¹³ www.taumataarowai.govt.nz/for-water-suppliers/

Water Services Bill obligations of local authorities

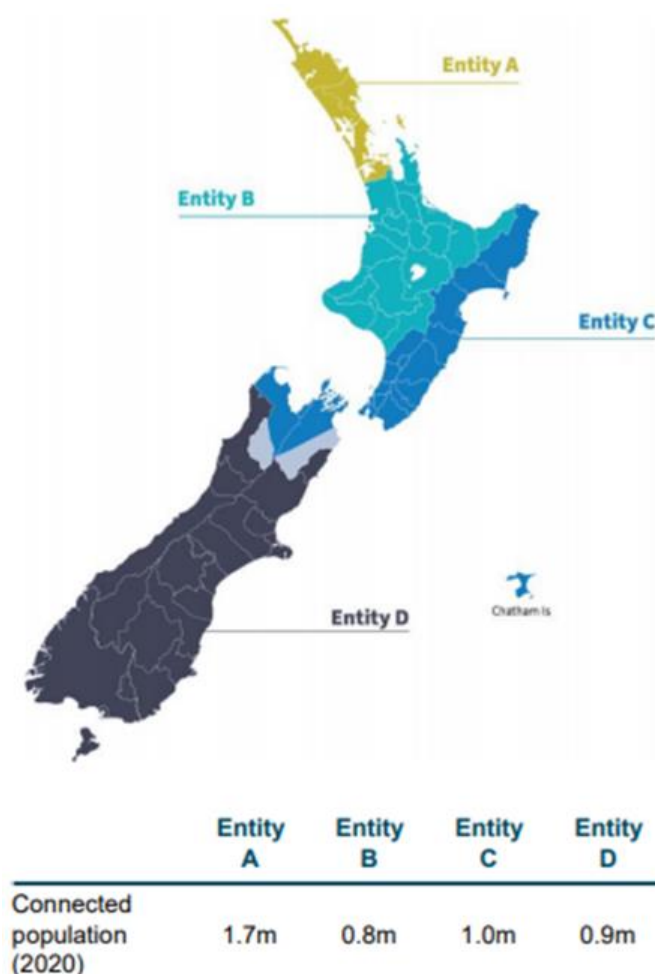
Table 2 from [https://www.dia.govt.nz/diawebsite.nsf/Files/Three-waters-reform-programme/\\$file/transforming-the-system-for-delivering-three-waters-services-the-case-for-change-and-summary-of-proposals-30-june-2021.pdf](https://www.dia.govt.nz/diawebsite.nsf/Files/Three-waters-reform-programme/$file/transforming-the-system-for-delivering-three-waters-services-the-case-for-change-and-summary-of-proposals-30-june-2021.pdf)

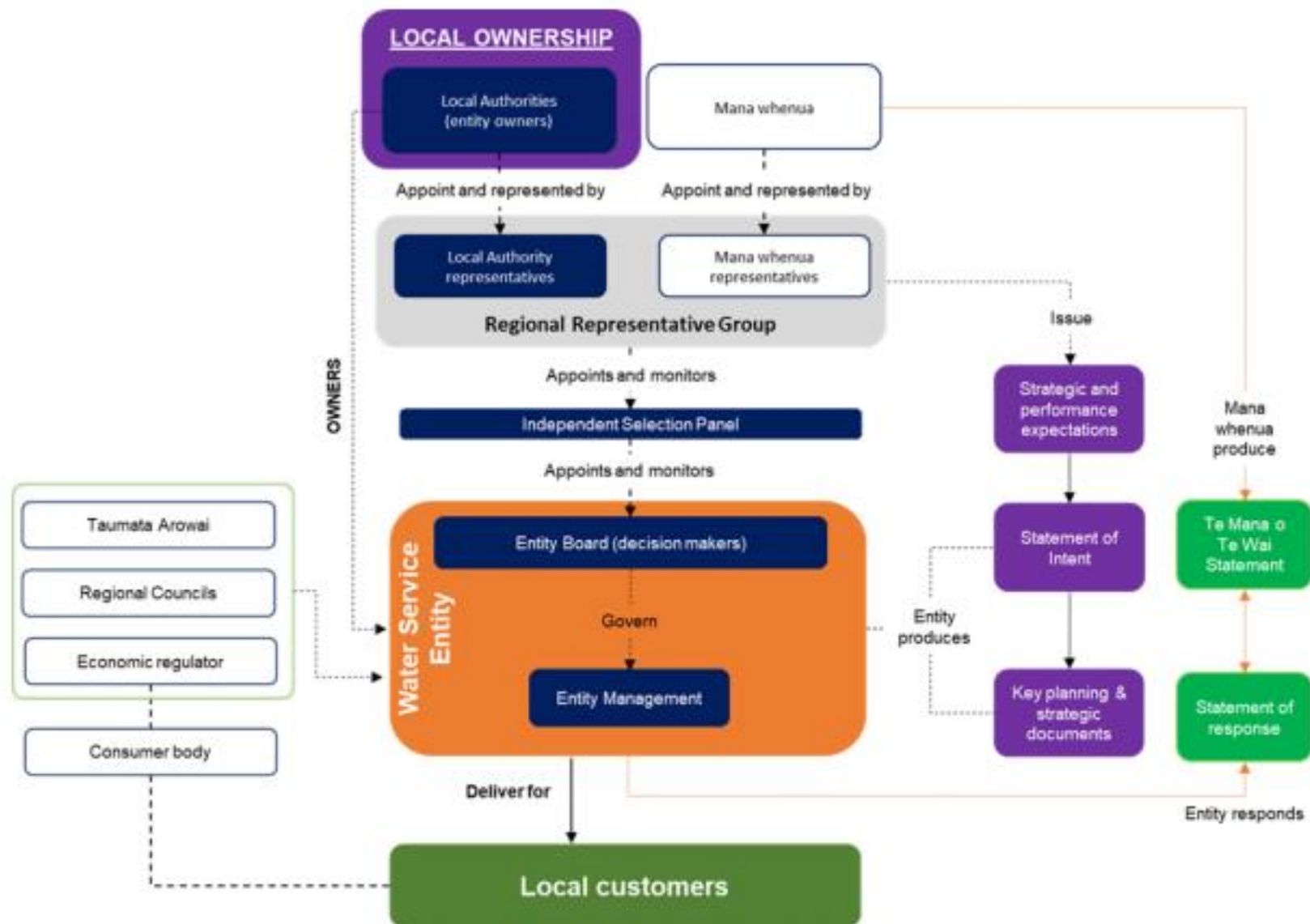
Local authorities as suppliers of water services	General obligations of local authorities
<ul style="list-style-type: none"> • Duty to provide safe drinking water and meet drinking water standards, and clear obligations to act when water is not safe or fails to meet standards • Key provisions include: <ul style="list-style-type: none"> ○ Suppliers need to register with Taumata Arowai ○ Local authority suppliers will need a drinking water safety plan and a source water risk management plan ○ Water suppliers must give effect to Te Mana o te Wai • Taumata Arowai will have significant compliance and enforcement powers, including powers to direct suppliers and enter into enforceable undertakings with suppliers • Officers, employees and agents of suppliers will have a duty to exercise professional due diligence • Complying with these new requirements is expected to require significant capital and operating expenditure by local authorities (including paying levies to Taumata Arowai for operation of the regulatory system) 	<ul style="list-style-type: none"> • Local authorities will have a duty to ensure communities have access to drinking water if existing suppliers face significant problems in complying with drinking water standards including: <ul style="list-style-type: none"> ○ Requirements to work with suppliers and consumers to identify solutions ○ Intervention responsibilities if a supplier is unable to meet standards, including potentially taking over management and operations of private or community supplies • In rural communities, this could represent a significant risk (contingent liability) for local authorities • Local authorities will be required to make assessments of drinking water, wastewater and sanitary services to ensure communities have access to safe drinking water • Local authorities will need to assess drinking water services available to communities at least once every three years, including private and community supplies (excluding domestic self-supplies)

Attachment 2 – the Government’s conclusion that the case for change has been made

1. The modelling has indicated a likely range for future investment requirements at a national level in the order of \$120 billion to \$185 billion, an average household cost for most councils on a standalone basis to be between \$1910 and \$8690 by 2051.
2. It also estimated these average household costs could be reduced to between \$800 and \$1640 per household and efficiencies in the range of 45% over 15-30 years if the reform process went ahead.
3. The efficiencies noted are underpinned by evidence across a range of countries based on joined up networks (the conclusion is that 600,000 to 800,000 connections achieve scale and efficiency), greater borrowing capability and improved access to markets, procurement efficiencies, smarter asset management and strategic planning for investment, a more predictable pipeline and strengthened benchmarked performance, governance and workforce capabilities.
4. The [briefing to the Minister](#) notes that this “investment is what WICS has estimated is necessary for New Zealand to meet current United Kingdom levels of compliance with EU standards over the next 30 years, which in its assessment (and confirmed by Beca) are broadly comparable with equivalent New Zealand standards.”.
5. However, this is caveated as a conservative estimate that does not take into account iwi goals and aspirations, higher environmental standards or performance standards that are anticipated in future legislation, uncertainties in asset lives, seismic and resilience risk, supply chain issues, and the current workload to manage and deliver improvements as well as address renewal backlogs.
6. For councils with non-council drinking water suppliers in their areas there is additional risk if they are unable to consistently provide safe drinking water to their consumers, including the potential for council to have to take on the water supply. Council operating on expired consents or with consent renewals in the next 15 years also face uncertainty over the standards they will need to meet in the future and therefore the level of investment that needs to occur.
7. Councils could also add to the above list of uncertainties and challenges their business-as-usual workload, the workload associated with delivering on stimulus packages and associated with responding to other government reform initiatives such as reform of the Resource Management Act, and general workforce retention and attraction issues, which are exacerbated by public sector competition for talent and skills.
8. The modelling indicated that between one and four water services entities would provide the most efficiencies and reduce costs to individual households.
9. When this is added to:
 - a. known variations across the nation in water suppliers’ compliance with drinking standards, including permanent and temporary boil water notices
 - b. evidence of poor health and environmental outcomes, including expired resource consents for wastewater treatment plants (and the need for 110 of these plants to go through the resource consenting process in the next 10 years)
 - c. stormwater overflows and other challenges
 - d. climate change

- e. Te Tiriti obligations and the need to uphold Te Mana o te Wai
 - f. the size and scale of current service delivery units and workforce issues
 - g. the obligations and responsibilities that councils (and other water suppliers) will face when the Water Services Bill and associated regulations are enacted
 - h. the Government has concluded that the status quo is not sustainable and that the [case for change](#) has been made.
10. The four entities and their proposed boundaries (which may yet change) and the proposed structure for the system are as follows:





A new system for three waters service delivery

DIAGRAM 1
JUNE 2021

1. A CASE FOR CHANGE

This Government has ambitions to significantly improve the safety, quality, resilience, accessibility, and performance of three waters services, in a way that is efficient and affordable for New Zealanders. This is critical for:

- public health and wellbeing;
- environmental outcomes;
- economic growth and employment;
- housing and urban development;
- adapting to the impacts of climate change;
- mitigating the effects of natural hazards.

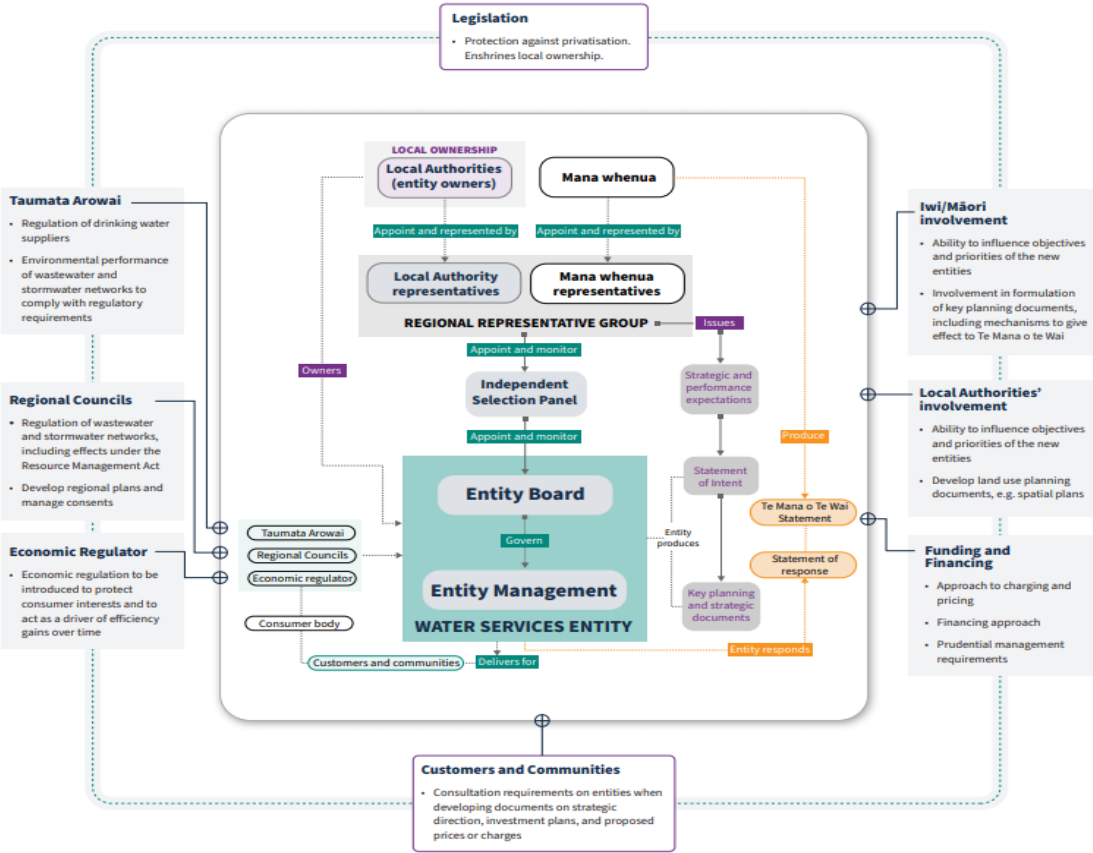
Government also wants to ensure it delivers on Treaty-related obligations, including by improving outcomes for iwi/Māori in relation to three waters service delivery.

Integral to this is effective infrastructure delivery, underpinned by an efficient, high-performing, financially-sustainable, and transparent three waters system.

2. KEY DESIGN FEATURES

- Maintaining local authority ownership of water services entities;
- Protecting against privatisation;
- Retaining influence of local authorities and mana whenua over strategic and performance expectations;
- Providing the necessary balance sheet separations from local authorities; and
- An integrated regulatory system.

3. A NEW WATER SERVICES SYSTEM



4. OBJECTIVES FOR THE CROWN/MĀORI RELATIONSHIP

Enabling greater strategic influence to exercise rangatiratanga over water services delivery.

- A Integration of iwi/Māori rights and interests within a wider system.
- B Reflection of a holistic te ao Māori perspective.
- C Supporting clear account and ensure roles, responsibilities, and accountability for the relationship with the Treaty partner.
- D Improving outcomes at a local level to enable a step change improvement in delivery of water services for iwi/Māori.

5. A PARTNERSHIP-BASED REFORM

- Government will continue to work in partnership with iwi/Māori and local authorities.
- A large scale communication effort is required to ensure local government support reform.
- Further decisions are yet to be taken by Cabinet on the arrangement for transition to, and implementing, the new system.

A new system for three waters service delivery

The number and boundary of entities needs to balance scale with other factors

DIAGRAM 2

JUNE 2021

1. FACTORS CONSIDERED TO DETERMINE NUMBER AND BOUNDARIES

A range of factors have been analysed to help determine how many entities there should be, and their boundaries:

- A** Potential to achieve scale benefits from a larger water service delivery entity to a broader population/customer base.
- B** Alignment of geographical boundaries to encompass natural communities of interest, belonging and identity including rohe/takiwā.
- C** Relationship with relevant regulatory boundaries including to enable water to be managed from source to the sea - ki uta ki tai.

Applied economic analysis, informed by international evidence, provides further confidence that each entity would need to serve a connected population of at least 600,000 to 800,000 to achieve the desired level of scale.

The preferred approach is to create four new water services entities, and to enable all communities to benefit from reform.

2. PROPOSED BOUNDARIES

Government has agreed to a preferred set of entity boundaries. However, the Government remains interested in continuing discussion with local government and iwi/Māori most affected by the proposed boundary choices. In particular:

1 South Island entity

Whether there should be a single entity covering the whole of the South Island, or instead take an approach that uses the Ngāi Tahu takiwā.

2 Taranaki region

Which entity would include the Taranaki region, taking into account ki uta ki tai, whakapapa connections, and economic geography/community of interests.

3 Hauraki Gulf

Whether to include other districts surrounding the Hauraki Gulf, enabling a more integrated approach to the management of the Hauraki Gulf marine catchment.

The map highlights the recommended boundaries.

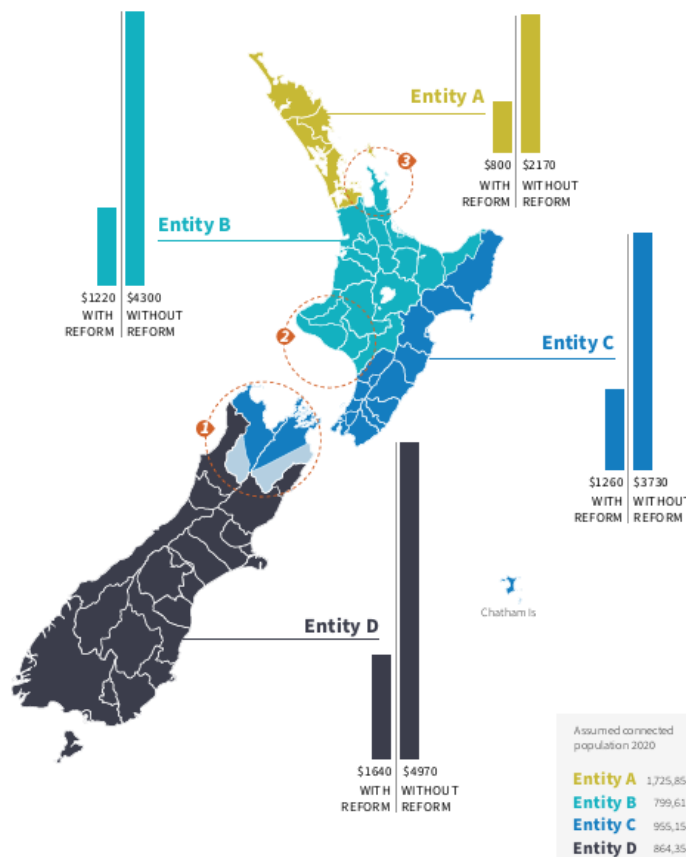
3. OUR INTENTION IS THAT ALL COMMUNITIES BENEFIT FROM REFORM

Latest estimates indicate that the amount of investment required to:

- provide for future population growth
- replace and refurbish existing infrastructure
- upgrade three waters assets to meet drinking water and environmental standards

Is in the order of
\$120 billion to \$185 billion
over the next 30 to 40 years.

4. PROJECTED HOUSEHOLD COSTS 2051



The figures presented above for household bills with and without reform set out what an average household would be likely to pay for three waters services in 2051, in today's dollars, based on analysis by the Water Industry Commission for Scotland.

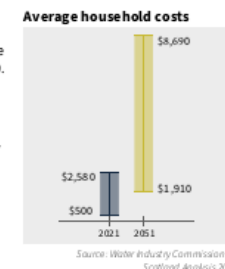
A weighted average figure is presented for household bill estimates without reform, to account for the wide variance between council pricing policies. This weighted average figure reflects the proportion of the connected population that resides in each council area relative to neighbouring councils within the relevant water services entity.

5. POTENTIAL IMPACTS

Difference in household costs

Average household costs for most councils on a standalone basis in 2051 are likely to range from between \$1,910 to \$8,690.

The scale of investment required between now and 2051, would require average household costs to increase by between three to 13 times in real terms for rural councils, between two and eight times for provincial councils and between 1.5 and seven times for metropolitan councils.



Current household costs

Currently there are a wide range of current (2019) average household costs.

	LOW	HIGH	MEDIAN	MEAN
Metro	\$500	\$1,920	\$1,050	\$1,120
Provincial	\$610	\$2,550	\$1,120	\$1,300
Rural	\$210	\$2,580	\$1,340	\$1,390

Source: Water Industry Commission for Scotland Analysis 2021

Current costs are not necessarily a good reflection of what funding is required to meet the full costs of economic depreciation (that is, to provide resources for asset maintenance and renewal).

Potential economic impact of reform

The economic impact assessment estimates the impact of a material step up in investment in connection with reform, relative to the level of investment that might be expected in the absence of reform.

Change relative to counter-factual, 2022-2051

Net change in GDP p.a. over 30 years	▲	0.3% to 0.5%
Present value increase in GDP	▲	\$14b to 23b
Average increase in FTEs	▲	5,850 to 9,260
Increase in average wages	▲	0.2% to 0.3%
Present value increase in taxes	▲	\$4b to \$6b

Source: Deloitte Three Waters Reform Economic Impact Assessment 2021

LGNZ two-page summary

THREE WATERS 101.

The Government is proposing major reform of New Zealand's drinking water, wastewater and stormwater system. Here LGNZ synthesises the issues, the opportunities and what it means for local government.

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Te Kāhui Kaunihera o Aotearoa.

1. What's the problem?

Councils currently own and operate three waters services, which cover drinking water, wastewater and stormwater. More investment is needed in water infrastructure to meet the environmental and public health aspirations of our communities. The Government has estimated that dealing with 30 years of systemic failure will require an investment of more than \$185b over the next 30 years.

This scale of investment would be extremely challenging for councils to fund on their own. Climate change will only exacerbate this challenge.



Significant investment needed in water infrastructure



Councils can't carry future costs



The current system lacks:

- Economic regulation
- Consistent data collection
- Enforcement of standards

2. Government's proposed solution

The Government has told us it wants to deliver water services more cost effectively. It also wants to deliver them in an equitable and sustainable way.

It proposes changing the whole system:



A new water regulator called Taumata Arowai



A smaller number of large, specialist water service entities



Water services are delivered on a significantly larger scale



Water entities remain publicly owned



Water services providers meet standards or face significant penalties for noncompliance



Entities have strong strategic links to councils and mana whenua

3. Impact on councils

The Government's proposal would mean significant change to the delivery of water services. For a start, councils would shift their focus from delivery to kaitiakitanga of water services. Requirements on local authorities to ensure safe drinking water for private and community supplies would transfer to new entities.

For most councils, removing water-related debt from their balance sheets would improve their financial position. It would potentially create more opportunity to focus on delivering wellbeing to their communities.



Three waters kaitiakitanga focus



Water-related debt removed from balance sheet



Increased capacity to borrow to fund community services

We know there's not universal agreement on the case for change. But to meet councils' own RFI projections, spending across New Zealand as a whole would need to increase by 50 percent annually for the next 10 years. With strong regulatory enforcement, the picture would be very different for councils, creating difficult trade offs if large investments are required to meet water standards.

LOCAL GOVERNMENT CAN HELP SHAPE THREE WATERS REFORM.

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What's important to the sector in this reform?

-  Everyone has access to safe drinking water and the same level of three waters service.
-  Infrastructure and systems are resilient and well-funded.
-  Three waters are delivered in partnership with iwi.
-  Delivery is responsive to climate change.
-  Catchments are managed from the mountain to the sea.
-  Districts retain high-paying, skilled jobs.
-  Any transition is well-managed and people are looked after.
-  Local voices are heard and local priorities are responded to.

LGNZ is working for councils

Our work on Three Waters is guided by the principle that we need to seize any opportunity to create the best possible outcome for local government.

We're using our influence to work with the Government on a model that better includes the perspective of our communities. Representatives from local government are helping to steer this work and pose the hard questions. We are also actively working with government on what a package to go with reforms might look like. We'll work to optimise this package before decisions are made.

What the sector needs from central government

-  Transparency about the process and what's on the table.
-  A robust transition plan that makes sure the benefits of reform are delivered.
-  Government to support councils so they can keep delivering. This means makes sure councils are economically sustainable without water.
-  A fair deal, including that councils are not financially worse off, and that communities are better off.
-  To support and grow effective local democracy.
-  That any new system reflects the relationship with mana whenua under Te Tiriti o Waitangi

Find out more

We encourage you to stay informed and up to date of the reforms as they evolve. We'll be with you every step of the way. Here's where you can start:

Read what DIA has published: www.dia.govt.nz/Three-waters-review

Check out the info on our website: www.lgnz.co.nz
Get in touch if you have questions: feedback@lgnz.co.nz

SCAN OR CLICK
TO VISIT OUR FAQ



Three waters reform

EXPLAINED.

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Te Kāhui
Kaunihera
ō Aotearoa.

The local government sector has been asking successive Governments for water reform, long before Havelock North. The Government is proposing four new, large water service delivery entities. Their scale means they would be able to borrow enough to fund the investment needed in water services and infrastructure over the next 30 years. Scale would create operating efficiencies over time, especially in terms of procurement. The larger entities would have more power in the contracting market than 67 disparate councils, and be better able to fund and demand levels of service.

We want to hear your ideas directly – email feedback@lgnz.co.nz

We are also running workshops you can attend.



The status quo no longer applies.

- Everyone agrees that more investment is needed in water infrastructure – and increased investment has been reflected in councils' recent Long Term Plans.
- But the magnitude of investment that will be required over the next 30 years is potentially beyond councils' existing ability to fund, as infrastructure comes up for renewal, communities' expectations increase and climate change threatens infrastructure.
- This investment is required to meet standards – and to meet communities' expectations. Not just in drinking water, where current standards are not being enforced, but also wastewater and stormwater.
- The new regulator – Taumata Arowai – will enforce existing standards, with significant proposed penalties, including fines and criminal proceedings. The Water Services Bill is going through parliament right now.
- The Water Services Bill, once enacted, will impose new offences, some carrying criminal penalties, for council officers, employees and agents of drinking water suppliers. It will also confer new duties on local authorities to ensure communities have access to safe drinking water if existing private and community supplies face problems in complying with the regulatory requirements.
- An economic regulator will also be introduced. The purpose of an economic regulator is to ensure it's no longer possible to under invest, or to charge consumers too much or to deliver poor quality service.
- If a council "opts out", it would find itself operating in a very different landscape, with a large and growing proportion of expenditure and energy eaten up by three waters investment and compliance.



Water assets remain publicly owned.

- The assets remain in public ownership and aren't being sold – the new entities would be collectively owned by councils, on behalf of communities.
- The entities will own and operate three waters infrastructure on behalf of territorial authorities – they will hold three waters assets and associated debt.
- Independent, competency-based boards would govern each entity.
- This is how these boards would be chosen. Councils and mana whenua would appoint a Regional Representative Group. This group would appoint an Independent Selection Panel, which would appoint the Entity Board.
- The Regional Representative Group will provide the entity with a Statement of Strategic and Performance Expectations that will influence the Statement of Intent that the water entity produces.
- Each entity will also have to meaningfully engage with communities on key documents.
- The Government is asking for feedback on whether the proposal includes the right mechanisms to allow community feedback. For example, should there be a water ombudsman?



There's a package on the table for councils.

- LGNZ agreed with the Government a \$2.5+ billion package for councils, to wrap around the reform proposals.
- This agreement puts something on the table for councils that wouldn't otherwise have been there. It doesn't bind individual councils in any way.
- The package has three financial components:
 1. Support for local government to invest in communities' wellbeing. This means all councils and their communities will be better off under reform. This part of the investment totals \$2 billion, with \$500 million being available from 1 July 2022.
 2. Targeted support to ensure no councils are financially worse off as a result of transferring their three waters assets.
 3. Cover of reasonable transition costs. This is intended to make sure council service delivery (including of water services) during transition isn't compromised by the work needed to make the transition happen.
- The package covers more than money. It includes commitments to partnership with central Government, including in the Future for Local Government reform.



What's happening now?

- At the moment, we're in an 8-week period to give the sector breathing space to interrogate the reform. This period ends on 1 October.
- The purpose of this 8 weeks is to understand the model – and how it can be strengthened. It's not a decision-making period. So it doesn't trigger formal consultation.
- Everyone wants to know what happens next – and that's in the Government's hands.
- The Minister has said she wants councils to spend this time really interrogating this proposal and how it might work.



How can the proposal be improved?

We want to hear your ideas on how to address concerns councils have identified:

1. Ensuring all communities have both a voice in the system and influence over local decisions.
2. Effective representation on the new water entities' oversight boards so that there is strong accountability to the communities they serve, including iwi participation, and effective protection against privatisation.
3. Making sure councils' plans for growth are appropriately integrated with water services planning.

Three waters reform

FAQs.

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Te Kāhui
Kaunihera
ō Aotearoa.



OWNERSHIP

Who will own the water assets under the reform proposal?

Local authorities would be the owners of the entity, on behalf of their communities.

The entities will own and operate three waters infrastructure on behalf of territorial authorities – they will hold three waters assets and associated debt.

The assets aren't being sold – the new entities would be collectively owned by councils, on behalf of communities.

Does the proposed model make privatisation likely?

Water services would be more difficult to privatise under the proposal than they are right now.

The reform proposals combine a series of measures that together help safeguard against future privatisation, including: The councils that constitute each entity would be the owners of that entity.

There is no shareholding structure in the proposal and a prohibition on dividends.

There would be statutory restrictions on the sale or transfer of material, strategic water assets. This is the current approach in the Local Government Act 2002, which prevents local authorities from selling or disposing of strategic assets or the infrastructure necessary for providing water services.

As a further safeguard, any proposal for privatisation would have to be endorsed by the Regional Representative Group (75% majority), put to a public referendum (75% majority), and put through the legislative and select committee processes.



GOVERNANCE

How will councils and the community be involved in governing the proposed entities?

Independent, competency-based boards would govern each entity.

This is how these boards would be chosen. Councils and mana whenua would appoint a Regional Representative Group. This group would appoint an Independent Selection Panel, which would appoint the Entity Board.

But each entity would also have to engage with its communities on key documents that set its direction. The entity would actively report on how consumer and community feedback was incorporated into decision-making.

How would mana whenua be involved in governance? I've heard talk of a "veto"

A mana whenua representative group would be part of the structure that selects the entity boards. It would help appoint a Regional Representative Group, which would appoint an Independent Selection Panel, which would appoint the Entity Board.

This is totally different from having "a power of veto".



THE MODEL

What alternatives were considered to the proposed model?

30 unique scenarios were modelled, ranging from a 2-entity model to a 13-entity scenario (similar to the regional council boundaries).

Why does LGNZ support reform?

We know the way of delivering water services needs to change, especially as we look into the future. Our communities need more investment in water services delivery and the current funding system isn't capable of providing that without significantly increasing costs to ratepayers.

The model is as fit-for-purpose as it can be, subject to the issues that we're still working through and want your feedback on.

Why would entities be better positioned to succeed than councils?

Entities will be in a better position to borrow sufficient capital to invest in three waters infrastructure. They will be well-placed to attract and retain the professional capability needed. Their market power would also mean they could negotiate better and more consistent procurement, and be better able to guarantee service in remote areas as part of that wider contract.



SERVICE LEVELS

Will my community get the same level of service under the proposal?

The Government has made an explicit commitment that staff working primarily on water would retain their salary, conditions and – critically – location if they transfer to the new water entities.

Individual communities have significant potential gain from the proposal. At the moment, small contracts on an ad hoc basis give contractors no incentive to invest in specialised plant, for example, especially outside cities.

At the moment, the supply chain has more market power than your average council. With four entities, the market power would switch around to the buyer.



FUNDING

How will the proposed entities be funded?

Like now, an entity would fund its operations from a combination of user payments and borrowing.

The key thing is that entities would have larger borrowing capacity to fund the necessary investments – they would be able to borrow significantly more than councils can.

They will also have more strategic procurement and investment plans. This means they would invest at the most efficient point in an asset's life, generating cost savings.

Will my community subsidise other communities' water services?

Like many other infrastructure models, this model is built on cross-subsidisation – which means investments could be made in places where the population is too small to afford it on their own.

Because entities will have greater efficiencies that drive lower operating costs, it's not comparing like with like, in terms of the status quo.

Would water meters be introduced?

Not necessarily – the entities will have the same scope to introduce meters as councils do now. The entities will have charging tools, as councils do now. But what they use will be subject to consultation with their communities/consumers.



THE PACKAGE

Why did LGNZ sign an agreement with the Government and does this bind councils?

LGNZ agreed with the Government a \$2.5+ B package for councils, to wrap around the reform proposals.

This agreement puts something on the table for councils that wouldn't otherwise have been there. It doesn't bind individual councils in any way.

When will we be able to access the package?

The first \$500m of the Crown funded 'better off' package will be available from 1 July 2022. The balance will be available from 1 July 2024.

The 'no worse off' payments will be made once assets have been transferred to the water service entities.



DECISION MAKING AND CONSULTATION

Can we still opt out?

Our understanding is that following this 8-week engagement, the Government will consider next steps, including the decision making and consultation process.

In terms of LGNZ's position, we passed a motion at our July AGM that did not support the reforms being made mandatory and acknowledged that individual councils remain able to express their own views on the reforms and make their own decisions.

When do we consult with our community?

Formal consultation is not required yet. That's because the proposal from the Government hasn't been finalised.

At the moment, we're in an 8-week review period so you can investigate the reforms, assess the potential impact on your council and suggest ways the proposal might be strengthened. Only once the reforms are more finalised will consultation obligations be triggered.

There are lots more FAQs on our website www.lgnz.co.nz/reforms/three-waters/

Attachment 4 - funding to invest in the future of local government and community wellbeing

1. On 15 July, in partnership with LGNZ under a [Heads of Agreement](#)¹⁴, the Government announced a package of \$2.5 billion to support councils to transition to the new water entities and to invest in community wellbeing.
2. The **‘better off’ element**: an investment of **\$2 billion** into the future for local government and community wellbeing.
 - The investment is funded \$1 billion from the Crown and \$1 billion from the new Water Services Entities. \$500 million will be available from 1 July 2022. The funding has been allocated to territorial authorities (which includes unitary authorities)¹⁵ on the basis of a nationally formula that takes into account population, relative deprivation and land area.
 - The funding can be used to support the delivery of local wellbeing outcomes associated with climate change and resilience, housing and local placemaking, and there is an expectation that councils will engage with iwi/Māori in determining how to use their funding allocation.
3. The **‘no council worse off’ element**: an allocation of up to 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.
 - This element is intended to ensure the financial sustainability of councils and address reasonable costs and financial impacts associated with the transfer of assets, liabilities and revenues to new water services entities.
 - Up to \$250 million is available to meet the unavoidable costs of stranded overheads and the remainder for other adverse impacts on financial sustainability of territorial authorities (including future borrowing capacity).
 - Of this \$250 up to \$50 million is allocated to Auckland, Christchurch and Wellington Water councils, the remainder is available to other councils.¹⁶ This funding is not available until July 2024 and is funded by the Water Services Entities.
4. Council’s funding allocation is \$13,3 Mil.
5. The package is in addition to the \$296 million announced in Budget 2021 to assist with the costs of transitioning to the new three waters arrangements. The Government will “meet the reasonable costs associated with the transfer of assets, liabilities and revenue to new water services entities, including staff involvement in working with the establishment entities and transition unit, and provision for reasonable legal, accounting and audit costs.”¹⁷

¹⁴ [https://www.dia.govt.nz/diawebsite.nsf/Files/Three-waters-reform-programme/\\$file/heads-of-agreement-partnering-commitment-to-support-three-waters-service-delivery-reform.pdf](https://www.dia.govt.nz/diawebsite.nsf/Files/Three-waters-reform-programme/$file/heads-of-agreement-partnering-commitment-to-support-three-waters-service-delivery-reform.pdf)

¹⁵ Please note that any allocation to Greater Wellington Regional Council (the only regional council affected by the proposed changes) is not clear at this stage.

¹⁶ Due to their size and in the case of Wellington Water and Auckland’s WaterCare having already transferred water service responsibilities (to varying degrees)

¹⁷ 15 July 2021 FAQ [https://www.dia.govt.nz/diawebsite.nsf/Files/Three-waters-reform-programme/\\$file/three-waters-reform-programme-support-package-information-and-frequently-asked-questions.pdf](https://www.dia.govt.nz/diawebsite.nsf/Files/Three-waters-reform-programme/$file/three-waters-reform-programme-support-package-information-and-frequently-asked-questions.pdf)

6. The Government is also encouraging councils to use accumulated cash reserves associated with water infrastructure for this purpose. There are likely to be practical limitations on a council's ability to do this set by councils' own financial strategy and policies (including conditions on the use of the reserves i.e., targeted reserve funds must be used for the purpose they were collected for in the first instance e.g., if collected for capital works).
7. There are also political and / or community acceptance challenges with this approach - if the assets are transferred under a voluntary or mandatory process the reserve balances are expected to be used to invest those funds in the communities that paid for them, consistent with the conditions under which they were raised rather than pooling as a general fund. Councils and communities are unlikely to embrace using these funds instead to enable the transition.
8. The proposed national allocations are as follows:

Council	Allocation
Auckland	\$ 508,567,550
Ashburton	\$ 16,759,091
Buller	\$ 14,009,497
Carterton	\$ 6,797,415
Central Hawke's Bay	\$ 11,339,488
Central Otago	\$ 12,835,059
Chatham Islands	\$ 8,821,612
Christchurch	\$ 122,422,394
Clutha	\$ 13,091,148
Dunedin	\$ 46,171,585
Far North	\$ 35,175,304
Gisborne	\$ 28,829,538
Gore	\$ 9,153,141
Grey	\$ 11,939,228
Hamilton	\$ 58,605,366
Hastings	\$ 34,885,508
Hauraki	\$ 15,124,992
Horowhenua	\$ 19,945,132
Hurunui	\$ 10,682,254
Invercargill	\$ 23,112,322
Kaikoura	\$ 6,210,668
Kaipara	\$ 16,141,395
Kapiti Coast	\$ 21,051,824
Kawerau	\$ 17,270,505
Lower Hutt	\$ 38,718,543
Mackenzie	\$ 6,195,404
Manawatu	\$ 15,054,610
Marlborough	\$ 23,038,482
Masterton	\$ 15,528,465
Matamata-Piako	\$ 17,271,819
Napier	\$ 25,823,785
Nelson	\$ 20,715,034
New Plymouth	\$ 31,586,541
Opotiki	\$ 18,715,493
Otorohanga	\$ 10,647,671
Palmerston North	\$ 32,630,589
Porirua	\$ 25,048,405
Queenstown Lakes	\$ 16,125,708
Rangitikei	\$ 13,317,834
Rotorua Lakes	\$ 32,193,519
Ruaapehu	\$ 16,463,190

Selwyn	\$ 22,353,728
South Taranaki	\$ 18,196,605
South Waikato	\$ 18,564,602
South Wairarapa	\$ 7,501,228
Southland	\$ 19,212,526
Stratford	\$ 10,269,524
Taranua	\$ 15,185,454
Tasman	\$ 22,542,967
Taupo	\$ 19,736,070
Tauranga	\$ 48,405,014
Thames-Coromandel	\$ 16,196,086
Timaru	\$ 19,899,379
Upper Hutt	\$ 18,054,621
Waikato	\$ 31,531,126
Waimakariri	\$ 22,178,799
Waimate	\$ 9,680,575
Waipa	\$ 20,975,278
Wairoa	\$ 18,624,910
Waitaki	\$ 14,837,062
Waitomo	\$ 14,181,798
Wellington	\$ 66,820,722
Western Bay of Plenty	\$ 21,377,135
Westland	\$ 11,150,183
Whakatane	\$ 22,657,555
Whanganui	\$ 23,921,616
Whangarei	\$ 37,928,327
Total	\$ 2,000,000,000

Attachment 5 - Transition

1. Consideration is being given to establishing a national transition unit and local establishment entities mirroring the boundaries of the (proposed) Water Services Entities and supporting, through a reprioritisation of stimulus funding if required, council staff costs related to reform and transition, enabling staff to participate in transition priority working groups, gathering and sharing data.
2. Current considerations, in addition to funding for backfilling and / preparing for change, are:
 - support for three waters workers – including:
 - if a staff members role is primarily three waters related, an automatic transfer to the new Water Services Entity in a similar role on the same salary at the same location with the same conditions
 - advice, including Employee Assistance Programmes, legal and union representation
 - the need to increase staffing levels to implement the transition, continue business as usual and deliver current and increased infrastructure investment
 - staff and contractor retention in a time of uncertainty (and competition for resources)
 - the speed of change and the risk of mistakes and service interruptions
 - stranded overheads and the no worse off element of the funding package
 - asset transfers and valuations
 - existing contracts and contractors and any residual liabilities
 - development and financial contributions
3. What isn't clear (but will be worked through) is:
 - where the bulk of managerial and support staff (e.g., communications, financial, asset management) will be located, although the presumption is that they will be (at least notionally in post COVID flexible working world) located in the regional headquarters of the Water Services Entities
 - what the principles and any threshold would be for a staff member that does some three waters related work (say 50% of their time) and whether it would be their choice to move to the Water Services Entity and the implications for their employment situation
 - if all three water services are included and will transfer at the same time.

7 Meeting Closed