

Extract from 16 November 2021
Policy, Finance and Strategy Committee
Agenda

27 October 2021

File: (21/1785)

Report no: PFSC2021/5/263

Three Waters Reform

Purpose of Report

1. To update Council on the Government's three waters reform programme.

Recommendations

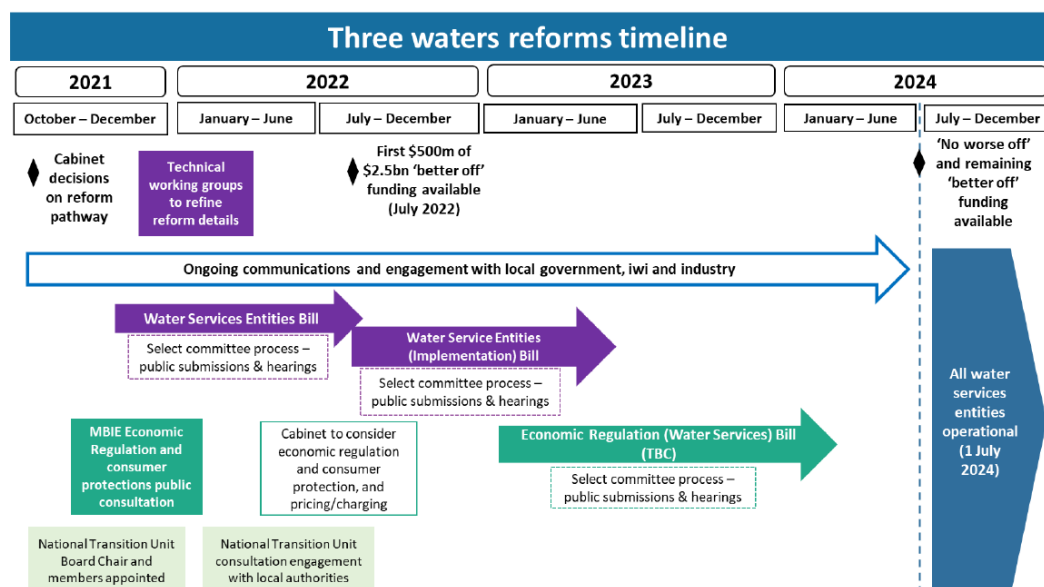
That the Committee:

- (1) notes Cabinet's recent decision to proceed with the Government's proposed three waters reform, four water services entity model and timeline;
- (2) notes that the Government proposes to introduce legislation to mandate the reforms (Water Services Entities Bill), thus removing the ability for councils to opt out;
- (3) notes that in response to concerns, the Government will establish a working group to include local government and iwi/Māori, to consider issues relating to representation, governance and accountability; and
- (4) confirms its commitment to ensuring Lower Hutt residents are fully informed of the reform programme, working with the Government as appropriate to achieve this.

Background

2. Local Government Minister Nanaia Mahuta announced on 27 October 2021 the Cabinet decision that the Government will legislate to create four publicly owned water services entities (WSE) that will take on the drinking, waste and stormwater assets currently owned by councils.
3. Dougal List, the Three Waters Reform Project Director for the Wellington Region has provided a summary of the decision, which is attached as Appendix 1 to the report. A full copy of the Cabinet decision is attached as Appendix 2 to the report.

4. The Cabinet decision followed an eight-week period during August and September 2021, where councils and iwi/Māori were asked to provide initial feedback on proposals to transform the three waters service delivery system, which Cabinet had earlier agreed to in June/July 2021. A copy of the summary of local government feedback is attached as Appendix 3 to the report and a Frequently Asked Questions summary is attached as Appendix 4.
5. Cabinet noted in its decision that it considers there continues to be a compelling and robust case for change and that the evidence base had been thoroughly tested and independently reviewed.
6. It also noted in its decision that the need to consider the collective interest of all New Zealanders outweighed the desire to accommodate the interests of individual councils and communities and that delaying decisions risked a loss in reform momentum, which was initiated over four years ago.
7. In listening to concerns from Mana Whenua and local government, the Government will establish a joint working group to consider issues relating to representation, governance and accountability. A draft Terms of Reference has been prepared following input from the local government sector.
8. The working group will be asked to recommend to the Minister of Local Government an alternative governance design that seeks to address the concerns expressed by a number of local authorities, while remaining consistent with the Government's reform objectives and bottom lines and is practical to implement and likely to achieve greater buy-in from the local government sector.
9. Two other technical working groups will be established by the Department of Internal Affairs (DIA) to consider key issues during the transition period. One such group will ensure there is an effective interface between the new three waters service delivery system and the reformed resource management system. The other is to consider a clear pathway and support for the transition of rural and community water schemes.
10. The Government's overall timeline for three waters reform has not changed with the four new entities expected to become operational from 1 July 2024.



Discussion

11. Feedback from local government generally acknowledges the need for change in order to address long-standing issues. This decision by Cabinet provides certainty to the reform process, enabling this Council and others to plan accordingly. Local and central government will need to work closely together on the details of the reform proposals to ensure they are workable and they can deliver on the needs of our different communities.
12. Issues that have garnered most concern from local government, principally around governance, representation and accountability at a local level will be given further consideration through the Government's commitment to the establishment of the joint working group. Hutt City Council will have opportunity to feed its concerns into that process, though it is not yet clear as to the format/channel for this.
13. Three waters reform is part of broad changes for local government that will require careful consideration by Government in aligning reform processes to enable effective local governance and representation. Local government will need to be actively involved through the mechanisms provided such as the technical working groups to better ensure the effectiveness of reform outcomes.

Climate Change Impact and Considerations

14. Climate change impacts are not relevant to consideration of this matter, which addresses an administrative requirement.

Consultation

15. It is expected that there will be no requirement for councils to complete their own individual consultation as there is no longer an ability for councils to decide whether to opt in or not.
16. It is unclear at this stage as to how and when the Government intends to engage with iwi and the public generally on the reforms and its expectations as to individual councils' involvement in such engagement. On the basis that

Council wants to ensure Lower Hutt residents are fully informed of the details of the reform, officers will consider and report on opportunities for local engagement once the Government's plans are known.

17. There will be opportunity early next year through the formal legislative process (select committee) for residents and Council to provide feedback to Government on the Water Services Entities Bill, being the main vehicle for reform.

Legal Considerations

18. Cabinet is looking to introduce a Water Services Entities Bill to Parliament later this year in order to effect the reform changes. It is expected that the Bill will go through the select committee process in early 2022.

Financial Considerations

19. PwC was engaged to undertake an analysis of the potential financial impacts of the Three Waters Reform, which has previously been reported to Council. A copy of that report is attached as Appendix 5.
20. Delivering cost savings to households is a key objective of the reform. The Government's commissioned analysis, based on information supplied by Council, shows the comparison for Hutt City Council in FY51 of the average household costs with reform at \$1,260 versus without reform \$2,380.

Appendices

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Three Waters Reforms

Reforms update for Wellington councils

From	Dougal List, Three Waters Reforms Project Director Wellington Region
To	All Wellington councils
Purpose	To provide an update on Government decisions on the Three Waters Reform programme including: <ul style="list-style-type: none"> • Part A: Decisions, process and timeframes • Part B: Opportunities for influence and outstanding issues
Date	5 November 2021
Version	Version 1.0

Purpose of this update

This memorandum provides Wellington councils with an update on the Government's Three Waters reforms programme following announcements on 27 October by Hon Nanaia Mahuta, Minister for Local Government and Hon Dr David Clark, Minister for Commerce and Consumer Affairs.

The memo covers the matters below, current as at time of writing. Significant further information is expected on the reforms during November and December.

Part A – Decisions, process and timeframes

- What decisions has the Government made
- What are the reasons for why the Government mandated the reforms
- What is the timeline and process for the reforms
- What are the implications for engagement and public input
- Pricing and economic regulation

Part B Opportunities for influence and outstanding issues

- What are the key opportunities for input and influence of the reforms
- Areas that remain unclear
- Further information and links

Part A: Decisions, process and timeframes

What decisions has the Government made

Water reforms to proceed

On 27 October 2021 the Hon Nanaia Mahuta, Minister for Local Government confirmed that Cabinet had made decisions on 18 October 2021 to proceed with the establishment of four publicly owned water service entities (WSE) on a legislated 'all-in' basis.

The decision to mandate reforms through legislation follows on from a series of previous decisions that the Government has made on the Three Waters reforms programme. The decisions on 18 October were made following the eight-week period in August and September 2021 where councils and iwi/Māori were asked to provide feedback on the proposed reforms.

Key aspects of the Cabinet decisions on 18 October include:

Decisions made	Comment
Mandated change	The Government has decided that the reforms will be mandated through legislation. This means that there would no longer an option for councils to choose to 'opt-out' of the reforms process (see below for detail).
Reforms remain largely unchanged	<p>The Cabinet paper reconfirmed reforms package largely unchanged as a result of the eight-week feedback process. Cabinet decisions confirm key aspects previously announced, including:</p> <ul style="list-style-type: none"> • Confirmation of the case for change • Confirmation of four publicly owned WSE. Key aspects of design include protections against privatisation; competency-based boards, partnership with mana whenua, balance sheet separation from councils, economic regulation to protect consumers • Water assets and debt will be transferred from councils to the WSE • Boundaries of WSE to remain unchanged with all Wellington councils in WSE C which stretches from Tairāwhiti / Gisborne down through Hawkes Bay, Wairarapa and lower Manawatū to the top of the South Island and the Chatham Islands. This WSE covers 21 local authorities and Greater Wellington Regional Council • The WSE will take over responsibilities for service delivery and infrastructure from 1 July 2024 • \$2 billion 'better off' / \$0.5 billion 'no worse off' funding package for local government • Two rounds of legislation to enable the reforms. The first 'Water Services Entities Bill' to be introduced to Parliament by December 2021 with Select Committee process in early 2022. The second 'Water Service Entities (Implementation) Bill to be introduced to Parliament from mid-2022
Working Groups	<p>In response to issues raised through the feedback, working groups will be established with local government, experts and iwi/Māori on details of the reforms (see below for more detail):</p> <ul style="list-style-type: none"> ○ Representation, governance and accountability ○ RMA interface

	<ul style="list-style-type: none"> ○ Rural / community water
Public consultation	The Cabinet paper signals an intent to work with local government on public participation and consultation on the reforms. The Select Committee process in early 2022 will provide “...further opportunity for engagement and public participation...” (see below for further detail).
Responding to feedback from the eight-week process	<ul style="list-style-type: none"> • The Cabinet paper contains a summary of feedback received through the eight-week engagement period [DIA, LGNZ and Taituāra have also jointly compiled a summary of feedback received – see links below]. • Some details of the reforms have changed as a result of feedback and the Government has signalled the intent to respond to other issues moving forward through the working groups noted above. • Key areas of response include the following [some of these were signalled prior to the Cabinet paper] <ul style="list-style-type: none"> ○ Acknowledgement of the need to refine details of the reforms an establishment of the working groups to advise on these including governance, rural water, RMA interface ○ Acknowledgement of the need for better alignment between water reforms and RMA reforms ○ Clarification of exemptions under the Water Services Act in relation to chlorine free drinking water ○ Extension of the transition time for small unregistered drinking water suppliers to comply with acceptable solutions. This has been extended from five to seven years through an amendment to the Water Services Bill
Other matters in the Cabinet paper – pricing and economic regulation	The Cabinet paper also contained updates on other key aspects of the Three Waters reform programme, in particular pricing and transition to economic regulation.

Consultation on economic regulation

On 27 October 2021, the Hon Dr David Clark, Minister for Commerce and Consumer Affairs also announced Cabinet had made decisions on 6 October 2021 to release a discussion paper titled ‘Economic regulation and consumer protection for three waters services in New Zealand’.

See below for more detail.

What are the reasons for why the Government mandated reforms

The most significant new policy aspect of the Cabinet decisions is to confirm a legislated ‘all-in’ or mandated approach to the reforms. This was the focus of the 18 October Cabinet paper with substantive discussion on the matter. The decision follows on from a fourth Cabinet paper in July which has not yet been released which focused on transition matters.

The decision to legislate the reforms is based on Cabinet reconfirming the case for change and that other options for reform were not considered effective. Key commentary on the decision to mandate the reforms from the Cabinet paper includes¹:

'noted that this decision is being sought following consideration and testing of a number of alternative models and mechanisms for delivering reform, including suggestions made by councils and options such as government subsidies and / or guarantees, and relying on regulation to drive voluntary improvements in service deliver.'

'noted...none of the alternative proposals presented and considered would deliver the comprehensive range of benefits and outcomes sought for all New Zealanders; or do so without significant financial implications for the Crown and taxpayers;

Alternative approaches would not work universally, be more costly for households, be more difficult to regulate effectively, would reduce the potential for efficiencies, would not build the necessary expertise and workforce capability, and/or would perpetuate differences in access to services, cost, and service quality;

Noted that the need to consider the collective interest of all New Zealanders outweigh a desire to accommodate the interests of individual councils and communities through a voluntary process, and there is a conflict between the national interest and decision making based on an opt-out approach;

Noted that taking further time to make decisions risks losing momentum for reform, and is not justified given the unsustainability of the status quo, the lack of viable alternatives, and the lengthy period of policy development and engagement undertaken since the Three Waters Review was initiated in mid-2017.'

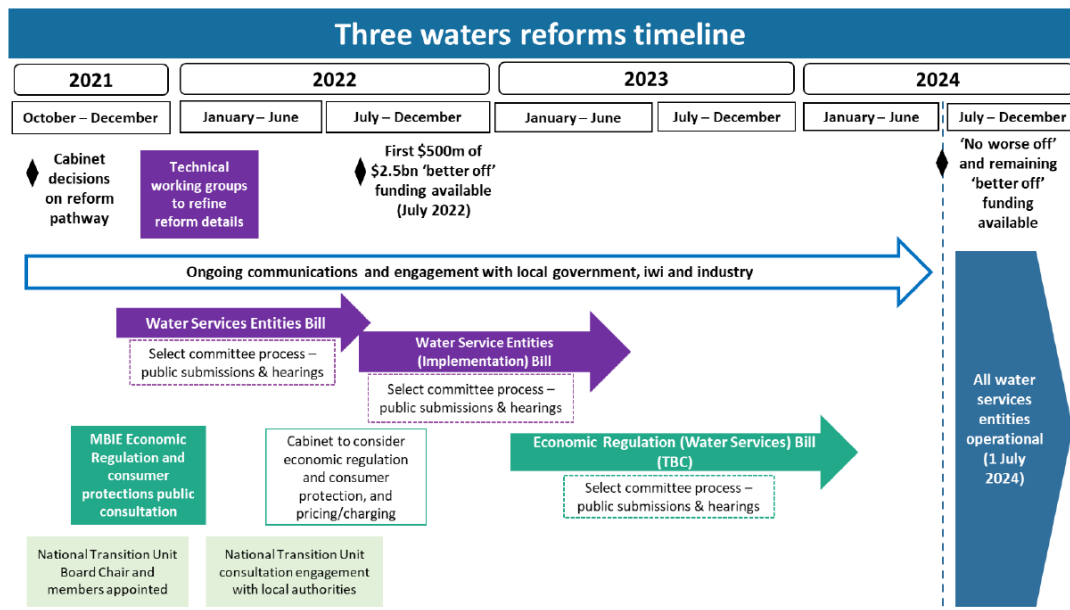
What is the timeline and process for the reforms

The Government announcement included a timeline for the reforms process (see diagram below). Key aspects of this timeline include:

- Late 2021
 - Establishment of the working groups
 - Introduction of Water Services Entities Bill
 - Consultation on economic regulation
 - National Transition Unit – appointment of Board Chair and members
- From 2022:
 - Select Committee process for the Water Services Entities Bill, early 2022
 - Transition process underway from early 2022
 - Report back on economic regulation, April 2022
 - Consideration of pricing and economic regulation, mid-2022
 - Water Service Entities (Implementation) Bill to be introduced to Parliament from mid-2022
- The WSE will take over responsibilities for service delivery and infrastructure from 1 July 2024

¹ Refer: Recs 9-12 CAB-21-MIN-0419, 18 October 2021

Diagram 1: Three Waters reforms timeline, source: DIA October 2021



What are the implications for engagement and public input?

The Cabinet paper acknowledges the need for a comprehensive communications plan on the reforms and transition (draft is attached to the Cabinet paper as Appendix E).

It also signals an intent to work with local government on public participation into the reforms and that this will be a national process. However, there is little detail on how this will occur². Mandating the reforms effectively means the primary opportunities for public / council input will via the legislative process. The key channel for input is via public submissions through the Select Committee process.

This raises the question of what consultation or engagement process (if any), councils choose to undertake with iwi partners, local communities and other stakeholders to inform positions taken through the Select Committee process or other stages of legislation.

Given there is significant misunderstanding of aspects of the reforms and the complexity of changes proposed, any council-led engagement process would need to be carefully considered once the Government has made the national process for public consultation clearer.

Pricing and economic regulation

As noted above, the Government (MBIE) has released a discussion paper on 'Economic regulation and consumer protection for three waters services in New Zealand'. This paper seeks public feedback on the Government's preliminary positions on the key policy decisions for the economic regulation and consumer protection regulatory regimes in the three waters sector. It provides a

² Refer: Paras 139-141 CAB-21-MIN-0419, 18 October 2021

range of options on these issues without ruling out any options. Feedback is sought by 20 December 2021 and the outcomes of the consultation process will be reported back for April 2022.

Economic regulation is a key part of the water reforms to promote the interests of consumers, provide system wide performance information, drive efficiencies in pricing, investment, procurement and asset management. Feedback on the reforms from councils also highlighted the importance of an economic regulator to support dispute resolutions.

The discussion document proposes a staged introduction of economic regulation from 2022 to 2027. Key aspects of the model include:

- Introduce information disclosure regulation so consumers are able to assess how the performance of their Water Service Entity compares to others
- Introduce economic regulation to control price and quality of services in the long term interest of consumers
- Require economic regulator to set a strong efficiency challenge to ensure that water services are as affordable as possible, and incentivise high quality consumer engagement
- Enable a consumer protection regulator to set minimum service level and provide protections for vulnerable consumers
- Establish a dedicated three waters consumer dispute resolution scheme

This consultation document is currently being reviewed in order to support submissions from councils in relation to potential regulatory models by 20 December 2021. See links below for more details.

Part B Opportunities for influence and outstanding issues

What are the key opportunities for input and influence of the reforms

While the Government has made decisions to proceed with the reforms on a mandated basis, there remain significant design and establishment issues to work through. There are several channels for councils and other stakeholders to influence the final form of the reforms as outlined below.

- Working groups
- Legislative process including Select Committee
- Consultation on economic regulation
- Transition process

Working Group on representation, governance and accountability

As noted above, the Minister is setting up a working group to specifically work through representation, governance and accountability in response to sector concerns about the current governance proposals.

The Cabinet paper noted that the purpose of the group is to consider issues relating to representation, governance and accountability of the WSE and to recommend to the Minister of Local Government an alternative design that:

- Addresses the concerns expressed about the current model by local authorities
- Remains consistent with the government’s reform objectives; and
- Is practical to implement and likely to achieve greater buy-in from the local government sector.

An email update from DIA on 5 November stated:

“The purpose of the Working Group is to take a fresh look at the proposals, with a view to developing recommendations on a strengthened set of representation, governance and accountability arrangements for the entities, within the bottom lines of good governance, Treaty partnership, safeguarding public ownership, and achieving operational and financial autonomy for the entities.

Membership of the Group will comprise an independent Chair, local government elected members and iwi/Māori representatives. The Department expects further details, including the Terms of Reference and membership of the Group, to be announced shortly³.”

The bottom lines that the working group need to be consistent with include:

- Good governance
- Partnership with mana whenua
- Public ownership
- Balance sheet separation

This working group (including membership, input and advice to Government) is a key opportunity to shape these issues and work through matters such as:

- what local authority ownership means and how it is reflected in the governance framework
- details of any oversight bodies for the entities
- the process for setting entities direction and performance expectations
- the extent to which each entity could have bespoke governance and accountability mechanisms
- appointment of directors

Other working groups – RMA reforms and rural / community water

DIA officials also plan to establish technical working groups on other key issues raised in relation to the reforms, including:

Effective interface between the three waters reforms and RMA reforms

The Cabinet paper acknowledges that there are areas of concern relating to the interface of water and RMA reforms. The Cabinet paper confirms the intent to proceed with water reforms legislation separately from RMA reforms but also directs DIA and Ministry for the Environment to consider the effective interface between the regimes. In support of this DIA are tasked with establishment of a technical working group (similar to the stormwater working group) to *‘ensure legislative and policy*

³ Email from DIA titled ‘Technical working groups update - 5 November 2021’

settings will support the range of interactions between water services entities and local authorities that area needed to enable housing and urban development.⁴

An email update from DIA on 5 November stated:

"...Government is establishing a technical advisory group to provide advice on the interface with the resource management system and local government planning to ensure the water service entities, councils and other infrastructure providers can work effectively together. This advisory group is expected to have a technical focus and include local authority elected members and officers and iwi representatives with experience in land use and infrastructure planning. This group will be supported by officials from the Department of Internal Affairs and the Ministry for the Environment."

Rural and community water schemes

The Cabinet paper also acknowledges that there are a range of complex issues relating to rural and community water schemes. These provide a mixture of drinking and stock water and have mixed ownership models. These schemes based around small communities, marae, schools and farm based models.

While water reforms focus on council-owned systems, there are implications for these rural / community schemes including ability to comply with drinking water regulations and relationship with the proposed WSE. A third working group will be established to support a clear pathway for transition of these schemes. This includes *'...what the future functions, duties and obligations of the new water entities should be in respect of rural / community schemes.'*⁵

An email update from DIA on 5 November stated:

"The Department of Internal Affairs and Taumata Arowai have set up a project team to build on existing work focused on ensuring that there is a clear pathway and support for the transition of small, rural suppliers into regulatory system. The intention is that this project team will support a Rural Supplies Technical Advisory Group, that will be convened to provide insights and practical and pragmatic advice into the key challenges, and issues for rural and non-councils suppliers, including informing the approach to regulation, considering which rural schemes transfer to water service entities, potential governance and management structures and arrangements, and the future roles and functions of water service entities to support rural communities served by these non-council owned and community suppliers."

The Department and Taumata Arowai are currently working together to identify potential membership of the rural technical advisory group, which is likely to include elected members and officials from rural councils, iwi, Federated Farmers and other rural representative groups. We expect to be able to confirm the scope and Terms of Reference of the group shortly, with the Steering Committee. The intention is for the first meeting of this group to be held before the end of the year."

Legislative process and Select Committee

The reforms process will be mandated through two rounds of legislation to enable the reforms. The first 'Water Services Entities Bill' to be introduced to Parliament by December 2021 with Select

⁴ Refer: Paras 115-126 CAB-21-MIN-0419, 18 October 2021

⁵ Refer: Paras 127-138 CAB-21-MIN-0419, 18 October 2021

Committee process in early 2022. The second 'Water Service Entities (Implementation) Bill to be introduced to Parliament from mid-2022.

The process for a bill passing into legislation allows for several opportunities for public input and influence (see links below on process). This will be the key process to ensure that the details of the legislative framework for change will enable the right outcomes. This process and opportunities include:

- Introduction and first reading of the bill
- Select Committee process, including public submission process
- Second and third readings of the bill

Given the intent of the Government to introduce the first bill in 2021, the key period of input and influence for the public is likely to be through the Select Committee process in early 2022.

Consultation on economic regulation

As noted above, economic regulation is a key part of the proposed water reforms. Review of the proposed model, submissions on the current consultation process as well as ongoing engagement with MBIE on the details of the proposed model will be an important opportunity to influence detail of the reforms and ensure consumer protections.

Transition process

The process of transitional establishment of the WSE is critical to success of the reforms model and must be carefully planned by DIA working closely with local government. This process needs to establish the new organisations and by 1 July 2024 transfer debt, assets, people, relationships, processes and accountability. This is a very significant change process which will have a major bearing on all councils and water services.

During transition, local government and the water sector will need to plan for and engage with transition and reforms. This will require substantive information and due diligence processes for debt, asset identification and transfer and HR change processes. At the same time the water sector will also need to meet concurrent challenges of:

- Delivery of planned water investment - councils have significantly increased investment relative to previous years. This brings major challenges of sector capacity and capability
- Responding to increased compliance and regulation which again raise challenges of ensuring there is the knowledge, processes and investment to meet these requirements
- Wider local government challenges and change including skills shortages, responding to climate change, RMA reforms, future of local government review and other financial pressures.

It is anticipated that more detail on the establishment of the Transition Unit and work programme will be released later this year. There are multiple areas where it will be important to influence this process and ensure it is co-designed with local government.

Areas that remain unclear

As noted above, significantly more information on the reforms is anticipated over the next few months. There are several key questions that remain unclear at this point:

Governance and representation working group

- What are the channels of opportunities to feed thinking and advice into this group to help it succeed?
- How will advice from the group will be used to inform decisions and legislation?
- How will the process and advice of the group be sufficiently transparent to ensure buy-in?

Engagement and public consultation

- How will public engagement / consultation be managed nationally / by Government? What is the role of councils?
- How will further Iwi engagement / consultation be managed nationally / by Government. What is the role of councils?

Transition

- Significant more information is required on the proposed timeline, programme and process for transition. This includes debt identification, asset identification and transfer and HR processes . This has significant bearing on resources for councils at what will be a busy time.
- When / how will the Chair and Board be established, how does local government have input to these appointments?
- What role, if any do DIA intend to play in facilitating a coordinated approach across councils in each entity area? This is both for consultation but also for transition issues.
- Has DIA developed any updated change messages and process we can use for staff?

Other information and comments

- When will Cabinet paper 4 be released?
- Further detail is required at a Minister and official level of how alignment with RMA reforms and review of local government will be managed. This seems beyond the scope of an external working group
- How will align feedback on the economic regulator be aligned with the drafting of the water services entities bill?

Further information available

Links to more information:

Information	Links
Economic regulator consultation	https://www.mbie.govt.nz/have-your-say/economic-regulation-and-consumer-protection-for-three-waters/
Legislative process	https://www.parliament.nz/en/visit-and-learn/how-parliament-works/fact-sheets/parliament-brief-the-legislative-process/

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Hon Nanaia Mahuta, Minister of Local Government

Proactive release of Cabinet material related to progressing the
three waters service delivery reforms, 18 October 2021

The following documents have been proactively released:

18 October 2021, CAB-21-MIN-0419 Minute: Three Waters Reforms: Further Decisions; and

18 October 2021, Cabinet Paper: Further decisions on the three waters reforms (Paper 5).

Some parts of this information would not be appropriate to release and, if requested, would be withheld under the Official Information Act 1982 (the Act). Where this is the case, the relevant sections of the Act that would apply have been identified. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Key to Redaction Codes:

- 9(2)(f)(iv) – to maintain the constitutional conventions for the time being which protect the confidentiality of advice tendered by Ministers of the Crown and officials.

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Cabinet

Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Three Waters Reforms: Further Decisions

Portfolio **Local Government**

On 18 October 2021, Cabinet:

Confirming the approach to reform

- 1 **noted** that in June and July 2021, Cabinet agreed to a package of proposals to transform the three waters service delivery system, and to pursue a reform strategy that would enable all communities to benefit from the proposed reforms [CAB-21-MIN-0226, CAB-21-MIN-0227, CAB-21-MIN-0228, CAB-21-MIN-0269];
- 2 **noted** that the reform proposals involve the creation of four publicly-owned water services entities to take over responsibilities for service delivery and infrastructure from local authorities from 1 July 2024;
- 3 **noted** that the package of reform proposals reflects that extensive policy, economic and legal analysis demonstrates there is a compelling case for change, and a range of benefits are offered by a reformed three waters system and new service delivery arrangements;
- 4 **noted** that in July 2021 Cabinet agreed that:
 - 4.1 a three waters reform support package of up to \$2.5 billion would underpin a legislated New Zealand-wide approach to reform, to ensure no local authority is materially worse off financially as a result of reform (\$0.5 billion), and to invest in the future for local government and community wellbeing (\$2.0 billion);
 - 4.2 Cabinet will consider whether to proceed with a legislated ‘all in’ approach to reform, following a period of socialising the policy proposals and support package with the local government sector;

[CAB-21-MIN-0269]
- 5 **noted** that:
 - 5.1 previous papers have explained that the preferred approach is to enable all communities within New Zealand to access the benefits from reform; and
 - 5.2 in practice, achieving this would require every territorial authority district to be included in the new water services entities, and for this to be provided for in statute – without the ability to ‘opt out’;

- 6 **noted** that a number of factors are relevant to decisions about how and when to proceed with the reforms, and whether to do this through a legislated ‘all in’ approach:
- 6.1 whether the case for change and overall package of reform proposals continue to be robust;
 - 6.2 consideration of the policy issues that have been raised during engagement with local government and iwi/Māori, and the existence of a clear plan for working through legitimate ideas and concerns;
 - 6.3 clarity about next steps, including having comprehensive plans for communicating decisions and agreed strategies for implementing the reforms;
 - 6.4 the desirability of removing uncertainties about the nature and the direction of the reforms, and enabling the extensive work needed to transition to the new system to get underway;
- 7 **noted** that these matters have been considered and addressed, and that:
- 7.1 there continues to be a compelling and robust case for change, and the evidence base has been thoroughly tested and independently reviewed;
 - 7.2 plans are in place to:
 - 7.2.1 work through the policy issues that have been raised during engagement with local government and iwi/Māori;
 - 7.2.2 communicate decisions; and
 - 7.2.3 implement the reforms;
- 8 **agreed** to:
- 8.1 proceed with the three waters service delivery reforms using a legislated ‘all in’ approach; and
 - 8.2 make announcements shortly after a decision is made;
- 9 **noted** that this decision is being sought following the consideration and testing of a number of alternative models and mechanisms for delivering reform, including suggestions made by councils, and options such as government subsidies and/or guarantees, and relying on regulation only to drive voluntary improvements in service delivery;
- 10 **noted** that:
- 10.1 none of the alternative proposals presented and considered would deliver the comprehensive range of benefits and outcomes sought for all New Zealanders, or do so without significant financial implications for the Crown and taxpayers;
 - 10.2 alternative approaches would not work universally, be more costly for households, be more difficult to regulate effectively, would reduce the potential for efficiencies, would not build the necessary expertise and workforce capability, and/or would perpetuate significant differences in access to services, cost, and service quality;

- 11 **noted** that the need to consider the collective interest of all New Zealanders outweighs a desire to accommodate the interests of individual councils and communities through a voluntary process, and there is a conflict between the national interest and decision making based on an opt-out approach;
- 12 **noted** that taking further time to make decisions risks losing momentum for reform, and is not justified given the unsustainability of the status quo, the lack of viable alternatives, and the lengthy period of policy development and engagement undertaken since the Three Waters Review was initiated in mid-2017;

Processes for working through key policy issues

- 13 **noted** that there has been extensive engagement with local government and iwi/Māori about the service delivery reform programme, including the recent two-month period for socialising the policy proposals and local government support package;
- 14 **noted** that the engagement has identified some issues for further work, but none that credibly challenge the case for reform, represent fundamental obstacles to reform, or materially affect essential elements of the policy proposals;
- 15 **noted** that a significant component of the feedback concerns the proposed ownership, representation, governance and accountability arrangements for the new water services entities;

Working group on representation, governance and accountability arrangements for water services entities

- 16 **noted** that, in discussion with the joint Central-Local Government Three Waters Steering Committee and Local Government New Zealand, officials have prepared a draft Terms of Reference for a working group on representation, governance and accountability arrangements for the new water services entities (the working group);
- 17 **noted** that the establishment of this working group:
- 17.1 acknowledges and gives effect to the partnership arrangement that the Crown has entered into with Local Government New Zealand through the Heads of Agreement; and
 - 17.2 is intended to uphold the Crown's commitment to its Treaty partner to protect and promote the rights and interests of iwi/Māori in the three waters service delivery reforms;
- 18 **noted** that the purpose of this working group is to consider issues relating to representation, governance and accountability of the four proposed new water services entities, and to recommend to the Minister of Local Government an alternative design that:
- 18.1 seeks to address the concerns that have been expressed by a number of local authorities about the current proposals;
 - 18.2 remains consistent with the government's reform objectives and bottom lines; and
 - 18.3 is practical to implement and likely to achieve greater buy-in from the local government sector;

- 19 **agreed** that the bottom lines that the working group will need to be consistent with include:
- 19.1 good governance – that the board directly governing a water services entity:
- 19.1.1 has a clear role and responsibilities;
- 19.1.2 is comprised of appropriately qualified and experienced members who are free of conflict of interest and selected through a process that is meritocratic and competency based;
- 19.1.3 has board members that individually and collectively have appropriate duties and obligations to act in the best interests of the water services entity and the communities they serve, consistent with the proposed statutory purpose and objectives for the entity; and
- 19.1.4 has board members that collectively have competence relating to the Treaty of Waitangi, mātauranga Māori, tikanga Māori, and Te Ao Māori;
- 19.2 partnership with mana whenua – that the representation, governance and accountability arrangements for each water services entity are set up to give effect to the Crown's Treaty obligations by giving effect to the principle of partnership with iwi/Māori across the rohe/takiwā served by that entity;
- 19.3 public ownership – that each entity remains in public ownership, including local authority and/or community ownership, and with strong protections in place that prevent privatisation (of the entity itself and the essential three waters service delivery assets they own);
- 19.4 balance sheet separation – that the water services entity governance framework, when taken together with the broader measures to implement the three waters reform programme, will provide the entity with the financial capacity (including through the ability to borrow) to meet the future three waters service delivery investment needs (including any infrastructure deficit) of the region it serves, without:
- 19.4.1 resulting in the debt of water services entities consolidating onto the balance sheets of local authorities; or
- 19.4.2 requiring additional financial support from the Crown (beyond what the Crown has already agreed to provide; that being a liquidity facility on similar terms to those available to the Local Government Funding Agency, and the 60/40 risk-sharing arrangement in the event of a natural disaster) or local authorities;
- 20 **authorised** the Minister of Local Government, in consultation with the Prime Minister, the Minister of Finance, and the President of Local Government New Zealand to:
- 20.1 finalise the Terms of Reference for the working group; and
- 20.2 appoint members of the working group, including a suitable independent Chairperson, and relevant experts representing local government and iwi/Māori;
- 21 **noted** that, other than the independent Chairperson, the Minister of Local Government is not proposing to pay fees to the members of the group, but the Department of Internal Affairs will meet the costs of travel and other ancillary costs associated with hosting meetings of the group;

- 22 **noted** that there may be opportunities during the drafting process for the Water Services Entities Bill (currently underway) to make immediate improvements to aspects of the reform proposals, including in relation to representation, governance and accountability arrangements, which can help address the issues and concerns raised during engagement while keeping within bottom lines;
- 23 **authorised** that the Minister of Local Government and Minister of Finance to make any minor or technical changes to the agreed policy to enable drafting instructions to be issued to Parliamentary Counsel Office, but that any significant policy changes be referred back to Cabinet for approval;

Other technical working groups to explore key issues during the transition

- 24 **noted** that officials in the Department of Internal Affairs will establish additional technical working groups to provide support and expertise in relation to other key issues that have been raised during engagement with the local government sector and iwi/Maori, including:
- 24.1 a group to ensure there is an effective interface between the new three waters service delivery system and the reformed resource management system;
- 24.2 a group to assist with, and advise on, the approach to arrangements relating to community/rural drinking water supplies;
- 25 **noted** that the Minister of Local Government has also asked the joint Central-Local Government Three Waters Steering Committee to take a close interest in how to ensure an effective interface between the three waters and resource management reform programmes, working with officials from the Department of Internal Affairs and Ministry for the Environment, and with support from the working group;

Maintaining exemptions obtained under the Water Services Act 2021

- 26 **noted** that a further issue has arisen during local government engagement, regarding clarifying the future obligations of water services entities to continue to provide chlorine-free drinking water to communities as part of an exemption that a local authority owner may have obtained from Taumata Arowai;
- 27 **noted** that under section 57 of the Water Services Act 2021:
- 27.1 the chief executive of Taumata Arowai has the power to exempt a drinking water supplier from the requirement to use residual disinfection, if satisfied that the drinking water supplied will comply with all other regulatory requirements on an ongoing basis; and
- 27.2 an exemption may continue in force for a maximum of five years;
- 28 **agreed** that, in situations where a local authority drinking water supplier has been granted an exemption under section 57 of the Water Services Act 2021, the water services entity that assumes responsibility for the affected supply will be required to continue to provide chlorine-free drinking water until the exemption expires;
- 29 **noted** that, in these circumstances:
- 29.1 the water services entity would be able to pass on any associated costs to the community that benefits from the affected water supply;

- 29.2 there would be consultation with the affected community about whether any further exemptions would be sought at the end of the exemption period; and
- 29.3 relevant councils, as owners of the water services entity, would have mechanisms for reflecting and advocating for their communities' interests;

30 **agreed** that, for clarity, the situation described above will be provided for in legislation;

Entity boundaries

31 **noted** that, as part of the decisions made in June 2021, Cabinet agreed the boundaries of the four water services entities, as follows:

31.1 Entity A comprises the Auckland and Northland regions;

31.2 Entity B comprises all districts from the Waikato, Bay of Plenty and Taranaki regions and the upper parts of Manawatū-Whanganui region (Ruapehu, Whanganui, and Rangitikei);

31.3 Entity C comprises:

31.3.1 the local authorities in the eastern and lower part of the North Island (Gisborne, Hawke's Bay region, lower parts of the Manawatū-Whanganui region, and Wellington region); and

31.3.2 the local authorities at the top of the South Island (Tasman, Nelson and Marlborough);

31.4 Entity D comprises the districts and regions in the rest of the South Island, including those parts of the Marlborough and Tasman Districts that comprise the Ngāi Tahu takiwā (as provided by section 5 of the Te Runanga o Ngai Tahu Act 1996);

32 **noted** that, when agreeing to the boundaries for each of entity, Cabinet noted that there would be further discussions with those local authorities and iwi/Māori that are most affected by some key boundary choices, and invited the Minister of Local Government to report back on the results of these discussions and to seek agreement to any changes to the boundaries;

33 **noted** that these discussions have not indicated that there need to be any changes to the boundaries that were previously agreed, and the legislation will be prepared on the basis of those boundaries, including the application of the Ngāi Tahu takiwā in relation to the boundaries of Entity C and Entity D (as provided by section 5 of the Te Runanga o Ngai Tahu Act 1996);

34 **noted** that, regarding the boundary between Entity C and Entity D, and the Ngāi Tahu takiwā approach:

34.1 councils at the top of the South Island (in Entity C) have expressed concern about the potential impact on communities in Seddon and Murchison, which would be split into a different entity, but these councils are open to working through the practical arrangements that may support a different approach;

34.2 Ngāi Tahu remain strongly aligned to a takiwā approach, but have indicated a willingness to work on a solution that would see the communities in Seddon and Murchison receiving services from Entity C;

- 35 **agreed** that officials from the Department of Internal Affairs work with the relevant councils, Ngāi Tahu and Te Tau Ihu to develop an approach that would enable communities in Seddon and Murchison to receive (and be charged for) services from Entity C rather than Entity D;

Pricing issues and transition to economic regulation

- 36 **noted** that the Minister of Local Government and Minister of Commerce and Consumer Affairs were invited to report back in September 2021 on pricing issues and the transition pathway for economic regulation, including whether transition funding for the economic regulator is able to be found from within the Transforming Three Waters Service Delivery for New Zealanders: Transition and Implementation tagged contingency of \$296 million established as part of Budget 2021 [CAB-21-MIN-0269];
- 37 **noted** that there are several key questions relating to pricing that are of interest to Ministers, local authorities, and the public, which will be explored further in a discussion document on Economic Regulation and Consumer Protection for Three Waters Services in New Zealand [CBC-21-SUB-0110], and subsequent policy development work, including:
- 37.1 how pricing issues might arise;
 - 37.2 what outcomes are being sought from pricing; and
 - 37.3 what the transition to economic regulation should look like;
- 38 **noted** that further advice will be provided on these questions and related matters in June 2022, when further policy decisions are sought.

Funding to support the transition to economic regulation

- 39 **noted** that the Transforming Three Waters Service Delivery for New Zealanders: Transition and Implementation tagged contingency was established to provide funding for the establishment of multi-regional water services entities and the transfer of assets, liabilities, staff, and services from local authorities to those entities as part of the Three Waters Service Delivery Reform Programme;
- 40 **noted** that:
- 40.1 the minimum costs associated with the initial work to support the transition to economic regulation are estimated at a total of \$4 million (across 2022/23 and 2023/24); and
 - 40.2 funding to meet these costs can be found from the Transforming Three Waters Service Delivery for New Zealanders: Transition and Implementation tagged contingency;
- 41 **agreed** to extend the scope of the Transforming Three Waters Service Delivery for New Zealanders: Transition and Implementation tagged contingency to include costs associated with the initial work to support the transition to economic regulation;
- 42 **agreed** to fund up to \$4 million of the costs associated with the initial work to support the transition to economic regulation from the Transforming Three Waters Service Delivery for New Zealanders: Transition and Implementation tagged contingency;

- 43 **authorised** the Minister of Local Government, the Minister of Finance and any other relevant appropriation Minister(s), to jointly draw down funding from the tagged contingency up to a maximum of \$4 million to meet the costs associated with the work to support the transition to economic regulation, once they are satisfied that the work programme for the relevant stage of the transition and implementation programme requiring funding to be drawn down has been sufficiently developed with detailed timeframes, milestones and costs;
- 44 **noted** that further work will be undertaken to identify the quantum and source of funding for longer-term costs associated with the economic regulator, and any additional costs associated with potential policy decisions regarding economic regulation, in 2022;

Communicating key messages about pricing and quality outcomes

- 45 **noted** that pricing issues are likely to be a significant area of debate and public concern in relation to the service delivery reforms, and it will be important to clearly communicate the intent around changes to pricing and charging arrangements, and how these will be managed over time, as part of the reform announcements and transition;
- 46 **noted** that the Minister of Local Government and Minister of Commerce and Consumer Affairs propose to focus the communications around the following key messages:
- 46.1 the three waters reforms are designed to deliver much higher quality water services at a much lower cost than would be achievable if water services continue to be provided by 67 local authorities;
- 46.2 the economic regulation regime will have a strong focus on ensuring that customers pay no more than they need to for the services they receive, while ensuring that the new water services entities are financially sustainable and can access the finance required to address the infrastructure deficit;
- 46.3 a cornerstone of the reforms will be providing consumers and communities with a strong voice on how water services are delivered, and making water services entities accountable for delivering on consumer and community expectations;
- 46.4 there will not be significant short-term changes to the way in which water services are currently paid for, the priority is setting up the entities for success and ensuring that they have sufficient revenue to operate sustainably and begin to address the infrastructure deficit;
- 46.5 the government will undertake further work to understand the impact of different pricing structures and changes in pricing on consumers, but will not be mandating the use of variable/volumetric charging as part of the reforms;
- 46.6 over time, prices and charges will need to evolve to achieve the right balance between affordability, equity and efficiency, and each water services entity will be required to work this through with the customers and the communities they serve, taking account of their preferences for how these objectives should be balanced;

Legislative implications

- 47 **agreed** that the above decisions relating to the approach to reform be implemented through the Water Services Entities Bill, which is included in the 2021 Legislation Programme with a category 4 priority (to be referred to select committee within 2021);

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- 48 **invited** the Minister of Local Government to issue drafting instructions to the Parliamentary Counsel Office in accordance with the above decisions.

Michael Webster
Secretary of the Cabinet

Proactively released by the Minister of Local Government

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Office of the Minister of Local Government

Chair
Cabinet Business Committee

Further decisions on the three waters reforms (Paper 5)

Proposal

1. This is the fifth in a suite of papers during 2021 on reforms to the three waters service delivery system. This paper seeks further decisions on the strategy for implementing the package of reform proposals agreed through the earlier papers. It discusses the issues arising through recent engagement on those proposals, assesses the implications of the feedback received for the reforms, and proposes an approach to addressing key issues.
2. Specifically, this paper seeks agreement to proceed with a legislated 'all in' approach to reform, to enable all communities in New Zealand to benefit from the new system. This reform approach secures a publicly-owned model of water service delivery, and safeguards the long-term interests that all New Zealanders and every community have to protect their future interests. If agreed, this approach will be reflected in the Water Services Entities Bill, which is included in this year's legislative programme with a priority category 4 (to be referred to select committee within the year).
3. This paper also reports back on two further matters arising in a previous paper:
 - 3.1 whether transition funding for the economic regulator is able to be found from within the *Transforming Three Waters Service Delivery for New Zealanders: Transition and Implementation* tagged contingency of \$296 million established as part of Budget 2021;
 - 3.2 approaches and options for managing issues relating to pricing [CAB-21-MIN-0269].
4. This paper should be read alongside an associated paper by the Minister of Commerce and Consumer Affairs, *Approval to release discussion document: Economic and consumer protection regulation of three waters services in New Zealand*.

Relation to government priorities

5. This Government has ambitions to significantly improve the safety, quality, resilience, accessibility, and performance of three waters services, in a manner that is efficient and affordable for New Zealanders.
6. This is critical for public health and wellbeing, environmental outcomes, economic growth and job creation, housing and urban development, adapting to the impacts of climate change, building resilience to natural hazards, and improving outcomes relating to water services for iwi/Māori. The status quo (with three waters services provided by local authorities) does not provide a financially sustainable option for funding significant infrastructure costs. This remains a key challenge for the local government sector, which the reforms set out in this suite of papers are intended to address.

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7. In April 2019, it was agreed that the Three Waters Review is a Government priority. The 2020 Labour Party Manifesto committed to reform New Zealand's drinking water and wastewater system, and upgrade water infrastructure to create jobs across the country. These reforms are anticipated to occur in parallel with reforms to the resource management system.

Executive summary

8. We recently made decisions on a comprehensive package of proposals to reform the three waters service delivery system. This involves the creation of four publicly-owned water services entities, which would take over responsibilities for service delivery and infrastructure from local authorities from 1 July 2024.
9. The proposed approach reflects that extensive policy, economic and legal analysis demonstrates there is a compelling case for change, and a range of benefits offered by a reformed three waters system and new service delivery arrangements. A summary of this evidence base is provided in this paper.
10. One critical matter still needs to be decided regarding implementation of the reforms: whether to proceed with a legislated 'all in' approach. As directed by Cabinet, we are considering this matter now, following a two-month period of engaging with the local government sector on the details of the policy proposals and support package [CAB-21-MIN-0269]. That support package includes up to \$2.5 billion in funding for local authorities, to ensure no local authority is materially worse off financially as a result of reform (\$0.5 billion), and to invest in the future for local government and community wellbeing (\$2.0 billion).
11. As previously explained, my preferred approach is to enable all communities within New Zealand to access the benefits from reform. In practice, achieving this would require every territorial authority district to be included in the new water services entities, and for this to be provided for in statute – without the ability to 'opt out'.
12. I have identified a number of important factors that are relevant to our decisions about how and when to proceed with the reforms, and whether to do this through a legislated 'all in' approach. These factors relate to:
 - 12.1 whether the case for change and overall package of reform proposals continue to be robust;
 - 12.2 consideration of the issues that have been raised during engagement with local government and iwi/Māori, and the existence of a clear plan for working through legitimate ideas and concerns;
 - 12.3 clarity about next steps – including having comprehensive plans for communicating decisions and agreed strategies for implementing the reforms.
13. As discussed further in **Part A** of this paper, I am confident that each of these matters has been addressed, and appropriate plans are in place. My intention to work with the local government sector to progress a voluntary approach to reform has resulted in variable opinions from councils, some of whom do not want to surrender control over their water assets despite the demonstrable cost savings and service improvements in the medium to long-term to their residents, and consequential improvements to health and environmental outcomes. **I am therefore seeking agreement to proceed with the reforms, using a legislated 'all in' approach.**

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14. I am seeking this decision having considered, tested, and discounted a number of alternative models. This includes suggestions made by councils in the Hawke's Bay and Auckland, based on the work undertaken in those places, and options such as government subsidies and/or guarantees, and relying on regulation only to drive voluntary improvements in service delivery. However, I have not been presented with any alternative proposals that would deliver the comprehensive range of benefits and outcomes we are seeking to achieve for all New Zealanders, or do so without significant financial implications for the Crown and taxpayers.
15. In summary, I consider that alternative approaches would be more costly for households, more difficult to regulate effectively, reduce the potential for efficiencies, and would not build the necessary expertise and workforce capability. Alternative models will not work universally throughout the country and would perpetuate significant differences in access to services, cost and service quality. Local authorities are not set up to deliver the necessary increase in infrastructure investment, as has been found in numerous reviews and reports over at least 20 years. Even if local authorities had access to the necessary funding, they do not have the scale, financial flexibility, and capability to do so in a manner that is economically efficient and affordable for their communities.
16. I am also confident that the need to consider the collective interest of all New Zealanders outweighs a desire to accommodate the interests of individual councils and communities through a voluntary process. There is a conflict between the national interest and decision making based on an opt-out approach. In this situation, I consider the national interest should prevail, to ensure all communities can benefit from reform.
17. We need to make decisions and announcements now, to remove any uncertainties about the nature and the direction of the reforms, and enable the extensive work needed to transition to the new system to get underway. Taking further time to make decisions risks losing momentum for reform, and is not justified given the unsustainability of the status quo, the lack of viable alternatives being offered up, and the lengthy period of policy development and engagement undertaken since the Three Waters Review was initiated in mid-2017.
18. **Part B** of this paper reports back on two further matters arising in a previous paper, relating to initial funding for an economic regulator, and approaches and options for managing issues relating to pricing [CAB-21-MIN-0269]. It outlines the key questions relating to pricing that are of interest to Ministers and the public, which will be explored through a forthcoming discussion document and further work by officials over the next few months.
19. The Minister of Commerce and Consumer Affairs will report back on the proposed approach to economic regulation (including institutional arrangements) in April 2022, following engagement with the public, experts and Three Waters Ministers. I will report back in June 2022 on some of the pricing-related matters [CAB-21-MIN-0269].
20. **Part B of the paper also outlines the key messages about pricing and quality outcomes that I suggest we clearly communicate in advance of any decisions next year.** These key messages include:

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- 20.1 The three waters reforms are designed to deliver much higher quality water services at a much lower cost than would be achievable if water services continue to be provided by 67 local authorities.
- 20.2 The economic regulation regime will have a strong focus on ensuring that customers pay no more than they need to for the services they receive, while ensuring that the new water services entities are financially sustainable and can access the finance required to address the infrastructure deficit.
- 20.3 A cornerstone of the reforms will be providing consumers and communities with a strong voice on how water services are delivered, and making water services entities accountable for delivering on consumer and community expectations.
- 20.4 We do not need to make significant short-term changes to the way in which water services are currently paid for. The priority is setting up the entities for success and ensuring that they have sufficient revenue to operate sustainably and begin to address the infrastructure deficit.
- 20.5 The Government will undertake further work to understand the impact of different pricing structures and changes in pricing on consumers, but will not be mandating the use of variable/volumetric charging as part of the reforms. While the use of variable water charges may be necessary to ensure the use of water is environmentally sustainable over time, these are issues best left to communities to determine.
- 20.6 Over time, prices and charges will need to evolve to achieve the right balance between affordability, equity and efficiency. Each water services entity will be required to work this through with the customers and the communities they serve, taking account of their preferences for how these objectives should be balanced. This process will be highly transparent and subject to external scrutiny.

Background

Context and summary of case for change

- 21. For four years, we have been exploring the challenges and opportunities facing the three waters system. Through this work, we are seeking to address a complex set of systemic issues relating to the regulation, funding, financing, and provision of drinking water, wastewater, and stormwater services (the three waters). This is critical for public health and wellbeing, environmental outcomes, economic growth and job creation, housing and urban development, adapting to the impacts of climate change, building resilience to natural hazards, and improving outcomes relating to water services for iwi/Māori.
- 22. It has become clear that New Zealand's three waters system is facing a significant crisis, and will continue to do so without major, transformational reform. In my earlier paper, *A new system for three waters service delivery* (June 2021), and the accompanying regulatory impact assessment, I outlined the systemic issues facing the current system and the detailed case for change.

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23. That paper pointed to the results of extensive analysis of council data, which demonstrated the significant levels of investment required in three waters infrastructure. It also described the significant economic benefits that reform can bring, including enabling additional economic activity and job creation in every corner of New Zealand.
24. Latest estimates indicate that the amount of investment required to replace and refurbish existing infrastructure, upgrade three waters assets to meet drinking water and environmental standards, and provide for future population growth, is in the order of \$120 billion to \$185 billion over the next 30 to 40 years. This equates to between \$4 billion and \$5 billion per annum for 30 to 40 years.
25. Eliminating this infrastructure deficit and meeting future growth requirements will be beyond the funding and operational capacity of most councils and communities under current arrangements. Experience has also shown that, if serious problems arise (due to civil defence emergencies and financial difficulties, for example), financial support from the Crown and taxpayers is often required.
26. We have recognised the opportunities to address this situation, by reforming three waters service delivery arrangements. This involves creating a small number of large-scale water services entities, with sufficient balance sheet capacity to raise debt to fund these investment requirements and smooth the cost of this investment over time. This would deliver the necessary infrastructure upgrades faster, more efficiently, and at a lower cost to households than under current delivery and funding arrangements. (I note that we have sought to align the proposed role of water services entities with the reforms to the resource management system.)
27. The analysis demonstrated that, without service delivery reform, and the associated efficiency gains, the real cost increases to households of meeting the required investment would be significant, and likely unaffordable for many smaller communities and low-income customers.
28. Compared with a 'no reform scenario', the net present cost of three waters service delivery per connected person per year is expected to be between \$480 and \$1,060 lower under the reform proposals. This represents a significant improvement in economic wellbeing compared with a 'no reform' scenario, in addition to the health and environmental benefits that reform will deliver.
29. For rural councils, average household costs in 2019 ranged from less than \$500 per annum to \$2,600 per annum, with a median of \$1,300. To meet the investment required, average household costs would need to increase by between three and 13 times in real terms. For some small, rural local authorities, average household costs in 2050 could reach as high as \$9,000 in today's dollars, and would be unaffordable for many households.
30. The situation is not much better for larger provincial and metropolitan councils. Average household bills (in 2019) for provincial councils ranged from around \$600 to \$2,550, with a median of \$1,120. By 2050, these bills would need to increase by between two and eight times to meet the required investment. Similarly, average household bills across metropolitan councils would need to increase by between 1.5 and seven times. In some metropolitan councils, bills could reach between \$1,700 and \$3,500 per annum in today's dollars.

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31. An economic impact assessment was also commissioned to understand the potential impacts of reform. This analysis compares the impact of a step-up in investment in the sector enabled through reform, relative to a scenario without reform (counterfactual) in which councils continue to deliver three waters services. Importantly, the counterfactual envisages that councils will deliver an increase in investment over current levels of between 25 per cent and 57 per cent, but this will still be insufficient to fund the forecast deficit for infrastructure investment.
32. The reforms are forecast to impact every corner of the economy and could see Gross Domestic Product (GDP) expand by \$14 billion to \$23 billion over the next 30 years, relative to the counterfactual. To put this in perspective, this represents investment equivalent to 4.4 per cent to 7.1 per cent of the total New Zealand economy. In relative terms, this increased economic activity equates to an average increase in GDP of 0.3 per cent to 0.5 per cent per annum.
33. The reforms are expected to support additional jobs across the economy. Relative to the counterfactual, New Zealand could have on average an extra 5,850 to 9,260 additional full-time equivalent (FTE) jobs between 2022 and 2051. The increased jobs and associated economic activity will help generate between \$4 billion and \$6 billion in additional tax receipts for the Crown.
34. The benefits of reform are widespread, with provincial and rural areas expected to experience significant increases in GDP compared to current levels. Ensuring that jobs are retained locally and created in regional New Zealand, close to where the infrastructure investment work needs to occur, will be a key focus throughout the transition.

Summary of recent decisions

35. On 14 June 2021, Cabinet made decisions on a comprehensive package of proposals to reform the three waters service delivery system [CAB-21-MIN-0226; CAB-21-MIN-0227; and CAB-21-MIN-0228]. In summary, these proposals provide for:
 - 35.1 the aggregation of local government three waters services into four, publicly-owned water services entities, and the boundaries of these entities;
 - 35.2 the transfer of asset ownership from local government to the new entities, but with local authority ownership of the entities themselves, and clear legislative safeguards against privatisation;
 - 35.3 the water services entities to operate within a joint oversight framework, involving representatives of the local authorities and mana whenua from within the geographical area covered by the respective entities;
 - 35.4 independent, competency-based, professional boards to govern the new entities;
 - 35.5 mechanisms to recognise the rights and interests of iwi/Māori, and to provide for strong community and consumer voice in relation to the new entities;
 - 35.6 strengthened system oversight and stewardship, including through a Government Policy Statement that provides for national strategic direction to the water services entities;

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- 35.7 the development and introduction of an economic regulation regime and mechanisms for protecting consumers – the details of which will be developed over the coming months, as outlined later in this paper.
36. Cabinet also reconsidered the reform strategy [CAB-21-MIN-0226]. It noted that it is highly desirable that all communities are able to access the benefits of reform, but achieving the full benefits requires comprehensive participation by local government, and there are risks to achieving this outcome under a voluntary 'opt-out' approach.
37. On 12 July 2021, Cabinet considered a fourth paper, *Delivering the three waters reforms* [CAB-21-MIN-0269]. Through that paper, I obtained decisions relating to the implementation of the reform proposals agreed in the earlier papers, including confirmation of the final package to support the reforms – of up to \$2.5 billion, comprising both a 'no worse off' package and a 'better off' package for local government;
38. It was agreed that, consistent with the reform strategy agreed in June 2021, Cabinet will consider whether to proceed with a legislated 'all in' approach to reform in September 2021, following a period of socialising the policy proposals and support package with the local government sector. These matters are addressed in Part A of this paper.
39. Part B provides a report back on two further matters, arising from that paper:
- 39.1 whether transition funding for the economic regulator is able to be found from within the *Transforming Three Waters Service Delivery for New Zealanders: Transition and Implementation* tagged contingency of \$296 million established as part of Budget 2021;
- 39.2 the approaches and options for managing issues relating to pricing.

Analysis

Part A: Confirming our approach to reform

I have considered a number of potential reform options, but none of the alternative models will be effective

40. In my earlier papers, I set out the issues and challenges facing our three waters service delivery system, the case for changing current arrangements, and the significant economic and other benefits offered by reform. I obtained agreement to a comprehensive, inter-connected package of proposals to establish and implement a new system for delivering and regulating water services. The new system involves creating four new water services entities to take over service delivery responsibilities from local authorities, while providing for ongoing public ownership through local authorities.
41. We now need to consider how to implement the reforms, including whether to proceed with a legislated 'all in' approach. This decision follows an intensive, two-month period of socialising the policy proposals and support package with the local government sector – following over three years of discussions and engagement with the sector and iwi/Māori about reform more broadly.

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42. Throughout the reform programme, we have heard a number of suggestions for alternative models and proposals. I understand there are still parts of the country that may wish to pursue different models and boundaries to the ones we have put forward. For example, there is a continued interest in a more regionalised model in the Hawke's Bay; and the Mayor of Auckland has indicated he would prefer a standalone model, with Watercare continuing to be a council-controlled organisation. Work has also been undertaken in Southland and Otago to explore potential service delivery arrangements, if they 'opted out' of our reforms.
43. My package of reform proposals was developed following a significant amount of work to develop the evidence base for the case for change, assess the options for addressing the identified problems, and identify the benefits, costs and risks of different approaches. The evidence base has been thoroughly tested and independently reviewed.
44. The proposed approach to the number and boundaries of the water services entities was determined through extensive analysis of a range of factors, including scale benefits and economic efficiencies, communities of interest, and relationships with water catchments. A number of alternative models were developed and tested, including regional models, and various other scenarios and combinations of entity numbers and boundaries.
45. This work demonstrated that achieving our ambitions for the reforms requires entities to have a sufficient asset and customer base to be financially sustainable, operate at an economically efficient scale, and enable prices to be affordable and levels of service to be broadly comparable. International evidence indicates each entity would need to serve a connected population of at least 600,000 to 800,000 to achieve the desired level of efficiency. Below this point, entities may find it difficult to fully realise the efficiency benefits that have been shown to be possible in other jurisdictions.
46. I recognise that, for a few parts of the country with very large metropolitan populations, it may be possible to have something resembling a 'regional' model. However, I have not been presented with any alternative proposals that would deliver the range of objectives and ambitions we are seeking to achieve for all New Zealanders, or do so in a way that could be applied across the country without resulting in large geographic differences in service delivery outcomes and cost.
47. Some alternative approaches are also contrary to the core expectations and bottom lines we have set. For example, Standard and Poor's has advised that use of a council-controlled organisation model would not achieve the financial independence and balance sheet separation that enables entities to fund the significant capital investment programme needed to address the infrastructure deficit, which is an essential driver of the need for reform.
48. Alternative models will not work universally throughout the country and would perpetuate significant differences in cost and service quality across regions. For many of parts of the country, alternatives would likely be unsustainable and unaffordable. Experiences in overseas jurisdictions also demonstrate that political compromises regarding the number of entities can lead to subsequent, costly rounds of further consolidation.

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49. I note that independent advice provided to some councils reinforces the view that continuing with current service delivery arrangements is unlikely to be viable, and calls into question the effectiveness of alternative, regionalised approaches.
50. For example, a report commissioned by councils in the Otago and Southland regions from the consultants Morrison Low, commented that: *"Based on preliminary evidence, it is proposed that the current service delivery model is not sustainable. [The] Morrison Low Situation Analysis ... demonstrates that the challenges in addressing the ongoing service delivery requirements for three waters will likely exceed the capacity of Otago and Southland as a combined region. As such, 'opting out' of the three waters service delivery reforms to achieve desired outcomes is likely to bring significant cost, risk and resourcing challenges."*¹
51. Any sustainable solution to the problems facing the three waters sector needs to address:
- 51.1 the large number of small water service providers, which limits opportunities for achieving efficiencies in delivery of three waters services;
 - 51.2 current incentives and governance structures that are not conducive to long-term decision making in relation to three waters asset management and investment;
 - 51.3 affordability challenges associated with addressing the infrastructure deficit; and
 - 51.4 lack of effective system stewardship.
52. Various solutions that have been proposed may address one or two of these challenges, but none offer a comprehensive solution that addresses all of them.
53. For example, I have considered other possible approaches for achieving the desired reform outcomes, including strengthening regulation and relying on that to create incentives for change. However, while that might provide a viable pathway for achieving improvements, it is unlikely to address the underlying root causes of the problems we see in the sector, or address the long-term funding and affordability challenges that smaller rural and provincial communities will inevitably face.
54. I have also considered the potential for central government subsidies and a similar approach to the 'funding assistance rate' that is used for roading. As previously explained, I do not think this would be a feasible or desirable solution. It would offer no guarantee of the level of funding that needs to be sustained over the next 30 to 50 years, and does not address the systemic issues facing the local government sector. In particular, providing more funding does not address the need for significant improvements in service delivery efficiency that can be achieved through greater scale, nor does it address problems in the incentive structures relating to long-term asset management and investment in three waters infrastructure.

¹ Morrison Low 'Regional Situation Analysis', Otago-Southland three waters office (February 2021), published as part of a package of papers on the Gore District Council website for its ordinary meeting on 9 March 2021. <https://www.goredc.govt.nz/repository/libraries/id:2buwl3j7c17q9srz9ase/hierarchy/Your%20Council/Documents/Agendas%20%26%20Minutes/2021%20Council%20Meetings/Council/9%20March/2021-03-09%20-%20Council%20-%20Agenda>

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55. In summary, I consider that alternative approaches would be more costly for households, more difficult to regulate effectively, and would not build the necessary expertise and workforce capability. Local authorities are not set up to deliver the necessary increase in infrastructure investment, or to develop the capability and specialisms required to improve asset management and procurement practices required to unlock significant efficiencies. Even if they had access to the necessary funding, they do not have the scale, financial flexibility, and capability to do so in a manner that is economically efficient and affordable for their communities.
56. I am confident the overall reform package we have set out is as robust as possible, though I acknowledge there may be some areas that may be improved – such as those regarding local influence, governance and accountability to communities. I propose a range of processes for working through outstanding issues and identifying improvements, as outlined later in this paper and in the attached appendices.

I am seeking agreement to proceed with a legislated 'all in' approach to ensure all communities can benefit from reform

57. I consider that my package of reform proposals presents the best opportunity for delivering the reform outcomes we are seeking for all New Zealanders in all parts of the country. As previously explained, my preferred approach also involves enabling all communities within New Zealand to access the benefits from reform. In practice, achieving this would require every territorial authority district to be included in one of the new water services entities, and for this to be provided for in statute – without the ability to 'opt out'.
58. I am therefore seeking agreement to proceed with the reforms, using a legislated 'all in' approach. This approach is essential if we are to ensure all communities can benefit, and minimise the risks of undesirable outcomes and unintended consequences.
59. I am confident that the need to consider the collective interest of all New Zealanders outweighs a desire to accommodate the particular interests of some individual councils and communities through a voluntary decision-making process. There is a conflict between the national interest and an opt-out approach. In this situation, I consider the national interest should prevail.
60. Successive governments and locally-led review processes have identified the need for reform, but previous attempts – including voluntary approaches attempted by local government – have failed to deliver change. Fear of change can also be an obstacle, and national leadership and clear policy direction are important if we are to overcome this.
61. I also consider that we need to make decisions and announcements now, to remove any uncertainties about the nature and direction of the reforms, and enable the extensive work needed to transition to the new system to get underway.
62. Taking further time to make decisions risks losing momentum for reform, and is not justified given the widespread acceptance of the problem, the unsustainability of the status quo, and the lengthy period of policy development and engagement undertaken since the Three Waters Review was initiated in mid-2017.

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63. I have identified a number of important factors that are relevant to our decisions about how and when to proceed with the reforms, and whether to do this through a legislated 'all in' approach. These factors relate to:
- 63.1 whether the case for change and overall package of reform proposals continue to be robust;
 - 63.2 consideration of the issues that have been raised during engagement with local government and iwi/Māori, and the existence of a clear plan for working through legitimate ideas and concerns;
 - 63.3 clarity about next steps – including having comprehensive plans for communicating decisions and agreed strategies for implementing the reforms.
64. I consider each of these factors has been addressed, and appropriate plans are in place – as explained further throughout this paper.
65. I am aware that the reform proposals are complex and difficult for councils to engage with. For some communities, the challenges are not obvious, as the problems of underinvestment are hidden from view and not immediately apparent. It is also difficult for councils to appreciate the changing regulatory requirements (including those provided for in the Water Services Act 2021), and the additional challenges they will present to three waters service delivery in their communities. These are still in the process of being implemented, but will have significant consequences for local authorities and add further pressure to an already unsustainable situation.
66. There has been a mixed reaction to the proposals within local government so far. A number of councils, and many council chief executives and staff involved in three waters service delivery, appear to support the reforms. Many others, while not strongly supportive, are actively working to provide constructive feedback and to positively develop some potential improvements. A number of mayors have indicated (either publicly or privately) that the Government should take steps to make the reforms mandatory.
67. However, there is also evidence of strong opposition in some places. A small number of councils have already voted to opt out of the reforms (despite not having been requested to make decisions on this), and there is some active campaigning against reform. There is also concern and uncertainty among elected members, and we have been asked by some to slow down or pause the reforms.
68. In this context, the risk of leaving reform outcomes to individual council decision making is too great. It would likely set us back for a decade or longer – throughout which time central government will continue to be asked for subsidies or financial support as affordability pressures and quality, health and environmental concerns grow.
69. Recognising that reform is challenging, we have provided for a three waters support package to support the sector through change and as a step towards a positive future for local government. A package of up to \$2.5 billion has been agreed to ensure all local authorities are better off from reform, and assist with positioning the sector for the future. This package comprises both:
- 69.1 a 'no worse off' package, which seeks to ensure that no local authority is materially 'worse off' financially as a result of reform, and the associated transfer of responsibility for water services to a new water services entity;

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- 69.2 a 'better off' package, which seeks to invest in the future for local government and community wellbeing, while also meeting priorities for government investment.
70. This support package was announced at the same time as my policy proposals. It is intended to underpin a legislated New Zealand-wide approach to reform, which enables all communities – and their councils – to benefit, while recognising that there will be concerns about the short- and long-term impacts.
71. The support package is an essential part of an 'all in' reform strategy, and will help to mitigate the political management and implementation risks associated with this approach.
72. Other notable risk management and mitigation techniques include the extensive engagement with the local government sector and iwi/Māori (set out in **Appendix A**), collaborative approaches to transition and to working through some key policy issues, and continued involvement of the joint Central-Local Government Three Waters Steering Committee. While there are other risk factors that we may need to manage, such as the potential for litigation, I am advised that the likelihood of these issues materialising and proceeding successfully is low.

The case for change continues to be robust and compelling

73. The case for change outlined in the earlier papers and supporting material continues to be compelling. I am not aware of any serious or credible questions being raised about the substance or persuasiveness of this extensive evidence base, or of substantial arguments that the status quo is sustainable.
74. While there has been some debate regarding the modelling of future investment required and the potential for efficiency benefits, the assessment that the benefits of reform outweigh the costs and risks are robust to a wide range of scenarios around investment levels and assumed efficiency benefits. The conclusions reached through the national evidence base are also well supported by independent reports commissioned by local government, with analyses in Hawke's Bay, Wellington, West Coast and Otago/Southland all supporting the conclusion that the status quo is unsustainable.
75. It is also noteworthy that Local Government New Zealand, which represents the national interests of councils in New Zealand, considers there is a sufficient and evidence-based national case for change, and that the current approach to three waters service delivery is not capable of delivering the outcomes required in an affordable and sustainable way into the future.
76. While the impetus for the service delivery reforms has been enhanced by the COVID-19 pandemic, the need for reform is not new. Organisations such as Local Government New Zealand, the Office of the Auditor-General, the Parliamentary Commissioner for the Environment, and the National Infrastructure Unit began highlighting serious issues and points of concern about water infrastructure and investment several years ago. The Government's Inquiry into Havelock North Drinking Water and the Three Waters Review gathered further evidence to reinforce these concerns – and raised additional questions and concerns about the wider service delivery and regulatory system.

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77. Recent work has demonstrated that, while there are pockets of good performance, communities in many parts of the country cannot be confident that their drinking water is safe, that the three waters sector is achieving good environmental outcomes, that it can accommodate population and housing growth, that the rights and interests of iwi/Māori are being upheld, and that climate change and natural hazard risks are being managed successfully.
78. These matters are of vital interest and importance to the public. For example, an Infrastructure Commission survey of more than 23,000 New Zealanders found that: "Not always having access to safe drinking water was the number one infrastructure issue for New Zealanders", and "Four out of five New Zealanders want to see an increased investment in water networks to solve current issues".²
79. The challenges the three waters sector faces in delivering health, consumer and environmental outcomes, and the sheer size of the infrastructure deficit that has developed under council operation, are symptomatic of wider systemic failure underpinning the way three waters services are currently delivered.
80. The need for reform is also driven by other parts of the three waters programme. In 2019, Cabinet made decisions to reform three waters regulatory arrangements and create a new water services regulator. This has resulted in the establishment of Taumata Arowai and the development of the Water Services Act. This Act provides the details of the new regulatory system for drinking water quality that will be overseen by Taumata Arowai, and responsibilities relating to the environmental performance of wastewater and stormwater networks. Significantly, it also confers obligations and duties on local authorities to communities to ensure safe drinking water in areas served by private and community supplies that face problems complying with regulatory requirements.
81. It is clear that significant investment is needed across the country to address the issues facing the three waters sector and ensure the new regulatory system can be implemented effectively. Without major, transformational reform and a national, co-ordinated approach, the costs to households will be high. We will be unable to achieve our ambitions to improve public health, environmental and economic outcomes, or solve the housing crisis.
82. If we are to deliver this transformation, all of the core components of my reform package will need to be implemented, and every council and community will need to participate in the new system. If a voluntary approach is followed, some councils will likely decide to opt out of the reforms. This would pose a significant risk to the effective delivery of the reform programme and achievement of good outcomes, including by:
- 82.1 preventing all communities from benefitting from reform (both from a three waters perspective, and because they would not receive a share of the 'better off' funding support package);
 - 82.2 reducing the potential to achieve operating, capital, and financing efficiencies;
 - 82.3 creating a 'patchwork quilt' of infrastructure providers within catchments;
 - 82.4 reducing the viability and effectiveness of economic regulation.

² From the key findings of the report 'Aotearoa 2050' - Infrastructure Commission, Te Waihanga (2021).

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Key issues raised during engagement

83. Engagement with local government has identified some issues for further work, but none requiring a reconsideration of the need for reform and core elements of the policy proposals
84. We have just completed a two-month engagement period with the local government sector, to socialise the policy proposals and support package. This was intended to provide time to understand the reform proposals and how they affect each council and community, and to identify issues of local concern and suggest possible ways to address them. It was an opportunity for the sector to engage with the model, at both a national and community level.
85. The engagement process is described in further detail in **Appendix A**. It included, in summary:
- 85.1 discussions with individual councils and in groups (including whole entity groupings);
 - 85.2 technical support and one-to-one sessions facilitated by Local Government New Zealand (including individual sessions with nearly every council);
 - 85.3 engagement between officials from the Department of Internal Affairs and senior council officers;
 - 85.4 workshops held by Local Government New Zealand, facilitated by elected members on the joint Central-Local Government Three Waters Steering Committee, on the topics of governance, community interest, and rural supplies.
86. The engagements to date have identified some significant areas of concern, but none of these issues credibly challenge the case for reform or represent fundamental obstacles to reform, and do not materially affect the essential elements of the policy proposals. The issues identified have been discussed extensively throughout the policy development process, including with the joint Central-Local Government Three Waters Steering Committee
87. Key themes from local government engagement include:
- 87.1 local authority influence – how will local authorities influence how the water services entities will respond to issues of importance to their communities, and provide for localised solutions;
 - 87.2 accountability – how to strengthen the accountability of the water services entities to the communities that they serve
 - 87.3 interactions with the planning system – ensuring appropriate integration between the needs, planning and priorities of local authorities (representing their local communities), and the planning and priorities of the water services entities;
 - 87.4 investment transparency – how to ensure that, in the short and medium term, the procurement of local services and the transparent investment in infrastructure delivers against local priorities.
88. A detailed list of the substantive issues is provided in **Appendix B**, along with the indicative process and timing for working them through. Some specific policy issues relating to the reform proposals are discussed in more detail below.

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89. Several of the issues merit further consideration and engagement, which may lead to refinements to the design features of the proposals. I note that, in some cases, it may be appropriate for there to be differences between the entities, to enable them to reflect the local context – where this does not affect the core features of the entity design model. This will be explored further, and may be addressed in future papers and through legislative drafting.

Iwi/Māori engagement and issues to consider further

90. There has been ongoing engagement with iwi/Māori throughout the three waters reforms. The focus of recent engagement, from a Crown perspective, has been that:
- 90.1 the core features of the reform proposal are well understood, and we receive feedback on room for improvement to inform further policy development and legislative drafting;
 - 90.2 the relationship between three waters reform, and other aspects of the Government's reform agenda, are understood;
 - 90.3 iwi/Māori maximise opportunities in the three waters reforms, and begin the steps toward consolidating shared interests within the proposed entity boundaries;
 - 90.4 iwi/Māori have a good understanding of the support that is available from the Crown, and that any such support is accessible and timely;
 - 90.5 iwi/Māori have confidence that the Crown will honour its obligations under existing Treaty settlement legislation throughout this reform;
 - 90.6 where bespoke arrangements between iwi, hapū or Māori landowners have been reached in relation to three waters, they are upheld in the reform transition.
91. Engagement to date has been highly constructive, and raised some core issues that will warrant active consideration over the coming months. These include:
- 91.1 confidence around Treaty settlement mechanisms, including how existing mechanisms are provided for within legislation, and how details might be contained within the water services entities legislation (such as through separate schedules for each entity to recognise unique characteristics);
 - 91.2 requests for direct representation on the boards of water services entities, particularly for iwi who have post-settlement co-governance arrangements in place;
 - 91.3 that existing bespoke arrangements between iwi/Māori and councils in relation to water be preserved;
 - 91.4 issues relating to the level of investment undertaken by the entities and the ability to directly influence performance;
 - 91.5 proposals relating to Te Mana o te Wai, and interest in the broader concept of locally-expressed priorities in relation to rivers, lakes and water bodies that may be less directly reflected within the scale of the proposed entities;
 - 91.6 the relationship between the three waters service delivery reforms and resource management system reforms from a Treaty rights and interest perspective.

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92. I have indicated that I am open to considering these issues further, and there will be a process and timetable for doing this. Further details are provided in **Appendix C**. The core principle underpinning any further considerations is that redress set out in Treaty settlement legislation will continue to apply and, where relevant, be explicitly provided for in the new regime. My current intention is that protection for current Treaty settlements will be provided at a high level within the first Water Services Entities Bill (by way of directly referencing relevant settlement legislation), and that these protections will be explored more fully through greater specificity in the second bill.
93. s 9(2)(f)(iv)
94. A key decision will be around how prescriptive we are in providing for this in legislation and/or in transitional support to iwi/Māori and the establishment of the entities.
95. I am also aware that there are significant bespoke arrangements negotiated between local authorities and iwi and hapū, such as Taniwha Springs. This agreement is between Rotorua District Council (the Council) and Puna a Pekehaua Trust. The Trust are owners of a Māori land block that contains springs (te puna a Pekehaua, also known as Taniwha Springs). The springs were taken by the Crown in 1966 under the Public Works Act and vested in the Council for the supply of drinking water.
96. In 2007, the Council applied for a 25-year resource consent to continue taking water from the spring. The Environment Court held that taking the water had a significant adverse effect on Ngāti Rangiwewehi's identity, and consent could only be granted for a further 10 years to enable alternatives to be put into place. Ngāti Rangiwewehi raised the taking of the springs in their Treaty settlement. As a result, in 2012, the Crown provided the Council with a grant of \$1.075 million to assist with establishing an alternative.
97. In 2015, the Council returned ownership of the land to the original Ngāti Rangiwewehi owners (the Puna a Pekehaua Trustees). The trustees have granted the Council an easement to access the land, and the trustees and Council are now joint consent holders for the water take consent.
98. There is a need to ensure that arrangements like this form an obligation on the new water services entities and the way they operate.
99. I have noted that it may take some time to fully explore some of the more significant and complex matters – particularly where they may involve the development of entity-specific schedules to legislation. I have also noted that the current approach to board appointments is that these must be competency-based.

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A working group will be established to further consider proposals relating to representation, governance and accountability of the new water services entities

100. A significant component of the feedback concerns the proposed ownership, governance and accountability arrangements for the new water services entities. The main feedback relates to:
- 100.1 The structure of the proposed model - including that:
- 100.1.1 the number of 'layers' is confusing and bureaucratic;
 - 100.1.2 ownership is too far removed from current local government structures;
 - 100.1.3 alternative models should be considered, such as those where consumers/communities play a role in governance arrangements.
- 100.2 Representation - including that:
- 100.2.1 local authorities have a reduced role to represent their communities' interests;
 - 100.2.2 there is a lack of assurance about how small communities' interests will be prioritised;
 - 100.2.3 there is strong support from iwi/Māori for the proposed mana whenua representation arrangements, but concerns about the proposed partnership arrangements among some councils.
- 100.3 Council influence - including:
- 100.3.1 concerns there is a weak role for the Regional Representative Group, and that there will be difficulties associated with the 12-member limit (six places for local authorities and six places for mana whenua);
 - 100.3.2 that the focus on achieving balance sheet separation has restricted consideration of possible alternative options that provide for greater control and influence over entity strategic direction and board appointments;
 - 100.3.3 concerns about the lack of direct influence over the appointment and removal of entity board members, including questions about the need for an Independent Selection Panel;
 - 100.3.4 questions about the interface between the entities and council long-term plans and district plans, and the influence of these documents over the entities.
- 100.4 Accountability - including:
- 100.4.1 concerns about a lack of accountability from the entities to community representatives;
 - 100.4.2 uncertainty about the mechanisms that will hold the entity boards to account if they are not acting in accordance with statements of strategic and performance expectations issued by the Regional Representative Group;

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- 100.4.3 differentiating between consumer accountability (which will be covered by a new economic regulation and consumer protection framework) and accountability to the broader community for service delivery performance.
101. In discussion with the joint Central-Local Government Three Waters Steering Committee and Local Government New Zealand, a draft Terms of Reference has been prepared for a working group on representation, governance and accountability arrangements for the new water services entities (included in **Appendix D**).
102. The establishment of this working group acknowledges and gives effect to the partnership arrangement that the Crown has entered into with Local Government New Zealand through the Heads of Agreement, including the commitment to identify and resolve matters of concern to the local government sector in a manner that is consistent with the shared reform objectives. It is also intended to uphold the Crown's commitment to its Treaty partner to protect and promote the rights and interests of iwi/Māori in the three waters service delivery reforms.
103. The purpose of this working group is to consider issues relating to representation, governance and accountability of the four proposed new water services entities, and to recommend to the Minister of Local Government an alternative design that:
- 103.1 seeks to address the concerns that have been expressed by a number of local authorities about the current proposals
- 103.2 remains consistent with the Government's reform objectives and bottom lines; and
- 103.3 is practical to implement and likely to achieve greater buy-in from the local government sector.
104. I am proposing that the core 'bottom lines' include:
- 104.1 Good governance – that the board directly governing a water services entity:
- 104.1.1 has a clear role and responsibilities;
- 104.1.2 is comprised of appropriately qualified and experienced members who are free of conflict of interest and selected through a process that is meritocratic and competency based;
- 104.1.3 has board members that individually and collectively have appropriate duties and obligations to act in the best interests of the water services entity and the communities they serve, consistent with the proposed statutory purpose and objectives for the entity; and
- 104.1.4 has board members that collectively have competence relating to the Treaty of Waitangi, mātauranga Māori, tikanga Māori, and Te Ao Māori.
- 104.2 Partnership with mana whenua – that the representation, governance and accountability arrangements for each water services entity are set up to give effect to the Crown's Treaty obligations by giving effect to the principle of partnership with iwi/Māori across the rohē/takiwā served by that entity, including by:
- 104.2.1 ensuring that mana whenua has strategic influence;

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- 104.2.2 integration within a wider system;
 - 104.2.3 reflecting a Te Ao Māori perspective;
 - 104.2.4 supporting clear accountability of the water services entity to mana whenua,
 - 104.2.5 improving outcomes for iwi/Māori at a local level; and
 - 104.2.6 enabling mana whenua to have rights and mechanisms of influence over the water services entity that correspond to those provided to the local authorities served by the entity.
- 104.3 Public ownership – that each entity remains in public ownership, including local authority and/or community ownership, and with strong protections in place that prevent privatisation (of the entity itself and the main three waters service delivery assets they own).
- 104.4 Balance sheet separation – that the water services entity governance framework, when taken together with the broader measures to implement the three waters reform programme, will provide the entity with the financial capacity (including through the ability to borrow) to meet the future three waters service delivery investment needs (including any existing infrastructure deficit) of the region it serves, without:
- 104.4.1 resulting in the debt of water services entities consolidating onto the balance sheets of local authorities; or
 - 104.4.2 requiring additional financial support from the Crown (beyond what the Crown has already agreed to provide³) or local authorities.
105. The working group is intended to bring together a group of experienced local government sector practitioners (who are able to represent the diversity of perspectives, interests and priorities from across the local government sector), together with iwi/Māori representatives, to review and analyse work already carried out by officials, take account of the feedback received from local government and iwi/Māori through the engagement process, and provide recommendations for subsequent consideration by Ministers and Cabinet.
106. I am discussing the membership of the proposed group with Local Government New Zealand, including seeking to identify a suitable independent Chairperson. Through this paper, I am seeking delegated authority to finalise the Terms of Reference and appoint members of the group, in consultation with the Prime Minister, the Minister of Finance, and the President of Local Government New Zealand. Other than the independent Chairperson, I do not propose to pay fees to the members of the group, but the Department of Internal Affairs will meet the costs of travel and other ancillary costs associated with hosting meetings of the group.

³ Cabinet has previously agreed that: a Crown liquidity facility will be available to the water services entities, which can be accessed if certain 'trigger events' occur, on similar terms to those available to the Local Government Funding Agency; and the Civil Defence and Emergency Management Act 2002 arrangements will be extended to apply to water services entities, such that they continue to apply to three water assets once the assets are transferred to the water services entities from local authorities. [CAB-21-MIN-0227].

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107. I note that the legislative drafting process for the Water Services Entities Bill is already underway, to give effect to the decisions we made in June and July 2021. It will be important that this Bill is introduced before the end of this year, to ensure we keep to the intended timetable and enable the Bill to be enacted prior to the local body elections (in October 2022). I also note that a second Water Services Entities (Implementation) Bill will provide the details of entity functions, powers and responsibilities, including those related to participation in the planning process.
108. There may be opportunities during the drafting process of the first Bill to make immediate improvements to aspects of the reform proposals, including in relation to representation, governance and accountability arrangements, which can help to address the issues and concerns raised while keeping within our core expectations and 'bottom lines'. This might mean we need to reconsider some components of our previous decisions.
109. If this opportunity arises, I am seeking agreement that myself and the Minister of Finance have delegated authority to make further policy decisions on the proposed amendments, so these can be included in the Bill while it is being drafted. If this occurs, any changes would be clearly identified in the paper seeking agreement to introduce the Bill.

Other matters raised in engagement – maintaining exemptions obtained under the Water Services Act

110. A further issue has arisen in engagement with a few local authorities, and which would benefit from clarity now. This concerns the ability for a council to influence the water services entities, in situations where a community is seeking a higher level of service than other communities served by the entities. This could occur, for example, in relation to communities that wish to achieve better environmental outcomes for wastewater and stormwater networks, and are willing to pay the higher costs that might be associated with providing infrastructure and services that meet more than minimum requirements.
111. A specific scenario raised through the engagement relates to the chlorination of drinking water. The Water Services Act includes provisions relating to drinking water safety plans, which provide that residual disinfection must be used in a reticulated drinking water supply unless an exemption is obtained from Taumata Arowai. Under section 57 of that Act, the chief executive of Taumata Arowai has the ability to grant an exemption, if satisfied that the drinking water supplied will comply with all other regulatory requirements on an ongoing basis. An exemption may continue in force for a maximum of five years, at which point an application for a further exemption would need to be made.
112. I understand that some drinking water suppliers, including current council suppliers, may seek to obtain an exemption. Councils have asked for assurances that, if an exemption is granted, a water services entity would be required to continue to provide chlorine-free drinking water, and to comply with any conditions set by Taumata Arowai relating to that exemption, when they take over responsibilities for service delivery.

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113. In these situations, I consider that it would be reasonable for the new entities to be expected to continue to provide chlorine-free drinking water and to meet any conditions associated with the exemption, until it expires. This will enable any councils that wish to pursue an exemption to do so, and to consult their communities around the potential additional costs and benefits that may be incurred.
114. I would expect the entities to be able to pass on any associated costs to a community that benefits from the services. Near the end of the exemption period, there would be consultation with the affected communities about whether further exemptions would be sought, including transparency about any future cost implications. Relevant councils, as owners of the entities, would have mechanisms for reflecting and advocating for their communities' interests (through the process of submissions to the entity as part of the preparation of its strategic planning and accountability documents, including the development of asset management plans).

Water service entity interface with the resource management system

115. Feedback indicates there are a number of areas of concern relating to the interface with the resource management system, and reforms to that system. For example, we are hearing concerns that local authorities will lose control over water infrastructure investment decisions that are required to support their growth plans (to accommodate housing and urban development).
116. The establishment of the water services entities will mean that they, rather than territorial authorities, will be responsible for the provision and funding of water infrastructure. Local government will continue to have primary accountability for urban and land-use planning under the reformed resource management system, including through the introduction of long-term regional spatial planning, and natural and built environments plans.
117. Cabinet has previously agreed that an objective of the water services entities will be supporting and enabling housing and urban development. In practice, this means that the entities will need to engage in a meaningful and effective manner with local authorities, and directly with communities, when developing their investment prioritisation methodology and asset management plans. Entities will need to consult communities on how investment should be prioritised, and will be required to take this feedback into account before finalising these plans (including reporting on how community feedback has been incorporated into decision making).
118. Water services entities will be expected to be active participants in planning processes led by local government, including by participating in the development and implementation of regional spatial planning strategies, and ensuring that the development of natural and built environments plans is informed by a full understanding of the cost associated with water infrastructure needed to support housing and urban development.
119. Once these plans are approved, water services entities will be required to identify and make provision for infrastructure to support growth and development identified in their asset management plans and enabled through dedicated funding mechanisms designed to enable and respond to growth and development. The much stronger balance sheets of the water services entities will mean they will have greater capacity to respond to the future growth and development needs of communities, and to invest to improve resilience and natural environmental outcomes.

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120. Water services entities will also be consent holders under the new system, and will be required to comply with consent requirements and seek new consents when they expire or when undertaking expansions of their networks. The entities may also be requiring authorities, and could have the same (or similar) powers and obligations currently held by local authorities in relation to water services infrastructure.
121. The concurrent nature of the resource management and three waters service delivery reforms creates some practical challenges in how this policy intent can be given effect through legislation.
122. The Natural and Built Environments Bill and the Strategic Planning Bill are expected to progress together as an omnibus package due to the complexity of the interconnections between these two Resource Management Act replacements and the transition out of the current regime.
123. The two Water Services Entities Bills will proceed separately from the resource management reforms. The first of these Bills is anticipated to be introduced before the end of 2021 and be enacted in 2022 (in advance of the local body elections). The second Bill would follow shortly afterwards, and be introduced in mid/late 2022.
124. I expect it may be necessary to include in the second Water Services Entities Bill provisions for water services entities to engage in the current resource management system (for example, inputting into planning processes and consent decisions), to ensure that the deep expertise that will be transferred to these entities is not lost to the resource management system. Similarly, it may be necessary to make specific reference to the water services entities, and the role they are expected to play in the planning system, within the Strategic Planning Bill and the Natural and Built Environments Bill.
125. I have asked the joint Central-Local Government Three Waters Steering Committee to take a close interest in how the interface between these two reform programmes can be made to work, and to work with officials from the Department of Internal Affairs and the Ministry for the Environment to ensure an effective interface between these systems.
126. To support the Steering Committee, I have asked officials to establish a technical working group similar to the approach adopted for stormwater, to ensure the legislative and policy settings will support the range of interactions between water service entities and local authorities that are needed to enable housing and urban development.

Approach to rural supply arrangements

127. While the majority of New Zealanders currently receive their drinking water from council suppliers, there are a significant number of small, private and community-based water suppliers, who provide drinking water to mostly rural communities. The majority of these small, rural suppliers are unregistered, and many have little contact with the regulatory system.

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128. There are a range of rural water schemes across the country, which are essential to local economies and communities. These schemes include supplies that provide a combination of drinking water and stock water to rural communities, and supplies that have mixed ownership. Many were developed by central government funding in the 1970s, are funded and run by committees of farm users, and receive technical expertise and assistance from local councils to run the supply.
129. The service delivery reforms focus on council-owned drinking water, wastewater and stormwater supplies, not privately-owned supplies (with the latter not being part of the new water services entities or captured by a legislated 'all in' reform approach). However, the engagement processes have highlighted various concerns about rural supply arrangements, and how these might be affected. Councils have expressed concerns about the impacts of the three waters reforms on rural drinking water suppliers, in two key areas.
130. Firstly, there are concerns that the new regulatory requirements (in the Water Services Act will mean that private and community suppliers will stop supplying drinking water to those rural communities – either because those suppliers are unable to comply with the new requirements, or because they are unwilling to engage in the new regulatory regime and choose to withdraw the supply.
131. To address this concern, we are working to ensure there is a clear pathway and support for the transition of small rural suppliers into the regulatory system. Taumata Arowai is undertaking significant work to develop the mechanisms needed to support unregistered supplies, and ensure that the regulatory requirements are fit for purpose (for example, through the development of acceptable solutions that can be used by small suppliers).
132. Changes were made to the Water Services Bill (through a supplementary order paper) to extend the transition window for these small unregistered supplies from five years to seven years. Extending the transition timeframe will align the transition for the drinking water regulatory system with the establishment of the new water services entities. These entities should be in a position to provide technical capacity and capability and, in some cases, infrastructure upgrades, to support small rural suppliers to transition to the new regulatory regime.
133. The second key area of concern for councils is the impact of the service delivery reform proposals on the existing, and often complex ownership, governance and operating arrangements for some community/rural drinking water supplies. A number of councils have commented that the legal status of those arrangements is uncertain, and would like greater clarity about what will happen to these schemes in the new system. These supplies often have unique community governance, operating and funding arrangements, and there may be a strong sense of community 'ownership' over these arrangements that has been in place for many years.
134. In some cases, councils are seeking assurance that, where there are community groups running these schemes, they will be able to continue operating with support from the entities. There are also situations in which councils are the legal owners of the schemes, but they are managed and operated by the farming communities who receive the supply. In those situations, some farming communities/committees may wish to continue to manage the schemes themselves, and not to be included in the new entities.

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135. As part of the transition programme, I expect there to be further work to identify and understand all of the existing service delivery arrangements between councils and community/rural schemes, and consider what will happen to these schemes and arrangements in the future. This would cover all kinds of situations, including those outlined above.
136. I am proposing that a technical advisory group will be established to assist with, and advise the transition programme on, these matters. I am anticipating that a complex and diverse set of local arrangements will need to be explored, and specific technical expertise in these matters will be required.
137. This advisory group will be similar to the approach being taken for stormwater. It will support the development of policy options and advice, to inform what the future functions, duties and obligations of the new water entities should be in respect of rural/community schemes. This could include, for example, situations in which privately-operated rural/community schemes require technical assistance from the entities. It could also include situations in which council-owned rural schemes might not become part of the new entities.
138. As noted in my previous paper, *Delivering the three waters reforms*, there will be a separate approach for working with Crown suppliers to explore potential arrangements between them and the new entities.

Concerns about the reform process and timing – communication approach

139. Some of the feedback provided during the engagement process with local government has related to other matters, beyond the policy proposals. The key concerns involve:
- 139.1 sufficiency of publicly-available information on the reforms;
 - 139.2 the pace of reform – including some requests to ‘pause’ the reforms to allow councils more time to understand the case for change and proposals, and other requests for the reforms to be made mandatory now;
 - 139.3 a lack of clarity and certainty around next steps – including uncertainty in some councils about whether they should be planning to consult their communities on ‘opting out’ (despite guidance from officials that the engagement period was not an ‘opt out’ process).
140. Some of these matters have already been addressed through communications material and the provision of factual information that targets areas of misunderstanding. They could also be addressed through the reform announcements and ongoing engagement noted below. It will be important to ensure clear information about the reforms is available to all stakeholders, iwi/Māori, and the general public, and that next steps are well communicated. This includes the key messages on pricing and quality outcomes in Part B of this paper.
141. I am not proposing that we put the reforms on hold, or spend further time explaining the case for change before making decisions. We have been talking with the local government sector about reform issues and opportunities for more than three years, and the past year has included extensive engagement and communications by officials and the joint Central-Local Government Three Waters Steering Committee. Any additional time is unlikely to be productive, or result in a significant shift in the mindset of those who are fundamentally opposed to reform. Pausing the reforms will also contribute to further uncertainty.

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Entity boundaries

142. As part of our decisions in June 2021, we agreed to the following boundaries of the four water services entities:
- 142.1 Entity A comprises the Auckland and Northland regions.
 - 142.2 Entity B comprises all districts from the Waikato, Bay of Plenty and Taranaki regions and the upper parts of Manawatū-Whanganui region (Ruapehu, Whanganui, and Rangitikei).
 - 142.3 Entity C comprises:
 - 142.3.1 the local authorities in the eastern and lower part of the North Island (Gisborne, Hawke's Bay region, lower parts of the Manawatū-Whanganui region⁴, and Wellington region); and
 - 142.3.2 the local authorities at the top of the South Island (Tasman, Nelson and Marlborough).
 - 142.4 Entity D comprises the districts and regions in the rest of the South Island, including those parts of the Marlborough and Tasman Districts that comprise the Ngāi Tahu takiwā (as provided by section 5 of the Te Runanga o Ngai Tahu Act 1996).
143. When agreeing to the proposed boundaries for each of entity, Cabinet noted that there would be further discussions with those local authorities and iwi/Māori that are most affected by the boundary choices [CAB-21-MIN-0226]. The key choices relate to:
- 143.1 whether to extend Entity A to include other districts surrounding the Hauraki Gulf, enabling a more integrated approach to the management of the Hauraki Gulf marine catchment;
 - 143.2 the boundary between Entity B and Entity C with respect to the Taranaki and Manawatū-Whanganui regions (with the latter being split across entities), taking into account ki uta ki tai, whakapapa connections, and economic geography / community of interest considerations;
 - 143.3 the boundary between Entity C and Entity D, which divides the South Island to reflect communities of interest, achieve a balanced population across the four entities, and reflect iwi/Māori boundaries (with Entity D providing for the Ngai Tahu takiwā, and Entity C preserving whakapapa connections between the upper part of the South Island – in Tasman, Nelson and Marlborough – and the lower North Island).
144. I was invited to report back on the outcome of these discussions, and to seek agreement to any changes to the entity boundaries that might be needed.
145. I am advised that feedback relating to the proposed boundaries has not been a core feature of the recent engagements. While there are specific local interests that are relevant, the balance of considerations is well understood. A summary of the main points of is provided below.
146. Regarding Entity A, and the potential inclusion of districts surrounding the Hauraki Gulf:

⁴ This includes Horowhenua, Manawatu, Palmerston North and Tararua.

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- 146.1 Some of the councils within the Hauraki Gulf area have expressed a desire to be included in Entity A. Reasons have included community links (for example, Aucklanders visit the Coromandel for recreation); scale benefits (potential for lower household costs), and increased representative interest (given there are fewer councils within Entity A).
- 146.2 Iwi/Māori perspectives have been mixed, with some iwi on the Western side of the Coromandel preferring inclusion in Entity A, and other iwi preferring the Hauraki Gulf be included within Entity B.
147. Regarding the boundary between Entity B and Entity C, with respect to the Taranaki and Manawatū-Whanganui regions:
- 147.1 The proposed boundary has been broadly well received by the directly affected councils. One council has noted that a shared service arrangement that is in place between councils would be split across the two entities, and will need to be considered through transition arrangements.
- 147.2 There has been favourable feedback from some iwi on the inclusion within Entity B. Others identify more directly with whakapapa connections that would see the relationship going down the west coast of the North Island to Wellington and to the top of the South Island.
148. Regarding the boundary between Entity C and Entity D, and the Ngāi Tahu takiwā approach:
- 148.1 Councils at the top of the South Island (in Entity C) have expressed concern about the potential impact on communities in Seddon and Murchison, which would be split into a different entity. However, there is an openness to working through the practical arrangements that may support a different approach.
- 148.2 Ngāi Tahu remain strongly aligned to a takiwā approach, but have indicated a willingness to work on a solution that would see the communities in Seddon and Murchison receiving services from Entity C.
149. The discussion and engagements indicate that we do not need to make any changes to the boundaries that were agreed by Cabinet in my previous paper [CAB-21-MIN-0226]. This means the legislation will be prepared on the basis of those boundaries, including the application of the Ngāi Tahu takiwā in relation to the boundaries of Entity C and Entity D (as provided by section 5 of the Te Runanga o Ngai Tahu Act 1996).
150. I am proposing that officials from the Department of Internal Affairs will continue to work with the relevant councils, Ngāi Tahu and Te Tau Ihu to develop an approach that would enable communities in Seddon and Murchison to receive (and be charged for) services from Entity C rather than Entity D.

Transition approach

151. The fourth in this suite of papers, Delivering the three waters reforms (July 2021), obtained agreement to my proposed approach to transition and implementation [CAB-21-MIN-0269]. This included details relating to:
- 151.1 the proposed transition timetable, objectives and activities – including that the a 'go live' date for the new water services entities will be 1 July 2024;

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- 151.2 the role, form and structure of the national transition unit and establishment entities, and how transition activities and tasks will be allocated;
- 151.3 the legislative powers, obligations and restrictions needed during the transition;
- 151.4 the role of local authorities in transition activities and processes;
- 151.5 iwi/Māori involvement in the transition process, and the provision of ongoing support;
- 151.6 initial legislative provisions relating to the three waters workforce, transfer guidelines, and workforce principles.
152. Cabinet has also agreed to provide funding for the reform programme, with \$296 million allocated through Budget 2021 for the Transforming Three Waters Service Delivery for New Zealanders: Transition and Implementation tagged contingency [CAB-21-MIN-0116.16].
153. This means we are well-positioned to proceed with the transition as soon as announcements are made regarding the approach to reform. In the meantime, initial work is already underway within the Department of Internal Affairs to prepare for implementation and stand-up the national transition unit. Officials are also working with Parliamentary Counsel Office regarding the drafting of the legislation needed to give effect to our earlier decisions. I am anticipating the Water Services Entities Bill will be ready for introduction later this year.
154. In parallel, work is underway to develop the new economic regulation and consumer protection regimes that will be an integral part of the new three waters system. This is described further below, and in the associated paper by the Minister of Commerce and Consumer Affairs.

Communications and partnering throughout the transition

155. If we decide to proceed with a legislated 'all in' approach, it is essential that subsequent announcements and next steps are accompanied by a comprehensive communications plan.
156. This plan needs to cover several aspects of the reform programme, including the decisions we made in July 2021 about the approach to transition and implementation. It will also provide clear signals about matters that have not yet been decided, but are of significant interest to the public – particularly our intent regarding pricing and charging arrangements.
157. We may also need to use these communications to further clarify the situation regarding the Water Services Act and the drinking water regulatory reforms. This includes explaining how the changes made through the Supplementary Order Paper help to address concerns raised in the rural sector, and the potential opportunities offered by the service delivery reforms to support small suppliers.
158. A draft, high-level communications plan accompanies this paper (**Appendix E**).

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159. There will also be ongoing engagement and information to support the reforms, including a role for the joint Central-Local Government Three Waters Steering Committee on outstanding matters of policy detail, and advisory groups to support further work on the governance and accountability arrangements, the interface with the reforms to the resource management system, and the approach to transitioning stormwater and rural supplies.

Part B: Pricing

There are a number of key questions relating to pricing that are of interest to Ministers, local authorities and the public, which will be explored over the next few months

160. In July 2021, I was invited to report back on pricing issues and the transition pathway to economic regulation, in association with the Minister of Commerce and Consumer Affairs.
161. Economic regulation refers the use of regulation to protect consumers in markets where there is a high degree of market power held by suppliers and little or no competition (that is, natural monopolies). Consumer interests are protected by:
- 161.1 providing easily digestible information on the relative performance of suppliers (for example, in terms of service quality, network performance, and costs); and
 - 161.2 directly regulating the price and quality of services to ensure consumers are receiving efficient, innovative, and high-quality services. This is particularly important in industries that have significant scope for efficiency improvement, and which have not previously been subject to economic regulation – as is the case for New Zealand's three waters services.
162. Pricing issues and the transition to economic regulation are interrelated. Subject to Cabinet agreement through the Minister of Commerce and Consumer Affairs' associated paper, a discussion document on Economic Regulation and Consumer Protection for Three Waters Services in New Zealand (the discussion document) will provide interested stakeholders and the general public with an opportunity to provide feedback on these matters.
163. There are several key questions relating to pricing that are of interest to Ministers and the public, which will be explored further in the discussion document and through subsequent work. These are outlined below.

How might pricing issues arise?

164. Modelling undertaken by the Water Industry Commission for Scotland (WICS) suggests a substantial increase in investment can be delivered with a relatively moderate increase in water charges for most households (provided that the new water services entities are able to achieve significant operating and capital efficiencies over time). However, pricing issues could arise from:

- 164.1 Changes in total regulated revenue. The economic regulator is likely to be required to set a price-quality path for water services entities within which they will be required to operate. As part of this, the regulator would set a cap on the total amount of revenue the entities would be allowed to collect to recover the costs of operating expenditure, economic depreciation and the costs of capital.

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- 164.2 The maximum allowable revenue cap would also include the regulator setting efficiency targets for each water services entity, informed by relevant industry benchmarks. The risk that a regulator would typically set a revenue cap that requires significant price shocks is low, as a regulator would impose “revenue glide paths” that smooth revenue changes within and, if necessary, across regulatory pricing periods.
- 164.3 Changes to the structure of prices. The pricing structures employed by water services entities will determine how revenue – within the cap set by the regulator – will be recovered from and spread across customers. This is likely to include decisions on the mix of charges, (for example, fixed and variable, how to recover costs from different types of customers (for example, residential, commercial, and industrial), and how to share costs across geographic areas.
- 164.4 There are currently a wide range of charging practices for water services, with a high degree of variability between councils. Current pricing structures will almost certainly reveal inconsistencies in pricing (including cross-subsidies) between different customer groups, which may require harmonisation over time. This could potentially lead to some categories of consumers experiencing significant increases or decreases as water services entities seek to rationalise and harmonise prices over time.
- 164.5 Under the proposed arrangements, the process by which water services entities would determine prices and charges would be subject to a high degree of transparency, engagement with communities, and formal public consultation requirements. The process of rationalising and harmonising prices will take time, and would be managed by entities over one or more regulatory periods.
- 164.6 The expectations of communities, including those conveyed by the entities' representative oversight groups, will be a key input into this process. Subject to further analysis and advice, the Government could also influence the speed of any required adjustments; for example, by placing requirements relating to pricing transition on entities via provisions in a Government Policy Statement.
- 164.7 Currently, there is limited pricing transparency, with the majority of customers unaware of the exact amount they are paying for three waters services (excluding those paying volumetric charges). As transparency increases, it is expected differences across and within councils will become a key issue, as has been the case with other reforms (such as the Auckland governance reforms and establishment of Scottish Water).

What outcomes are we seeking from pricing?

165. There are a range of different outcomes the Government could seek through the pricing structure of water services entities. These could be advanced through the economic regulatory regime and/or by providing direction to water services entities via the Government Policy Statement. A range of pricing outcomes need to be considered including:

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- 165.1 Economic efficiency. A strong focus on economic efficiency could see water services entities required to set prices for individual customers at a level that reflects the cost of service, which may depend on service levels, location, and use. A flow-on benefit might be the potential for pricing to act as an incentive for households to manage their water usage; however, non-price-based mechanisms may also be considered to encourage resource conservation. Efficient pricing structures could be advanced by providing the economic regulator with the ability to prescribe pricing methodologies.
- 165.2 Equity. There are several ways in which equity could be reflected in pricing structures. A 'horizontal equity' approach would require entities to standardise prices for consumers in similar positions (in terms of property type, income or property value). Alternatively, a 'vertical equity' approach would see consumers with a higher ability to pay (which could be means tested) pay progressively more than those with a lower ability to pay.
- 165.3 Cost-sharing (for example, geographic averaging). A key driver of the reforms is to address affordability issues, particularly for customers in small, rural communities. Entities could use geographic average pricing to smooth costs across the communities, thereby ensuring more affordable services for all.
- 165.4 Price stability. A focus on price stability would provide for greater certainty of charges, including how these might change over a regulatory period and the maximum level of charges consumers may face.
166. While most of the above outcomes are complementary, there may be long-term trade-offs between some of the objectives that may need to be addressed through the use of complementary initiatives – social welfare mitigations for vulnerable consumers, for example. Recent experience from Low Fixed Charge regulations in the electricity sector suggests there are real risks of unintended consequences from trying to use pricing structures to address equity considerations for low income customers.
167. The forthcoming discussion document will ask open questions around the pricing outcomes desired by the public. Over the next 10 months, officials will be undertaking a substantial amount of work and engaging with councils to understand the pricing structures employed by councils and the potential for price shocks or undesirable distributional impacts. I have been invited to report back in June 2022 on these issues [CAB-21-MIN-0269].

What should the transition to economic regulation look like?

168. In December 2020, Cabinet noted that economic regulation plays a critical role in protecting consumer interests and providing high quality performance information, and agreed in principle that:
- 168.1 an economic regulation regime will be employed on a reformed New Zealand three waters sector;
- 168.2 an information disclosure regime that allows the performance of entities to be compared will apply, at a minimum, to a substantively reformed three waters sector [CAB 20 MIN 0521.01];

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169. The economic regulator will play a critical role in holding the water services entities accountable for delivering the economic efficiencies that will be necessary to keep water services affordable for New Zealanders while addressing the significant investment deficit of between \$120 and \$185 billion.
170. It is anticipated that economic regulation would be introduced gradually over 2022 to 2027, as follows:
- 170.1 2022 to 2024 – the regulator works with the sector to lift their understanding of economic regulation and improve the quality of asset management and other performance data;
 - 170.2 2024-2026 – development of the key rules that underpin economic regulation (that is, input methodologies);
 - 170.3 1 July 2026 – information disclosure regulation imposed to allow consumers and other interested stakeholders to compare the relative performance of water services entities;
 - 170.4 1 July 2027 – commencement of price-quality regulation that caps the maximum allowable revenue of water services entities and imposes minimum quality standards.
171. This graduated approach to economic regulation would allow key aspects of the regime to be developed with input from water services entities, consumers, and other stakeholders, and would require transitional funding, as discussed further below. However, on its own, this approach would leave price and quality unregulated over the period 2024 to 2027.
172. While it appears unlikely that water services entities would significantly lift prices or reduce quality over this period, a transitional price-quality path could be developed by:
- 172.1 The economic regulator developing a provisional three-year transitional price path based on:
 - 172.1.1 short-term financeability;
 - 172.1.2 current approximate cost information; or
 - 172.1.3 rolling over existing prices.
 - 172.2 The Government using a Government Policy Statement to constrain revenue or the structure of prices for a period of up to three years (for example, CPI+2%). This would essentially require Ministers to step into the shoes of an economic regulator in estimating maximum allowable revenue requirements and minimum quality standards. An alternative, and potentially less risky approach, would be to set clear expectations on how the pricing transition will be managed by water services entities.
173. The discussion document will ask open questions on what the transition to economic regulation should look like, and officials will provide advice on these issues when final decisions on the economic regulation regime are sought in April 2022.

Funding to support the transition to economic regulation

174. On 12 July 2021, Cabinet:

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- 174.1 noted that, if the economic regulator does not receive transition funding for the 2022/2023 and 2023/2024 financial years, implementation of the economic regulation regime is likely to be delayed;
- 174.2 invited the Minister of Local Government and Minister of Commerce and Consumer Affairs to report back in September 2021 on whether transition funding for the economic regulator is able to be found from within the *Transforming Three Waters Service Delivery for New Zealanders: Transition and Implementation* tagged contingency of \$296 million established as part of Budget 2021 [CAB-21-MIN-0269].
175. As noted in my previous papers, an integral part of the three waters reforms is the establishment of economic regulation and consumer protection regimes. Economic regulation is needed to promote the long-term interests of consumers; provide system-wide performance information; drive efficient pricing, procurement, and asset management practices; and incentivise investment and innovation.
176. The Ministry of Business, Innovation and Employment will be undertaking further work to explore and consult on the options for an appropriate economic regulation and consumer protection regime, and develop advice on a proposed approach. An indicative timetable involves the Minister of Commerce and Consumer Affairs (in consultation with the Minister of Local Government):
- 176.1 issuing a discussion document in October 2021 (agreement to which is being sought in an associated paper);
- 176.2 seeking policy decisions from Cabinet in April 2022, including decisions relating to the institutional arrangements for the economic regulator;
- 176.3 introducing legislation in late 2022, with anticipated enactment in mid-to-late 2023.
177. From mid-2022, the economic regulator will need to undertake work to support the transition to economic regulation, including:
- 177.1 working with the three waters sector to build understanding of economic regulation and how it will interact with other system components;
- 177.2 planning and management of the transition to economic regulation; for example, gathering and preparing supporting information, carrying out research, and obtaining technical and legal advice related to the proposed economic regulation model.
178. Officials from the Department of Internal Affairs and Ministry of Business Innovation and Employment have explored the viability of funding work to support the transition to economic regulation from the *Transforming Three Waters Service Delivery for New Zealanders: Transition and Implementation* tagged contingency, established as part of Budget 2021.
179. I am advised that the minimum costs associated with the work to support the transition to economic regulation are estimated as \$1.5 million in 2022/23, and \$2.5 million in 2023/24. Policy decisions regarding economic regulation in 2022 could cause these costs to increase; for example, requiring a provisional three-year transitional price path (discussed above), or requiring the establishment of a bespoke three waters economic regulator.

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180. I am advised that this initial funding (totalling \$4 million) can be funded from within the *Transforming Three Waters Service Delivery for New Zealanders: Transition and Implementation* tagged contingency. I am therefore proposing that the minimum costs to support the transition to economic regulation are met from this contingency.
181. The drawdown of this funding from the tagged contingency will occur when the funds are required and subject to conditions associated with the tagged contingency. I propose that myself and the Minister of Finance are authorised to draw down funding for this purpose.
182. I note that these are initial, transitional costs only. Further work will be undertaken to identify the longer-term costs associated with the economic regulator, any additional costs associated with potential policy decisions regarding economic regulation, and sources of funding (including levy funding), in 2022. Any additional costs are not currently budgeted for in the *Transforming Three Waters Service Delivery for New Zealanders: Transition and Implementation* tagged contingency.

Communicating pricing and quality outcomes to consumers, and next steps

183. Pricing issues are likely to be a significant area of debate and public concern. There are examples (for example, Irish water reform) where pricing-related debates have stymied reform, because the sequence of change has been poorly managed. Aside from the need to ensure entities have sufficient revenue in the aggregate, the success of the reforms is not contingent on making significant short-term changes to overall pricing structures. It is important that the pace of change is managed carefully, and that the short-term focus is on smoothly transitioning to the new structures and building community confidence in the new entities.
184. Related to this, it will be important that we communicate our intent around changes to pricing and charging arrangements, and how these will be managed over time. The Minister of Commerce and Consumer Affairs and I propose to focus our communications around the following key messages:
- 184.1 The three waters reforms are designed to deliver much higher quality water services at a much lower cost than would be achievable if water services continue to be provided by 67 local authorities. This will be achieved through the benefits of scale and increased financial capacity of the new water services entities, and by the introduction of economic and consumer protection regulation designed to drive efficiencies and improve service levels in a way that results in real benefits for New Zealand consumers and communities.
- 184.2 The economic regulation regime will have a strong focus on ensuring that customers pay no more than they need to for the services they receive, while ensuring that the new water services entities are financially sustainable and can access the finance required to address the infrastructure deficit.
- 184.3 Providing consumers and communities with a strong voice on how water services are delivered, and making water services entities accountable for delivering on consumer and community expectations, will be a cornerstone of the reforms. This will include not only the price and quality of water services, but also broader issues such as how to serve the interests of vulnerable consumers or under-served communities. It could also cover issues such as environmental quality, Te Mana o te Wai, and climate change.

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- 184.4 With regard to pricing and charging, the Government's short-term priority is setting the entities up for success and ensuring that they have sufficient revenue to operate sustainably and begin to address the infrastructure deficit. This does not require us to make significant short-term changes to the way in which water services are currently paid for. However, water services entities will need to deal with the practicalities of integrating a wide range of charging and pricing practices for water services within their respective areas.
- 184.5 The Government will undertake further work to understand the impact of different pricing structures and changes in pricing on consumers, but will not be mandating the use of variable/volumetric charging as part of the reforms. While the use of variable water charges may be necessary to ensure the use of water is environmentally sustainable over time, these are issues best left to communities to determine.
- 184.6 Over time, prices and charges will need to evolve to achieve the right balance between affordability, equity and efficiency. Each water services entity will be required to work this through with the customers and the communities they serve, taking account of their preferences for how these objectives should be balanced. This process will be highly transparent and subject to scrutiny. Evidence from international reforms shows that this can be a challenging process, and that it is better to take time to get this right than to make short-term changes that may not stand the test of time.
185. As indicated above, officials will be undertaking a substantial amount of work and engaging with councils to understand the pricing structures employed by councils and the potential for price shocks or undesirable distributional impacts.
186. I will report back in June 2022 on these issues [CAB-21-MIN-0269]. The Minister of Commerce and Consumer Affairs will report back on what the transition to economic regulation and consumer protection should look like in April 2022, following engagement with the public and Three Waters Ministers.

Implementation

187. My previous paper, Delivering the three waters reforms (July 2021), explained how the reforms will be implemented. Decisions on the proposed approach were made through that paper [CAB-21-MIN-0269].

Financial implications

188. The financial implications of the package of three waters reform proposals have been considered and addressed through my previous papers and decisions made through Budget 2020 and Budget 2021. This includes agreement to the following funding:
- 188.1 \$710 million in July 2021 in the form of the Three Waters Infrastructure Investment and Service Delivery Reform Programme tagged contingency (CAB-20-MIN-0328.13);
- 188.2 \$296 million in Budget 2021 in the form of the Transforming Three Waters Service Delivery for New Zealanders: Transition and Implementation tagged contingency [CAB-21-MIN-0116.16];
- 188.3 a support package of up to \$2.5 billion, comprising:

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- 188.3.1 up to \$1.5 billion funded by the new water services entities: \$500 million for the 'no worse off' component and \$1 billion for the 'better off' component;
- 188.3.2 up to \$1 billion Crown funding for the 'better off' component [CAB-21-MIN-0269].
189. As described earlier in this paper, the costs associated with the work to support the transition to economic regulation (without a provisional three-year transitional price path), of up to a maximum of \$4 million, are proposed to be funded from the *Transforming Three Waters Service Delivery for New Zealanders: Transition and Implementation* tagged contingency.
190. Further work will be undertaken to identify the quantum and source of funding for longer-term costs associated with the economic regulator, and any additional costs associated with potential policy decisions regarding economic regulation, to support policy decisions in 2022.

Legislative implications

191. This is the fifth in a suite of papers during 2021 on reforms to the three waters service delivery system. Cabinet has agreed that the decisions made through the previous four papers would be implemented through the Water Services Entities Bill, which is included in this year's legislative programme with a priority category 4 (to be referred to select committee within the year).
192. This paper seeks agreement to proceed with a legislated 'all in' approach to reform, to enable all communities in New Zealand to benefit from the new system. If agreed, this approach would be reflected in the Water Services Entities Bill. In practice, this means each territorial authority district would be included in a water services entity, and there will be no ability to 'opt out'.
193. As signalled in previous papers, this proposed Bill is just one component of a multi-faceted package for reforming three waters services in New Zealand. I anticipate that our approach to three waters reform will result in a suite of legislation, spanning across the 53rd Parliamentary term.
194. The Water Services Entities Bill will need to be followed by further legislation to provide for:
- 194.1 detailed transitional arrangements for the new entities and service delivery system – including provisions relating to the transfer of assets, liabilities and employees from local authorities to new water services entities; and the specific powers, functions, and responsibilities the new entities will require to operate;
- 194.2 an economic regulation regime and consumer protection mechanisms relating to the new three waters system.
195. This paper refers to the further work that will be undertaken to consider the policy issues raised during recent engagement with local government and iwi/Māori. Where relevant, the results of this work will be included in future Cabinet papers, and – if agreed – subsequent legislation. This may include, for example, consideration of entity-specific schedules to recognise unique characteristics and Treaty settlement legislation.

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Impact analysis

Regulatory Impact Statement

196. Regulatory Impact Assessments relating to this package of reform proposals were appended to my previous papers: A new system for three waters service delivery (June 2021) and Delivering the three waters reforms (July 2021).

Climate Implications of Policy Assessment

197. N/A

Population Implications

198. None

Human Rights

199. None

Consultation

200. The Ministry for the Environment; Ministry of Health; Ministry of Business, Innovation and Employment; The Treasury; Ministry for Primary Industries; National Emergency Management Agency; Ministry of Housing and Urban Development; Department of the Prime Minister and Cabinet; Ministry of Transport; Te Puni Kōkiri; Te Arawhiti; New Zealand Transport Agency; Public Services Commission; and Inland Revenue Department have been consulted on this paper.

201. The Department of Conservation, Ministry of Education, New Zealand Defence Force, and Department of Corrections have operational responsibility for three waters services and have been consulted in this capacity.

202. There has been an ongoing programme of engagement with local government and iwi/Māori throughout the three waters reforms. A summary of recent engagement activities is provided in Appendix A.

Communications

203. A high-level communications plan is attached to this paper (Appendix E).

Proactive Release

204. I intend to release this paper (subject to any redactions) to coincide with further announcements on the reforms. I note that this may occur outside of the usual timeframes in Cabinet Office circular CO (18) 4.

Recommendations

205. The Minister of Local Government recommends that the Cabinet Business Committee:

Confirming the approach to reform

1. **note** that on 14 June 2021 and 12 July 2021, Cabinet agreed to a package of proposals to transform the three waters service delivery system, and to pursue a reform strategy that would enable all communities to benefit from the proposed reforms [CAB-21-MIN-0226, 0227, 0228, and 0269];

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2. **note** that the reform proposals involve the creation of four publicly-owned water services entities to take over responsibilities for service delivery and infrastructure from local authorities from 1 July 2024;
3. **note** that the package of reform proposals reflects that extensive policy, economic and legal analysis demonstrates there is a compelling case for change, and a range of benefits are offered by a reformed three waters system and new service delivery arrangements;
4. **note** that on 12 July 2021, it was agreed that:
 - 4.1 a three waters reform support package of up to \$2.5 billion would underpin a legislated New Zealand-wide approach to reform, to ensure no local authority is materially worse off financially as a result of reform (\$0.5 billion), and to invest in the future for local government and community wellbeing (\$2.0 billion);
 - 4.2 Cabinet will consider whether to proceed with a legislated 'all in' approach to reform, following a period of socialising the policy proposals and support package with the local government sector [CAB-21-MIN-0269];
5. **note** that:
 - 5.1 previous papers have explained that the preferred approach is to enable all communities within New Zealand to access the benefits from reform; and
 - 5.2 in practice, achieving this would require every territorial authority district to be included in the new water services entities, and for this to be provided for in statute – without the ability to 'opt out';
6. **note** that a number of factors are relevant to decisions about how and when to proceed with the reforms, and whether to do this through a legislated 'all in' approach:
 - 6.1 whether the case for change and overall package of reform proposals continue to be robust;
 - 6.2 consideration of the policy issues that have been raised during engagement with local government and iwi/Māori, and the existence of a clear plan for working through legitimate ideas and concerns;
 - 6.3 clarity about next steps – including having comprehensive plans for communicating decisions and agreed strategies for implementing the reforms;
 - 6.4 the desirability of removing uncertainties about the nature and the direction of the reforms, and enabling the extensive work needed to transition to the new system to get underway;
7. **note** that these matters have been considered and addressed, and that:
 - 7.1 there continues to be a compelling and robust case for change, and the evidence base has been thoroughly tested and independently reviewed;
 - 7.2 plans are in place to:
 - 7.2.1 work through the policy issues that have been raised during engagement with local government and iwi/Māori;
 - 7.2.2 communicate decisions; and

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7.2.3 implement the reforms;

8. **agree to:**
 - 8.1 proceed with the three waters service delivery reforms using a legislated 'all in' approach; and
 - 8.2 make announcements shortly after a decision is made;
9. **note** that this decision is being sought following the consideration and testing of a number of alternative models and mechanisms for delivering reform, including suggestions made by councils, and options such as government subsidies and/or guarantees, and relying on regulation only to drive voluntary improvements in service delivery;
10. **note** that:
 - 10.1 none of the alternative proposals presented and considered would deliver the comprehensive range of benefits and outcomes sought for all New Zealanders, or do so without significant financial implications for the Crown and taxpayers;
 - 10.2 alternative approaches would not work universally, be more costly for households, be more difficult to regulate effectively, reduce the potential for efficiencies, would not build the necessary expertise and workforce capability, and/or would perpetuate significant differences in access to services, cost, and service quality;
11. **note** that the need to consider the collective interest of all New Zealanders outweighs a desire to accommodate the interests of individual councils and communities through a voluntary process, and there is a conflict between the national interest and decision making based on an opt-out approach;
12. **note** that taking further time to make decisions risks losing momentum for reform, and is not justified given the unsustainability of the status quo, the lack of viable alternatives, and the lengthy period of policy development and engagement undertaken since the Three Waters Review was initiated in mid-2017;

Processes for working through key policy issues

13. **note** that there has been extensive engagement with local government and iwi/Māori about the service delivery reform programme, including the recent two-month period for socialising the policy proposals and local government support package;
14. **note** that the engagement has identified some issues for further work, but none that credibly challenge the case for reform, represent fundamental obstacles to reform, or materially affect essential elements of the policy proposals;
15. **note** that a significant component of the feedback concerns the proposed ownership, representation, governance and accountability arrangements for the new water services entities;

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Working group on representation, governance and accountability arrangements for water services entities

16. **note** that, in discussion with the joint Central-Local Government Three Waters Steering Committee and Local Government New Zealand, officials have prepared a draft Terms of Reference for a working group on representation, governance and accountability arrangements for the new water services entities (the working group);
17. **note** that the establishment of this working group:
 - 17.1 acknowledges and gives effect to the partnership arrangement that the Crown has entered into with Local Government New Zealand through the Heads of Agreement; and
 - 17.2 is intended to uphold the Crown's commitment to its Treaty partner to protect and promote the rights and interests of iwi/Māori in the three waters service delivery reforms;
18. **note** that the purpose of this working group is to consider issues relating to representation, governance and accountability of the four proposed new water services entities, and to recommend to the Minister of Local Government an alternative design that:
 - 18.1 seeks to address the concerns that have been expressed by a number of local authorities about the current proposals
 - 18.2 remains consistent with the Government's reform objectives and bottom lines; and
 - 18.3 is practical to implement and likely to achieve greater buy-in from the local government sector;
19. **agree** that the bottom lines that the working group will need to be consistent with include:
 - 19.1 good governance – that the board directly governing a water services entity:
 - 19.1.1 has a clear role and responsibilities;
 - 19.1.2 is comprised of appropriately qualified and experienced members who are free of conflict of interest and selected through a process that is meritocratic and competency based;
 - 19.1.3 has board members that individually and collectively have appropriate duties and obligations to act in the best interests of the water services entity and the communities they serve, consistent with the proposed statutory purpose and objectives for the entity; and
 - 19.1.4 has board members that collectively have competence relating to the Treaty of Waitangi, mātauranga Māori, tikanga Māori, and Te Ao Māori;
 - 19.2 partnership with mana whenua – that the representation, governance and accountability arrangements for each water services entity are set up to give effect to the Crown's Treaty obligations by giving effect to the principle of partnership with iwi/Māori across the rohe/takiwā served by that entity;

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- 19.3 **public ownership** – that each entity remains in public ownership, including local authority and/or community ownership, and with strong protections in place that prevent privatisation (of the entity itself and the essential three waters service delivery assets they own);
- 19.4 **balance sheet separation** – that the water services entity governance framework, when taken together with the broader measures to implement the three waters reform programme, will provide the entity with the financial capacity (including through the ability to borrow) to meet the future three waters service delivery investment needs (including any existing infrastructure deficit) of the region it serves, without:
- 19.4.1 resulting in the debt of water services entities consolidating onto the balance sheets of local authorities; or
- 19.4.2 requiring additional financial support from the Crown (beyond what the Crown has already agreed to provide; that being a liquidity facility on similar terms to those available to the Local Government Funding Agency, and the 60/40 risk-sharing arrangement in the event of a natural disaster) or local authorities;
20. **authorise** the Minister of Local Government, in consultation with the Prime Minister, the Minister of Finance, and the President of Local Government New Zealand to:
- 20.1 finalise the Terms of Reference for the working group; and
- 20.2 appoint members of the working group, including a suitable independent Chairperson, and relevant experts representing local government and iwi/Māori;
21. **note** that, other than the independent Chairperson, the Minister of Local Government is not proposing to pay fees to the members of the group, but the Department of Internal Affairs will meet the costs of travel and other ancillary costs associated with hosting meetings of the group;
22. **note** that there may be opportunities during the drafting process for the Water Services Entities Bill (currently underway) to make immediate improvements to aspects of the reform proposals, including in relation to representation, governance and accountability arrangements, which can help address the issues and concerns raised during engagement while keeping within our bottom lines;
23. **authorise** the Minister of Local Government and Minister of Finance to make policy decisions that might be required to enable drafting instructions to be issued to Parliamentary Counsel Office, if the opportunity arises to make immediate improvements to the Water Services Entities Bill before it is introduced, but making those improvements involves a reconsideration of aspects of the reform proposals previously agreed by Cabinet;

Other technical working groups to explore key issues during the transition

24. **note** that officials in the Department of Internal Affairs will establish additional technical working groups to provide support and expertise in relation to other key issues that have been raised during engagement with the local government sector and iwi/Māori, including:

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- 24.1 a group to ensure there is an effective interface between the new three waters service delivery system and the reformed resource management system;
- 24.2 a group to assist with, and advise on, the approach to arrangements relating to community/rural drinking water supplies;
- 25. **note** that the Minister of Local Government has also asked the joint Central-Local Government Three Waters Steering Committee to take a close interest in how to ensure an effective interface between the three waters and resource management reform programmes, working with officials from the Department of Internal Affairs and Ministry for the Environment, and with support from the group referred to above;

Maintaining exemptions obtained under the Water Services Act 2021

- 26. **note** that a further issue has arisen during local government engagement, regarding clarifying the future obligations of water services entities to continue to provide chlorine-free drinking water to communities as part of an exemption that a local authority owner may have obtained from Taumata Arowai;
- 27. **note** that under section 57 of the Water Services Act:
 - 27.1 the chief executive of Taumata Arowai has the power to exempt a drinking water supplier from the requirement to use residual disinfection, if satisfied that the drinking water supplied will comply with all other regulatory requirements on an ongoing basis; and
 - 27.2 an exemption may continue in force for a maximum of five years;
- 28. **agree** that, in situations where a local authority drinking water supplier has been granted an exemption under section 57 of the Water Services Act, the water services entity that assumes responsibility for the affected supply will be required to continue to provide chlorine-free drinking water until the exemption expires;
- 29. **note** that, in these circumstances:
 - 29.1 the water services entity would be able to pass on any associated costs to the community that benefits from the affected water supply;
 - 29.2 there would be consultation with the affected community about whether any further exemptions would be sought at the end of the exemption period; and
 - 29.3 relevant councils, as owners of the water services entity, would have mechanisms for reflecting and advocating for their communities' interests;
- 30. **agree** that, for clarity, the situation described above will be provided for in legislation;

Entity boundaries

- 31. **note** that, as part of the decisions made in June 2021 [CAB-21-MIN-0226], Cabinet agreed the boundaries of the four water services entities, as follows:
 - 31.1 Entity A comprises the Auckland and Northland regions;

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- 31.2 Entity B comprises all districts from the Waikato, Bay of Plenty and Taranaki regions and the upper parts of Manawatū-Whanganui region (Ruapehu, Whanganui, and Rangitikei);
- 31.3 Entity C comprises:
- 31.3.1 the local authorities in the eastern and lower part of the North Island (Gisborne, Hawke's Bay region, lower parts of the Manawatū-Whanganui region, and Wellington regions); and
- 31.3.2 the local authorities at the top of the South Island (Tasman, Nelson and Marlborough);
- 31.4 Entity D comprises the districts and regions in the rest of the South Island, including those parts of the Marlborough and Tasman Districts that comprise the Ngāi Tahu takiwā (as provided by section 5 of the Te Runanga o Ngai Tahu Act 1996);
32. **note** that, when agreeing to the proposed boundaries for each of entity, Cabinet noted that there would be further discussions with those local authorities and iwi/Māori that are most affected by some key boundary choices, and invited the Minister of Local Government to report back on the results of these discussions and to seek agreement to any changes to the boundaries;
33. **note** that these discussions have not indicated that there need to be any changes to the boundaries that were previously agreed, and the legislation will be prepared on the basis of those boundaries, including the application of the Ngāi Tahu takiwā in relation to the boundaries of Entity C and Entity D (as provided by section 5 of the Te Runanga o Ngai Tahu Act 1996);
34. **note** that, regarding the boundary between Entity C and Entity D, and the Ngāi Tahu takiwā approach:
- 34.1 councils at the top of the South Island (in Entity C) have expressed concern about the potential impact on communities in Seddon and Murchison, which would be split into a different entity, but these councils are open to working through the practical arrangements that may support a different approach;
- 34.2 Ngāi Tahu remain strongly aligned to a takiwā approach, but have indicated a willingness to work on a solution that would see the communities in Seddon and Murchison receiving services from Entity C;
35. **agree** that officials from the Department of Internal Affairs will work with the relevant councils, Ngāi Tahu and Te Tau Ihu to develop an approach that would enable communities in Seddon and Murchison to receive (and be charged for) services from Entity C rather than Entity D;

Pricing issues and transition to economic regulation

36. **note** that, in July 2021, Minister of Local Government and Minister of Commerce and Consumer Affairs were invited to report back in September 2021 on pricing issues and the transition pathway for economic regulation, including whether transition funding for the economic regulator is able to be found from within the Transforming Three Waters Service Delivery for New Zealanders: Transition and Implementation tagged contingency of \$296 million established as part of Budget 2021 [CAB-21-MIN-0269];

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37. **note** that there are several key questions relating to pricing that are of interest to Ministers, local authorities, and the public, which will be explored further in a discussion document on Economic Regulation and Consumer Protection for Three Waters Services in New Zealand, and subsequent policy development work, including:
- 37.1 how pricing issues might arise;
 - 37.2 what outcomes are being sought from pricing; and
 - 37.3 what the transition to economic regulation should look like;
38. **note** that further advice will be provided on these questions and related matters in June 2022, when further policy decisions are sought;

Funding to support the transition to economic regulation

39. **note** that the *Transforming Three Waters Service Delivery for New Zealanders: Transition and Implementation* tagged contingency was established to provide funding for the establishment of multi-regional water services entities and the transfer of assets, liabilities, staff, and services from local authorities to those entities as part of the Three Waters Service Delivery Reform Programme;
40. **note** that:
- 40.1 the minimum costs associated with the initial work to support the transition to economic regulation are estimated at a total of \$4 million (across 2022/23 and 2023/24); and
 - 40.2 funding to meet these costs can be found from the *Transforming Three Waters Service Delivery for New Zealanders: Transition and Implementation* tagged contingency;
41. **agree** to extend the scope of the *Transforming Three Waters Service Delivery for New Zealanders: Transition and Implementation* tagged contingency to include costs associated with the initial work to support the transition to economic regulation;
42. **agree** to fund up to \$4 million of the costs associated with the initial work to support the transition to economic regulation from the *Transforming Three Waters Service Delivery for New Zealanders: Transition and Implementation* tagged contingency;
43. **authorise** the Minister of Local Government, the Minister of Finance and any other relevant appropriation Minister(s), to jointly draw down funding from the tagged contingency up to a maximum of \$4 million to meet the costs associated with the work to support the transition to economic regulation, once they are satisfied that the work programme for the relevant stage of the transition and implementation programme requiring funding to be drawn down has been sufficiently developed with detailed timeframes, milestones and costs;
44. **note** that further work will be undertaken to identify the quantum and source of funding for longer-term costs associated with the economic regulator, and any additional costs associated with potential policy decisions regarding economic regulation, in 2022;

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Communicating key messages about pricing and quality outcomes

45. **note** that pricing issues are likely to be a significant area of debate and public concern in relation to the service delivery reforms, and it will be important to clearly communicate the intent around changes to pricing and charging arrangements, and how these will be managed over time, as part of the reform announcements and transition;
46. **note** that the Minister of Local Government and Minister of Commerce and Consumer Affairs propose to focus the communications around the following key messages:
 - 46.1 the three waters reforms are designed to deliver much higher quality water services at a much lower cost than would be achievable if water services continue to be provided by 67 local authorities;
 - 46.2 the economic regulation regime will have a strong focus on ensuring that customers pay no more than they need to for the services they receive, while ensuring that the new water services entities are financially sustainable and can access the finance required to address the infrastructure deficit;
 - 46.3 a cornerstone of the reforms will be providing consumers and communities with a strong voice on how water services are delivered, and making water services entities accountable for delivering on consumer and community expectations;
 - 46.4 there will not be significant short-term changes to the way in which water services are currently paid for; the priority is setting up the entities for success and ensuring that they have sufficient revenue to operate sustainably and begin to address the infrastructure deficit;
 - 46.5 the Government will undertake further work to understand the impact of different pricing structures and changes in pricing on consumers, but will not be mandating the use of variable/volumetric charging as part of the reforms;
 - 46.6 over time, prices and charges will need to evolve to achieve the right balance between affordability, equity and efficiency, and each water services entity will be required to work this through with the customers and the communities they serve, taking account of their preferences for how these objectives should be balanced;

Legislative implications

47. **agree** that decisions in this paper relating to the approach to reform be implemented through the Water Services Entities Bill, which is included in this year's legislative programme with a priority category 4 (to be referred to select committee within the year);
48. **invite** the Minister of Local Government to issue drafting instructions to Parliamentary Counsel in accordance with the decisions in this paper.

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Authorised for lodgement

Hon Nanaia Mahuta

Minister of Local Government

Proactively released by the Minister of Local Government

Appendix A: List of engagements with local government, iwi/Māori, and industry stakeholders

The table below provides an overview of formal engagements and discussions held with the local government sector, iwi/Māori, and industry experts on the case for change and the reform proposals. This table begins with the Government's national evidence base released (1 June 2021) and runs through to the end of the August/September period of engagement (1 October 2021).

The table does not capture the countless communications updates, correspondence, phone calls and informal discussions between the local government sector and members/officials from Local Government New Zealand (LGNZ), Taituarā, the Department of Internal Affairs (DIA), and the Minister of Local Government (MoLG).

This table also does not capture the more extensive technical support engagements, which the LGNZ support team of technical experts have provided in a number of different formats, as preferred by councils, across the country. This technical support was available to all councils, with the majority of councils utilising this support multiple times throughout the August/September period.

Key:	Iwi /Maori	Local Government	Joint Local Government and iwi	Other/Industry
Date (2021)	Engagement	Engagement with	Where	
1 June	Webinar with for Mayors, Chairs and Chief Executives to explain the national evidence base release	DIA	Online	
3 June	Meeting with LGNZ Executive Leadership team	MoLG and LGNZ	Wellington	
4 June	Meeting with Te Tau Ihu iwi	MoLG	Online	
8 June	Detailed question and answer webinar for council technical leads	DIA	Online	
10 June	Meeting with Nga Tahu representatives	DIA	Online	
14 June	Presentation to industry hosted by Russell McVeagh	MoLG	Wellington	
15 June	Discussion at Zone Five (upper South Island Councils) meeting	MoLG, LGNZ and DIA	Christchurch	
15 June	Hui with Waikato Tainui	DIA	Hopuhopu	
16 June	Trade and Industrial Waters Forum Conference	MoLG	Wellington	
16 June	Institute of Finance Professionals New Zealand, Infrastructure panel	DIA	Wellington	
17 June	Presentation to industry hosted by Russell McVeagh	MoLG	Auckland	
17 June	Hui with Hawkes Bay Regional Council and Ngāti Kahungunu representatives	DIA	Napier	
18 June	Meeting with Auckland Council Governing Body	MoLG and DIA	Auckland	
21 June	LGNZ Chief Executives Forum	LGNZ and DIA	Wellington	
23 June	Construction Sector Accord Workshop on interface with Water Reform	DIA and MBIE	Wellington	
25 June	Meeting with Otago Regional Council	DIA	Otago	

Date (2021)	Engagement	Engagement with	Where
28 June	Joint Central/Local Government Steering Committee meeting	LGNZ, Taituarā and LGNZ	Wellington
29 June	Webinar for all council elected members and Chief Executives on Cabinet decisions on entity size, shape and design features	DIA	Online
30 June	Webinar for all iwi on Cabinet decisions on entity size, shape and design features	DIA	Online
1 July	Hui with Waikato River iwi	DIA	Rotorua
1 July	Meeting with LGNZ	MoLG, MoF and LGNZ	Wellington
2 July	Discussion at Zone Six (lower South Island councils) meeting	MoLG, LGNZ and DIA	Dunedin
2 July	Hui with Maniapoto Māori Trust Board	DIA	Te Kuiti
2 July	Discussion with Institute of Public Works Engineering Australasia (IPWEA) Canterbury members	DIA	Christchurch
5 July	Hui with Wellington iwi	DIA	Porirua
8 July	Question and answer webinar for all council elected members and Chief Executives	DIA	Online
9 July	Meeting with Auckland Council	MoLG and DIA	Auckland
11 July	Meeting with LGNZ	MoLG, MoF and LGNZ	Online
12 July	Webinar for council Chief Executives and nominated staff on early transition planning	DIA	Online
12 July	Discussion with Central North Island council Chief Executives	DIA	Wellington
12 July	Meeting with Māori Council officers on working with mana whenua through reform	DIA	Wellington
12 July	Meeting with Environmental Defence Society	DIA	Wellington
14 July	Hui with Te Maruata (LGNZ Māori Committee – a sub-group of National Council)	MoLG, LGNZ and DIA	Blenheim
14 July	Hui with ngā iwi o Te Tau Ihu	MoLG and DIA	Blenheim
14 July	Meeting with councils from the top of the South Island	MoLG and DIA	Blenheim
15 July	Waikato District Council stormwater regulation hui	DIA	Online
15-16 July	LGNZ National Conference including announcement of financial support package	Prime Minister, Minister of Finance, MoLG, Minister of Housing, Steering Committee Chair, LGNZ, and DIA	Blenheim

Date (2021)	Engagement	Engagement with	Where
19 July	Discussion with E Tu Union	DIA	Online
20 July	Discussion with Public Service Association	DIA	Auckland
21 July	Meeting with Auckland Council Planning Officers	DIA	Auckland
22 and 23 July	Discussion with Zone Two (Upper North Island councils below Auckland)	LGNZ and DIA	Taupō
22 July	Meeting with representative from Waikato-Tainui	MoLG	Hamilton
22 July	Webinar for all Mayors and Chief Executives	LGNZ	Online
22 July	Presentation at Local Government Funding Agency Shareholders event	DIA	Wellington
22 July	Infrastructure NZ policy event	MoLG and DIA	Auckland
23 July	Transformation hui with Christchurch City Council	DIA	Christchurch
23 July	Transformation hui with WSP	DIA	Christchurch
26 July	Joint Central/Local Government Steering Committee meeting	LGNZ, Taituarā and LGNZ	Wellington
28 July	Discussion with Amalgamated Workers Union NZ	DIA	Auckland
28 July	Meeting with Greater Wellington Regional Council Chair	MoLG and DIA	Wellington
28 July	Meeting with Gisborne District Council	DIA and Steering Committee Chair	Gisborne
28 July	Meeting with Waikato-Tainui	DIA	Ngaruawahia
29 July	Transformation hui with AECOM	DIA	Auckland
2 August	Meeting with Dame Karen Poutasi, Taumata Arowai Chair	MoLG	Online
2 August	Waikato District Council/ Transitional Industry Training Organisation Steering Group Meeting	DIA	Online
2 August	Webinar for council Chief Executives and nominated staff on transition planning	DIA	Online
3 August	Question and answer session with Waimakariri District Council	DIA	Online
4 August	Discussion with Tasman District Council on the transition approach	DIA	Online
5 August	Hui with all council's collectively from across Entity B	LGNZ and DIA	Taupō
5-6 August	Iwi Chairs Forum	MoLG	Online
5 August	Webinar for Mayors and Chief Executives with guest speakers from Beca and FarrierSwier	LGNZ	Online
6 August	Meeting with senior waters staff from councils across all of Entity A	DIA	Whangarei
6 August	Discussion at Zone Four meeting (greater wellington region)	LGNZ and DIA	Hutt City

Date (2021)	Engagement	Engagement with	Where
6 August	Meeting with Wairoa Mayor Craig Little	MoLG and DIA	Online
9 Aug-21	Local Authority Protection Programme Disaster Fund (LAPP) Board meeting	DIA	Wellington
9 August	Question and Answer session with Canterbury Engineering Managers Forum (collective of council staff across the Canterbury region)	DIA	Online
9 August	Wellington Council working group	LGNZ	Wellington
9 August	Grey District Council workshop	LGNZ	Online
9 August	Webinar for council elected members	LGNZ	Online
10 August	Discussion with Engineering Leaders Forum (includes IPWEA, Water NZ, Association of Consulting Engineers, Civil Contractors NZ, Cement NZ, University of Canterbury, Electricity Engineers Association, IT Professionals NZ)	DIA	Wellington
10 August	Kapiti Coast councillor workshop	LGNZ	Kapiti
10 August	Te Ao Māori Technical Working Group	DIA	Auckland
10 Aug-21	Overview of reform proposals and question and answer webinar hosted by Water NZ for their members	DIA	Online
11 August	Meeting with West Coast council Mayors	LGNZ	Online
11 August	Technical call to discuss indicative financial modelling and 'no worse off' funding support with Chatham Islands Council	DIA/LGNZ	Online
11 August	Technical call to discuss indicative financial modelling and 'no worse off' funding support with Manawatu District Council	DIA/LGNZ	Online
12 August	Technical call to discuss indicative financial modelling and 'no worse off' funding support with South Waikato District Council	DIA/LGNZ	Online
12 August	Technical call to discuss indicative financial modelling and 'no worse off' funding support with Hutt City Council	DIA/LGNZ	Online
12 August	Technical call to discuss indicative financial modelling and 'no worse off' funding support with Dunedin City Council	DIA/LGNZ	Online
12 August	Technical call to discuss indicative financial modelling and 'no worse off' funding support with Wellington City Council	DIA/LGNZ	Online
12 August	Technical call to discuss indicative financial modelling and 'no worse off' funding support with Whangarei District Council	DIA/LGNZ	Online

Date (2021)	Engagement	Engagement with	Where
12 August	Technical call to discuss indicative financial modelling and 'no worse off' funding support with Christchurch City Council	DIA/LGNZ	Online
12 August	Discussion with Amalgamated Workers Union NZ	DIA	Auckland
12 August	Discussion with Aviation and Marine Engineer Association	DIA	Auckland
13 August	Overview of reform proposals and question and answer webinar hosted by IPWEA for their members	DIA	Online
13 August	Deloitte – extending Wellington Water study to meet objectives of Waikato District Council/ Transitional Industry Training Organisation three Waters Workforce Strategy project	DIA	Online
13 August	LGNZ metro sector meeting	LGNZ and DIA	Wellington
14 August	Meeting with Waitomo District Council Mayor John Robertson	MoLG	Te Kuiti
16 August	Meeting with Forest and Bird Chief Executive Karen Hague	MoLG	Online
16 August	Central Hawkes Bay Regional Collaboration forum	LGNZ and DIA	Hawkes Bay
16 August	Technical briefing with Whangarei CEO and water general manager	LGNZ	Whangarei
16 August	Meeting with Local Government Funding Agency Executive	DIA	Online
16 August	Discussion with Amalgamated Workers Union NZ	DIA	Auckland
17 August	Speech at Bay of Plenty Regional Council Komiti Māori meeting	MoLG	Rotorua
17 August	Meeting with Bay of Plenty Regional Council Chief Executive and Chair	MoLG	Rotorua
17 August	Technical briefing with Otorohanga District Council	LGNZ	Online
18 August	Technical briefing with Wellington City Council	LGNZ	Wellington
18 August	Technical Briefing with Manawatu District Council	LGNZ	Online
16 August	Technical briefing with Matamata-Piako District Council	LGNZ	Online
18 August	Hui with Ngāti Whātua representatives	DIA	Auckland
19 August	Local Government Funding Agency investors meeting	DIA	Online /Auckland
19 August	Question and answer webinar with Mayors and Chief Executives	LGNZ	Online
19 August	Technical workshop with Manawatu Council	LGNZ	Online
19 August	Question and answer webinar for council Chief Financial Officers	Taituarā and DIA	Online

Date (2021)	Engagement	Engagement with	Where
20 August	Technical workshop with Central Otago councils	LGNZ	Online
20 August	Attended Entity A councils' people and workforce hui	DIA	Online
23 August	Wellington Councils working group	LGNZ	Online
24 August	Greater Wellington Region Wananga	LGNZ	Online
24 August	Hui of all iwi across Entity B	(no Government or LGNZ attendee, but content support provided in advance)	Online
24 August	Technical briefing with Christchurch City Council	LGNZ	Online
25 August	Meeting with New Zealand Utilities Advisory Group	DIA	Online
26 August	Meeting with Central Otago District Council	LGNZ and DIA	Online
26 August	Meeting with Minister and LGNZ leadership	MoLG and LGNZ	Online
26 August	Porirua workshop	LGNZ	Online
26 August	Hui with Te Uri o Hau representatives	DIA	Online
30 August	Hui with Whakatane District Council and Bay of Plenty iwi	DIA	Online
30 August	Technical briefing with Waimakariri District Council	LGNZ	Online
30 August	Meeting with Christchurch City Council Chief Executive	DIA	Online
30 August	Webinar for council Chief Executives and nominated staff on transition planning	DIA	Online
31 August	Question and answer session with Ashburton District Council	DIA	Online
31 August	Detailed workshop on Governance proposals	LGNZ	Online
31 August	Meeting with Clutha District Council	DIA	Online
31 August	Meeting with Federated Farmers (primarily to discuss the drinking water regulatory environment)	MoLG and DIA	Online
31 August	Meeting with a variety of council Mayors and Chief Executives on the funding allocations	LGNZ and DIA	Online
31 August	Technical briefing with Selwyn District Council	LGNZ	Online
31 August	Technical briefing with Upper Hutt City Council	LGNZ	Online
31 August	Technical briefing with Nelson City Council	LGNZ	Online
31 August	Technical briefing with Ashburton District Council	LGNZ	Online

Date (2021)	Engagement	Engagement with	Where
31 August	Data and Digital hui with Watercare	DIA	Online
31 August	Attended Entity A councils people and workforce hui	DIA	Online
1 Sept	Technical briefing with Palmerston North City Council	LGNZ	Online
1 Sept	Technical briefing with South Taranaki District Council	LGNZ	Online
1 Sept	Technical briefing with Ruapehu District Council	LGNZ	Online
1 Sept	Technical briefing with Masterton District Council	LGNZ	Online
2 Sept	Workforce Development Strategy Project Working Group (includes members from Hamilton City Council, Connexis, Taituarā, Wellington Water, Citycare Water, Water NZ, and Taumata Arowai)	DIA and Taituarā	Online
2 Sept	Hui with Te Uri o Hau representatives	DIA	Online
2 Sept	Detailed workshop on maintaining community voice	LGNZ	Online
2 Sept	Webinar with Mayors and Chief Executives including guest speakers from TasWater and Tasmanian councils	LGNZ	Online
2 Sept	Technical briefing with Greater Wellington Regional Council	LGNZ	Online
3 Sept	Webinar will all council elected members on the reforms with guests from Victoria Water in Australia	LGNZ	Online
3 Sept	Discussion with Public Service Association	DIA	Online
6 Sept	Detailed workshop on integration with council planning	LGNZ	Online
6 Sept	Hui with Young Elected Members	LGNZ	Online
6 Sept	Technical briefing with Tararua District Council	LGNZ	Online
6 Sept	Technical briefing with Dunedin City Council	LGNZ	Online
6 Sept	Hui with Ngāti Kahungunu Representatives	MoLG and DIA	Online
6 Sept	Stormwater asset transfer implications discussion group establishment with Queenstown Lakes District Council, Waimakariri District Council, Dunedin City Council	DIA	Online
6 Sept	Waikato District Council/ Transitional Industry Training Organisation Connexis Workforce Strategy project discovery Session 1	DIA	Online
7 Sept	Hui with all council's collectively from across Entity B	LGNZ and DIA	Online
7 Sept	Public Service Association discussion	DIA	Online

Date (2021)	Engagement	Engagement with	Where
7 Sept	Discussion with Citycare Water	DIA	Online
7 Sept	Discussion with Energy Academy about their Training model for Orion Energy	DIA	Online
7 Sept	Te Ao Māori Technical Working Group	DIA	Online
8 Sept	Detailed workshop on Rural Schemes	LGNZ and Steering Committee Chair	Online
8 Sept	Technical briefing with South Wairarapa District Council	LGNZ	Online
8 Sept	Hui with New Plymouth District Council and Taranaki iwi	DIA and Taumata Arowai	Online
8 Sept	Pre meet Hui with Hauraki, Thames-Coromandel and Matamata-Piako District Councils and local iwi	DIA	Online
8 Sept	Question and answer session with Wellington City Council	DIA	Online
8 Sept	Systems of Record scoping meeting with Watercare	DIA	Online
9 Sept	Stormwater asset transfer implications discussion group with Queenstown Lakes District Council, Waimakariri District Council, Dunedin City Council	DIA	Online
9 Sept	Watercare hui about the Waikato District Council/ Transitional Industry Training Organisation 3Water Workforce Strategy project	DIA	Online
9 Sept	Waikato District Council/ Transitional Industry Training Organisation Connexis Workforce Strategy project discovery session 2	DIA	Online
9 Sept	Technical briefing with Tasman District Council	LGNZ	Online
9 Sept	Technical briefing with Central Hawke's Bay District Council	LGNZ	Online
10 Sept	Technical briefing with Auckland City Council	LGNZ	Online
10 Sept	Presentation from Waikato District Council on interface and transfer of stormwater assets	DIA	Online
10 Sept	Ngāi Tahu management hui	DIA	Online
10 Sept	Discussion with Kaipara District Council General Manager People + Capability	DIA	Online
13 Sept	Webinar for council Chief Executives and nominated staff on transition planning	DIA	Online
13 Sept	Question and answer session with Selwyn District Council	DIA	Online
13 Sept	Technical briefing with Horowhenua District Council	LGNZ	Online

Date (2021)	Engagement	Engagement with	Where
13 Sept	Meeting with Amalgamated Workers Union NZ about their training volumes in Three Waters workforce	DIA	Online
13 Sept	Meeting with Whakatane District Council and local iwi	DIA	Online
13 Sept	Hui with Hauraki, Thames- Coromandel and Matamata-Piako District Councils and local iwi	DIA	Online
14 Sept	Meeting with Queenstown Lakes District Council	DIA	Online
14 Sept	Technical briefing with Waimate District Council	LGNZ	Online
14 Sept	Waikato District Council/ Transitional Industry Training Organisation 3Water Workforce Strategy project proposal	DIA	Online
14 Sept	Refresher webinar and question and answer session for all iwi/Māori contacts	DIA	Online
15 Sept	Employers and Manufacturers Association Members Forum	MoLG and DIA	Online
15 Sept	Hui with representatives from ngā iwi o Te Tau Ihu	MoLG and DIA	Online
15 Sept	Hui with Ngāti Kahungunu representatives	DIA	Online
15 Sept	Technical briefing with Kaipara District Council	LGNZ	Online
15 Sept	Charging and pricing hui with Waikato District Council	DIA	Online
16 Sept	Hui with Ngāti Wai representatives	DIA	Online
16 Sept	Webinar for Mayors and Chief Executives to discuss key areas of feedback on reform proposals	LGNZ	Online
16 Sept	Technical briefing with South Waikato District Council	LGNZ	Online
16 Sept	Data and Digital hui with Wellington Water	DIA	Online
16 Sept	Discussion with Public Service Association	DIA	Online
16 Sept	Discussion with First Union	DIA	Online
16 Sept	Meeting with Healthy Waters, Auckland Council – regarding the Waikato District Council/ Transitional Industry Training Organisation Three Waters Workforce Strategy project	DIA	Online
17 Sept	Hui with Rotorua Lakes Council and iwi representatives	MoLG and DIA	Online
17 Sept	Meeting of sub-group of Entity C Chief Executives (made up of 6 representative CEs)	LGNZ	Online

Date (2021)	Engagement	Engagement with	Where
17 Sept	Meeting with Watercare – Chief Executive and General Manager Healthy Waters	DIA	Online
17 Sept	Wellington Water - seeking interest in participating in Waikato District Council/ Transitional Industry Training Organisation 3Water Workforce Strategy project	DIA	Online
20 Sept	Charging and pricing hui with Watercare	DIA	Online
20 Sept	Water Services Managers Group (Water NZ) Committee meeting	DIA	Online
20 Sept	Waikato District Council/ Transitional Industry Training Organisation 3Water Workforce Strategy project proposal	DIA	Online
20 Sept	Technical meeting with Wellington Councils	LGNZ	Online
20 Sept	Hui with Ōpōtiki District Council and iwi representatives	DIA	Online
21 Sept	Meeting of all Mayors and Chief Executives from across Entity C	LGNZ	Online
21 Sept	Attend New Plymouth District Council meeting as technical support	DIA	Online
22 Sept	Meeting with Waikato District Council Waters Governance Board	MoLG and DIA	Online
22 Sept	Meeting with Ruapehu District Council	DIA	Online
22 Sept	All of entity B councils collective meeting	LGNZ and DIA	Taupō
22 Sept	Discussion with E Tu Union	DIA	Online
22 September	Hui with Ngai Tahu and working party of South Island Mayors	MoLG and DIA	Online
23 Sept	Pre-meeting with Rangitāne Tū Mai Rā Trust	DIA	Online
23 Sept	Meeting with Gisborne District Council	MoLG and DIA	Online
23-24 Sept	Visit to Clutha District rural water scheme	DIA	Clutha
27 Sept	Discussion at Canterbury Mayoral Forum	MoLG, LGNZ and DIA	Online
27 Sept	Virtual roadshow of Australian water services hosted by SPICAE	LGNZ, Taituarā and DIA	Online
27 Sept	Hui with Te Rūnanganui-o-Ngāti Hikairo	DIA	Online
30 Sept	Discussion at Zone Six (lower South Island councils) meeting	MoLG, LGNZ and DIA	Online
30 Sept	Webinar for Mayors and Chief Executives to discuss key areas of feedback on reform proposals	LGNZ	Online

Appendix B: Emerging themes and issues from engagement with local government

This appendix summarises the key themes of feedback Local Government New Zealand and the Department of Internal Affairs have heard through their engagements with local government throughout the two-month engagement process. It focuses primarily on the main feedback heard at the time of drafting the Cabinet paper and from the specific workshops run by Local Government New Zealand during the engagement process. It does not reflect the feedback received in formal submissions from each council, which will be analysed, summarised and reported on separately.

As the Government is committed to continuing the partnership approach with local government, engagement on the three waters reform is not constrained to a point in time (e.g. the August/September 2021 period) and will continue throughout the lifetime of the reforms.

This table focuses on the high-level themes of feedback heard across the meetings and workshops – it does not capture every unique piece of feedback that officials have heard at a local level.

Theme / issue	Suggested options from local government	Next steps and work underway
<p>Governance arrangements for the water services entities</p> <ul style="list-style-type: none"> • Regional Representative Group: <ul style="list-style-type: none"> ○ Number of representatives proposed does not give individual councils or hapū/Iwi enough representation ○ Concerns that Iwi should have been involved in the design process ○ Lack of influence the Regional Representative Groups have over the board of the entities ○ Currently unclear how people would be selected for this group or removed • Concern over the arrangements being 50:50 with mana whenua (this feedback is mostly in the South Island and relates to a narrative that mana whenua do not make up 50% of their population; or have not provided anything, like the council assets, to 'earn' this role) • The proposed 'ownership structure' does not reflect ownership as most councils currently understand • If local authorities are owners on behalf of communities, then they would like more ability to exercise the rights that a reasonable person would associate with ownership <ul style="list-style-type: none"> ○ If councils have no equity or assets, and limited influence, public will view that as a loss of ownership • How can we achieve balance sheet separation without dramatically reducing control and accountability to communities and mana whenua? 	<ul style="list-style-type: none"> • All councils (and mana whenua) have a seat on the Regional Representative Group – a Shareholders Council type model • The entity must "give effect to" council Long-Term Plans, for at least an initial period • The Regional Representative Group develop a "kawenata" or covenant that sets out the expectations at a principles level for our communities that the entities have to deliver to and live up to. This would improve accountability to local councils and mana whenua • Options could include combinations of the scenarios already tested (e.g. a shareholding model, with government support in terms of a liquidity facility, and stronger role for the Regional Representative Groups) • People are finding the governance model hard to understand. Explaining it more clearly will resolve some concerns, including a better diagram • Two alternative models suggested are: <ul style="list-style-type: none"> ○ A council-controlled organisation model ○ A cooperative model, similar to Fonterra 	<ul style="list-style-type: none"> • While the governance arrangements must give effect to the Government's bottom lines, there are certain design aspects that can be further explored with local government and Iwi/Māori to help address some concerns • A workshop was run by Local Government New Zealand (LGNZ) to discuss this issue and identify alternative options preferred by local government • The Department also held a workshop with LGNZ, the Treasury, the Ministry of Business, Innovation and Employment and consultants to discuss alternative solutions and options to modify the proposed model • The Cabinet paper proposes establishment of a working group on representation, governance and accountability arrangements for the new water services entities - this group would recommend to the Minister of Local Government an alternative design that seeks to address the issues and concerns that have been raised, while remaining consistent with the Government's reform objectives and bottom lines • In discussion with LGNZ, a draft Terms of Reference has been prepared for this working group • The paper seeks Cabinet's agreement to the Minister of Local Government finalising the terms of reference and appointing membership of the group, in consultation with the Prime Minister, Minister of Finance, and President of LGNZ • Further refinements to the policy can also be amended in the select committee stage of establishing legislation following submissions from the public and local government
<p>Accountability</p> <ul style="list-style-type: none"> • Lack of mechanisms to hold the board to account - concern that the inability to appoint and remove directors will lead to poor operating performance by water services entities • The Independent Selection Panel is seen as an unnecessary additional layer between the Regional Representative Group and the entity <ul style="list-style-type: none"> ○ Removes democratic accountability over the entity • Protections against privatisation have been weakened 	<ul style="list-style-type: none"> • While the Independent Selection Panel makes recommendations for appointment, the Regional Representative Group should be able to hire/fire and hold the board to account • Independent Selection Panel could be an advisory board to the Regional Representative Group, not an additional layer between the Representative Group and the Board <ul style="list-style-type: none"> ○ The Independent Selection Panel could ensure the candidates have the necessary competencies etc, and guide them through the process of selection 	<ul style="list-style-type: none"> • While the accountability mechanisms must give effect to the Government's bottom lines, there are certain design aspects that can be further explored with local government and Iwi/Māori to help address some concerns • A workshop was run by Local Government New Zealand (LGNZ) to discuss this issue and identify alternative options preferred by local government • The Department also held a workshop with LGNZ, the Treasury, the Ministry of Business, Innovation and Employment and consultants to discuss alternative solutions and options to modify the proposed model

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Theme / issue	Suggested options from local government	Next steps and work underway
<ul style="list-style-type: none"> Concern that communities would hold the councils accountable for the water entities' performance, and under the current proposed model the councils wouldn't have any real control over the entity <ul style="list-style-type: none"> There is mixed feedback on this with some councils wanting a greater role, while others would like clearer accountability straight from the consumer/community to the entity Differentiating consumer accountability (which will be covered by economic regulation work) from community accountability 	<ul style="list-style-type: none"> The Regional Representative Group then holds the board to account with respect to delivery against the Statement of Performance Expectations Having the ability to hire/fire retains the ability to have strong influence over expectations Stronger direct accountability mechanisms for councils to call water services entities to account for non-delivery or non-performance 	<ul style="list-style-type: none"> The Cabinet paper proposes establishment of a working group on representation, governance and accountability arrangements for the new water services entities - this group would recommend to the Minister of Local Government an alternative design that seeks to address the issues and concerns that have been raised, while remaining consistent with the Government's reform objectives and bottom lines In discussion with LGNZ, a draft Terms of Reference has been prepared for this working group The paper seeks Cabinet's agreement to the Minister of Local Government finalising the terms of reference and appointing membership of the group, in consultation with the Prime Minister, Minister of Finance, and President of LGNZ Further refinements to the policy can also be amended in the select committee stage of establishing legislation following submissions from the public and local government
<p>Community voice</p> <ul style="list-style-type: none"> Concern smaller and rural communities will not have sufficient influence in the large entities, and the larger cities and towns will be prioritised for investment Limited number of people on the Regional Representative Group will mean the priorities of all councils/communities will not be represented. This is particularly reflected in concerns that exemplify rural, provincial and metropolitan differences Concern that if an entity is not located in their region (or the council is not on the Regional Representative Group) then your voice will not be heard, and the unique needs of the community will not be taken into account Concern levels of service and maintenance will drop after the transition (e.g. call out time if the entity staff is based in main centres) Concern that councils will not be able to influence decisions they feel are important to their communities' aspirations Ability for communities to have a degree of self-determination and have higher levels of service than other areas may want (e.g. chlorination) Need for a mechanism to deal with councils' competing priorities Communities need a simple and easy mechanism to have their say Diversity (both cultural and geographic) within entities would leave local issues overlooked 	<ul style="list-style-type: none"> Create more links from the entity back to councils, including around prioritisation. For example, an annual planning process that incorporates council priorities and is agreed at a regional level, or a direct link from Long Term Plans into entity plans Council Asset Management Plans could be used to challenge the water services entities and hold them to account Sub regional groups could provide clear performance expectations and key performance indicators that water services entities need to meet Create better protection for the consumer – a layer they can complain to when things go wrong, eg an ombudsman-style role Have multiple consumer forums within one entity, enabling them to operate at a more localised level Equal representation between rural, provincial and metro councils on Regional Representative Groups would allow small communities to be heard 	<ul style="list-style-type: none"> A workshop was run by LGNZ to discuss this issue and seek alternative options preferred by local government Part of the governance and accountability workshop run by the Department focused on the community voice and influence issues, and options identified by local government and central government are being reconsidered There is room to further refine and amend policy decisions to strengthen the community voice and influence mechanisms. This will include consideration of community voice in the above proposed work, as well as further policy work developed in key areas such as: <ul style="list-style-type: none"> Proposals relating to the maintenance of exemptions, by the new water services entities, under the Water Services Bill; and Investment prioritisation process for new entities, including putting together transitional asset management plans building on existing Long-Term Plans The development of service level standards. Concerns related to pricing and horizontal equity will be considered in decisions on the design of economic and pricing regulation, being led by the Ministry of Business, Innovation and Employment. The work led by the Ministry of Business, Innovation and Employment will also include consideration of consumer protection including duties to vulnerable consumers and mechanisms for consumer disputes Further refinements to the policy can be amended in the select committee stage
<p>How the system will work with the resource management and planning system</p>	<ul style="list-style-type: none"> A nationally agreed methodology for how the water services entities prioritise operating renewals and capital spend for their region. This needs to be bound into the spatial planning and Natural & Built Environment Act planning processes 	<ul style="list-style-type: none"> Cabinet has previously agreed that an objective of the water services entities will be supporting and enabling housing and urban development – this will mean that the entities will need to engage in a meaningful and effective manner with local authorities, and directly with communities, when

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Theme / issue	Suggested options from local government	Next steps and work underway
<ul style="list-style-type: none"> Water shapes how communities grow and develop – therefore councils want to be able to influence water infrastructure and services provision as part of this mix Concern about alignment between entities and communities’ aspirations for future growth How the relationship between councils, developers and entities will operate How the Government Policy Statement, spatial plans, the proposed Natural & Built Environment Act and the regulators (including regional councils) will all work together How will the strategic trade-offs happen with the entities, and what role will councils have in this The different operating environment for growth councils 	<ul style="list-style-type: none"> Connection between spatial planning and water planning needs to be strong and seamless <ul style="list-style-type: none"> Spatial planning needs to sit with councils who tell the water services entities where they need water infrastructure Water services entities focus on nuts and bolts of delivering water services Strong collaboration is key Legislated transparency around spatial planning and alignment of timeframes across the water services entities councils as well as with other agencies like Waka Kotahi Create mechanism for councils to challenge issues and prioritisation of investment Introduce mediator/adjudicator on prioritisation 	<ul style="list-style-type: none"> developing their investment prioritisation methodology and asset management plans Workshops have been organised with the Ministry for the Environment to discuss alignment between the three waters and resource management systems The joint Central-Local Government Three Waters Steering Committee has also been asked to closely consider how the interface between the three waters and resource management reforms can be made to work together, and to work together with officials from the Department and the Ministry for the Environment on this A technical working group is going to be established to ensure the legislative and policy settings will support the range of interactions between water service entities and local authorities that are needed to enable housing and urban development Work is underway to consider and advise on the detailed functions, duties and expectations of water services entities to participate in local and regional planning processes and to give effect spatial and other plans - this work will inform the drafting of the second water services entity The Central and Local Government Three Waters Steering Committee will be used to inform advice on entity functions and duties related to local and regional plans
<p>Stormwater</p> <ul style="list-style-type: none"> More certainty and clarity on how stormwater assets will be transferred to the water services entities, and how it will be managed The interdependencies of stormwater, land drainage and treatment with planning subdivision and development Interdependencies between stormwater and other council-run assets (e.g. wetlands, roads, parks) 	<ul style="list-style-type: none"> Provide further clarity and certainty on how stormwater will be included in the reforms, and what the implications might be for regional councils and communities 	<ul style="list-style-type: none"> A report prepared by the Stormwater Technical Reference Group has been published, and outlines initial thinking on how stormwater could be included in the three waters reform Further policy work is underway on the detail required to transfer and manage stormwater assets under the proposed three waters system, final decisions on these aspects will be considered by Cabinet at the beginning to middle of next year, to be incorporated into the drafting of the second water services entities bill Pilot studies are being developed with a group of councils to test how the transfer of stormwater assets might occur. The outcomes of these pilot studies will inform both the policy work on the second bill and work in the transition unit
<p>The treatment of rural water schemes in the new system</p> <ul style="list-style-type: none"> Rural communities are concerned they will subsidise urban areas, especially in relation to wastewater systems Rural communities have a different expectation of service, for example townships might have a restricted supply Many rural schemes have a governance structure attached to them, which the community and farmers have contributed to and have a sense of ownership. They are concerned about what role and voice they would have in the new system 	<ul style="list-style-type: none"> Provide clarity on how and when to apply acceptable solutions (this is related to the Water Services Bill and Taumata Arowai) Provide clarity and advice on whether territorial authorities can retain water schemes Define more clearly what rural means - stock schemes, rural schemes, small towns, houses? Provide more clarity on what is in the Water Services Bill and how it will affect rural water schemes versus how three waters reform will affect them. 	<ul style="list-style-type: none"> Taumata Arowai is undertaking significant work to develop the mechanisms needed to support unregistered supplies and ensure that the regulatory requirements are fit for purpose (for example, through the development of acceptable solutions that can be used by small suppliers) Changes were made to the Water Services Bill to extend the transition window for small unregistered suppliers to align with the transition to and establishment of the new water services entities – this will enable the entities to provide support to the small rural suppliers to transition to the new regulatory regime

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Theme / issue	Suggested options from local government	Next steps and work underway
<ul style="list-style-type: none"> Some rural schemes have been transferred to council “ownership” by default, they want to know if it will be possible to “buy” back ownership of their scheme One size doesn’t fit all – rural schemes are hugely variable and complex, and therefore feel they need more tailored and flexible solutions/treatment The proposed supply point solution has generated feedback regarding its onerous and expensive implementation – there may be a need to revisit this to ensure the solution is in fact a viable alternative Lack of clarity around what the reform means for rural schemes 	<ul style="list-style-type: none"> Some rural schemes have been transferred to council “ownership” by default. Is it possible for rural schemes to “buy” back ownership of their scheme so it is no longer council owned? Create a specific mechanism to reflect a rural local voice into an entity 	<ul style="list-style-type: none"> As part of the transition, further work will be undertaken to identify and understand all of the existing service delivery arrangements between councils and community/rural schemes and consider what will happen to these schemes and arrangements in future. This Cabinet paper proposes the establishment of a technical advisory group to assist with, and advise the transition programme on, these matters
<p>Complexity of the reforms and how the new system will operate</p> <ul style="list-style-type: none"> Lack of clarity about what the reforms will mean for individual communities and households The proposed model is very complex, and is hard to explain to the general public Lack of clarity around the new regulatory environment, and how it will all work together (Taumata Arowai, the economic regulator, and regional councils) 	<ul style="list-style-type: none"> Material and communication support needs to be provided by the Government which more clearly explains the proposed three waters reform and its implications for the general public Some councils have requested a pause in the reform programme until their communities better understand the details of the reform, and there is more certainty around the role of Taumata Arowai and the economic regulator Some councils are seeking further information on how the regulatory environment will work together, as they are finding it hard to understand the full impacts of the reform without this 	<ul style="list-style-type: none"> Material is being prepared and distributed to better explain the reforms to the public and local authorities, including targeting key areas where there is misunderstanding regarding the proposals Officials are re-examining models used overseas and in other sectors in New Zealand to assess whether any aspects can be incorporated to improve or simplify the proposed three waters services system model Taumata Arowai is undertaking engagement with the sector to increase understanding of the implications of the Water Services Bill, and the work that Taumata Arowai will be doing The Ministry of Business, Innovation and Employment is currently preparing a discussion document for public consultation on the design of the economic regulation regime and consumer protection mechanisms – decisions on the discussion document will be sought from Cabinet in September / October Consideration on how the economic regulation regime will work alongside the governance arrangements will be reported back on and considered for the second water services entities bill with the intent of making these arrangements as seamless and efficient as possible for water services entities
<p>Process of the reform</p> <ul style="list-style-type: none"> Some councils feel that the pace of the reform has been too fast, and there is not enough time for them to properly understand the Government’s proposals and the implications for their communities The timing of the three waters reform at the same time as resource management reforms and the Future for Local Government Review has placed a lot of pressure on the sector and created uncertainty Many councils currently feel they have to front the Government reforms to their communities, and find they don’t have the proper information to respond Some councils are wanting to explore more alternatives to the reform options and are commissioning their own reviews of the Government’s modelling 	<ul style="list-style-type: none"> Some councils have requested a pause in the reform programme until their communities better understand the details of the reform, and there is more certainty around the role of Taumata Arowai and the economic regulator Material and communication support needs to be provided by the Government that more clearly explains the proposed three waters reform and its implications for the general public 	<ul style="list-style-type: none"> Material is being prepared and distributed to better explain the reforms to the public and local authorities, including targeting key areas where there is misunderstanding regarding the proposals Workshops have been organised with the Ministry for the Environment to discuss alignment between the three waters and resource management systems, with an intention to provide initial advice to Ministers over the next few months The Future for Local Government Review is at the beginning stages, and there is time over the next two years for local government to input into and influence that work

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Appendix C: Emerging themes from engagement with iwi/Māori

This appendix summarises key themes of feedback the Department of Internal Affairs has heard through our engagements with iwi/Māori throughout the three waters reform (the Reform) process. It focuses primarily on feedback heard since the Government released detailed information on the case for change and announced policy design of the proposed entities, as previous feedback was incorporated into earlier Cabinet advice.

The Department of Internal Affairs is undertaking a tikanga-led engagement with iwi/Māori where we actively seek invitations from whānau/hapū/iwi to engage at home on their terms. This engagement is not constrained to a point in time (e.g. the August/September 2021 period) and will continue throughout the lifetime of the Reforms.

This table focuses on high-level themes of feedback and does not capture every unique piece of feedback that officials have heard at a local level.

What the Department has heard	What solutions have been proposed
Governance arrangements	
<p>Representation on the Regional Representative Group</p> <ul style="list-style-type: none"> • There has been strong, broad support from iwi/Māori for the 50/50 representation in the joint oversight of each entity. • However, similarly to concerns raised by local government, iwi/Māori have expressed concerns around the number of seats proposed given the large geographical areas as proposed entities will cover. • Of particular concern expressed by smaller iwi/hapū, specifically those that have yet to settle, is that larger, settled iwi, may take up these representative roles and that their interests in the strategic direction and oversight of the entities will be lost. • Noting these reservations mana whenua groupings within regions and across the breadth of some entities, have begun coming together to progress thinking of how they may work together through transition and into the future system of these entities. • In some entities, iwi/hapū are beginning to advance discussions around governance arrangements with local government. 	<ul style="list-style-type: none"> • This is an area where the Government will continue to work with iwi/Māori and local government to find the right balance of representation on the Regional Representatives Group. • The design of the entities also includes mechanisms to protect and promote iwi/Māori rights and interests expressed at a local level through Te Mana o Te Wai Statements and in conjunction with joint oversight arrangements. Iwi/Māori have cautiously welcomed these mechanisms – noting some reservations around the implementation of these, discussed below.
<p>Identifying mana whenua</p> <ul style="list-style-type: none"> • The proposed governance arrangements require an identification of mana whenua. Feedback officials have received on this is that it is inappropriate for the Crown to determine who is and is not mana whenua. • Iwi/Māori have been clear that when the Crown use terms, such as ‘mana whenua’, they are not to redefine the words to meet the views of the Reform. 	<ul style="list-style-type: none"> • In the first instance, the Government is being guided by existing agreed representative bodies and entities, such as Post-Settlement Governance Entities, Iwi Authorities under the Resource Management Act and mandated pre-Settlement Iwi entities. This does not preclude conversations with any mana whenua groupings outside of these formal structures. • The Government will continue to work with iwi/Māori to implement the tikanga-based process outlined in <i>Cabinet Paper Three: Protecting and Promoting Iwi/Māori Rights and Interests in the New Three Waters Service Delivery Model</i> for iwi/Māori to determine who represents mana whenua in each entity.
<p>Board competencies</p> <ul style="list-style-type: none"> • Iwi/Māori welcome the design features that would require specific competencies relating to the exercise of kaitiakitanga in respect of service-delivery. • Similar to the above concerns expressed by smaller iwi/hapū, they would like to ensure competencies that are more representative of all communities within their entity’s boundaries are included in this. Meaning that in addition to board Te Ao Māori competencies, iwi/Māori would also like to see Board competencies include understanding small rural marae and papakāinga, and urban Māori needs. • Iwi/Māori have expressed a desire to appoint directly to the Board. <p>In recognition of the step-change proposed, iwi/Māori have sought assurances that those who represent local government have the proven experience to operate in this new way of working.</p>	<ul style="list-style-type: none"> • Officials have proposed a mix of collective board competencies to provide for varying representative interests. • In drafting these competencies into legislation, officials will need to ensure they adequately cover the range of rural, provincial and metropolitan interests and expertise.
<p>Managing opposition to the Treaty-based approach</p> <ul style="list-style-type: none"> • Through the August-September period, officials have been made aware of an anti-Treaty approach that iwi/Māori have been subject to throughout the Reform process and have heightened following announcements of reform proposals on 30 June 2021. 	<ul style="list-style-type: none"> • This Government considers the joint oversight and strategic direction between local government and iwi/Māori is an important element of a Treaty-based approach to protect and promote iwi/Māori rights and interests through the Reforms. This was agreed by Cabinet through Cabinet Paper 3 (June 2021).

What the Department has heard	What solutions have been proposed
<ul style="list-style-type: none"> Much of this rhetoric is regarding the joint role on the Regional Representative Group and Board competencies. Iwi/Māori have expressed that it is unfair for them to be on the receiving end of this racist rhetoric given these are the Government proposals, not their proposal. This mirrors the above reflection from local government that they are currently fielding reaction to the Government’s proposal. 	
Te Mana o te Wai Statements	
<p>Supporting the development of Te Mana o te Wai Statements</p> <ul style="list-style-type: none"> There has been broad support for Te Mana o te Wai statements as an important expression of localised rights and interests in how these services are delivered. There have been some concerns/questions stemming from a misunderstanding with some Iwi/Māori that these statements would apply across the whole entity, outside of the intended rohe/takiwā. Iwi/hapū have expressed concerns around their capacity to develop these statements as their capacity is already stretched across a range of kaupapa, such as Resource Management requirements and their own whānau wellbeing interest. Officials have received clear feedback from Iwi/Māori that Te Mana o te Wai statements can only be developed by mana whenua. Confusion from Iwi/Māori on how the proposed Te Mana o te Wai statements for the Three Waters Reform are linked to Te Mana o te Wai proposed by the National Policy Statement for Freshwater Management and the Resource Management Reform. 	<ul style="list-style-type: none"> Department officials continue to work with Iwi to clarify that these Statements will be at a local level, (e.g. not one per entity). The Reform proposals include a provision for the entities to support mana whenua from the ‘go-live’ date in July 2024. Provision has also been made for funding to support mana whenua capacity and capability until that period including establishing representative interests and developing Te Mana o te Wai statements. Officials will continue to work with Iwi/Māori on what this support looks like to reflect the needs of Iwi across New Zealand.
<p>Conflicting statements</p> <ul style="list-style-type: none"> As Iwi/hapū boundaries often overlap, concerns have been raised about how the entities will manage conflicting Te Mana o te Wai statements. 	<ul style="list-style-type: none"> Officials have begun discussions with mana whenua groups around what a Te Mana o te Wai Statement could look like. These preliminary discussions do not give rise to concerns that the potential for conflicting statements is high. However, officials will continue to monitor this possibility as Iwi begin to form up early Te Mana o Te Wai statements. We have also focused on emphasising that the Te Mana o te Wai statements do not allocate property rights – so issues of shared objectives under a broad Te Ao Māori perspective are more likely than otherwise may be assumed As discussed below, officials will also be working with Iwi/Māori – particularly Iwi/hapū – to form up a tikanga-based framework for conflict resolution.
<p>Accountability of statements</p> <ul style="list-style-type: none"> Iwi have raised questions around how Te Mana o Te Wai statements will be implemented and the entities will be kept accountable to them. 	<ul style="list-style-type: none"> As discussed in Cabinet Paper Three, entities will have to respond to how they have considered these statements and report back to Iwi on this. This will also need to inform the more detailed design of the proposed governance model. Officials will need to continue to monitor whether this gives the right level of accountability as this new system is implemented over the coming years, as part of a broader stewardship function.
<p>What makes an expression of Te Mana o te Wai and inclusion of Mātauranga Māori</p> <ul style="list-style-type: none"> Through our engagements Iwi/Māori have begun discussing what might be an acceptable expression of Te Mana o Te Wai. There is a desire to see more inclusion of Mātauranga Māori expressed in these statements. 	<ul style="list-style-type: none"> Officials have begun discussions with Iwi/Māori around what a Te Mana o te Wai statement could look like, some examples of existing documents familiar to Iwi were provided in Cabinet Paper Three. Officials will continue working with Iwi/Māori to ensure the inclusion of mātauranga Māori is enabled through these tools. Some examples raised with us include waiata, haka, and pūrākau.
Existing Relationships	
<p>Relationships of Iwi with councils</p> <ul style="list-style-type: none"> The Department has received mixed feedback from Iwi/Māori with regard to their current relationship with councils and the way this impacts their confidence in the Reform proposals. The partnership role in the joint oversight on the Regional Representative Group has been broadly accepted by Iwi/Māori as necessary and welcomed. 	<ul style="list-style-type: none"> Positive relationships have been reflected in the way councils and their mana whenua partners have come together to engage with the Government reform proposals and collectively discuss how the Regional Representative Group arrangements might work in practice. Where these relationships are not as strong, officials will continue to work with Iwi/Māori and councils to consider how they can come together through the Reform kaupapa and discuss the opportunities for a different relationship presented through the Reforms.

What the Department has heard	What solutions have been proposed
<ul style="list-style-type: none"> In the places where Iwi/Māori and councils have developed a relationship, there is some concern that the proposed joint oversight role on the Regional Representative Group could weaken these relationships. Conversely, Iwi that do not have a strong relationship with their councils see this role as an opportunity to improve it. Post-Settlement Governance Entities have expressed concerns that the proposed Regional Representative Group will create a barrier between the desired and direct relationship between the Crown and the Post-Settlement Governance Entities. 	<ul style="list-style-type: none"> In anticipation of the outcome of the Review into the Future for Local Government, officials see this as an opportunity to reimagine the relationship between Iwi and councils to work together to support the four 'wellbeings' for their communities.
<p>Views of who holds a 'choice' in the Reforms</p> <ul style="list-style-type: none"> Iwi have asked questions about why they are not joint partners under this 8-week period, and that they are not reflected in their council feedback on the Reforms. Iwi have asked if they can express their views on reform directly to the Government, independent of their council. Further concerns have also been expressed about the potential future choice councils will have in whether to opt-in (or opt-out) to reforms. 	<ul style="list-style-type: none"> Officials have welcomed direct feedback from Iwi/Māori and have continued direct engagement throughout the 8-week period with a tikanga-based approach. This will continue throughout the lifetime of reform.
<p>Relationships with local three waters staff</p> <ul style="list-style-type: none"> Many Iwi have raised concerns that the person or people within council they have a strong relationship with will no longer be available to them once the new entities are established. 	<ul style="list-style-type: none"> Three waters services will always require local knowledge. The Government has already guaranteed local staff below executive level a role in the new entities that will retain key features of their role, including their location.
<p>Relationships of Iwi with other Iwi – conflict resolution</p> <ul style="list-style-type: none"> By in large, there are strong relationships between Iwi/Māori. However, there remains concerns for how the new system will manage conflicts between Iwi in terms of their individual rights and interests, particularly in terms of Treaty Settlement legislation (see further detail on Settlements below). Iwi/hapū note that these decisions and resolution processes should be led by a tikanga-based approach, but with an appropriate framework in place to guide this. 	<ul style="list-style-type: none"> Officials recognise the importance for Iwi/Māori to have positive, ongoing relationships with each other, and their council partners. This will help ensure the mechanisms proposed in Cabinet Paper Three are maximised. Department officials envision approaches to conflict resolution be designed and led by Iwi/Māori but with support from the Government where necessary. Examples outlined in Cabinet Paper Three include appointing a Crown/Māori Relationship Lead and provision of reasonable financial resource to support Iwi/Māori through their tikanga-based processes within their entity's boundary. The Government will need to continue to work with Iwi/Māori to ensure these proposals are fit for purpose on an ongoing basis.
Upholding Partnership Arrangements	
<p>Upholding existing Treaty Settlements/arrangements</p> <ul style="list-style-type: none"> One of the most common and strong concerns officials have heard throughout engagement with Iwi/Māori is around how the Government intends to uphold Treaty Settlements throughout the Reform. Iwi have also asked who will be responsible for monitoring how Treaty Settlements are upheld by the entities. Similarly, Iwi/Māori with existing service delivery arrangements (such as Joint Management Agreements through Settlements) with their councils and/or water services providers, want to understand if these arrangements will transfer to the new entities and how they will be upheld. Officials have also heard concerns from Iwi/Māori, who own land that assets sit on and/or draw water from, that these arrangements need to be recognised and provided for specifically. 	<ul style="list-style-type: none"> Officials are clear that existing Treaty Settlements must be upheld through the Reform. Where there are arrangements regarding three waters services and delivery, these will also be transferred to the new entities to administer. Iwi/Māori may also wish to indicate how they expect the entities to uphold their existing arrangements through a Te Mana o te Wai Statement. Department officials continue to work with Te Arawhiti, Ministry for the Environment and other Government agencies to refine and monitor how the Reforms can uphold arrangements across a number of sectors where settlements are entered into/implemented. For example, through resource management functions. The Department will continue to work with settled and pre-settled Iwi/hapū to refine how these provisions can provide them with confidence that their Treaty Settlements will be upheld in relation to three waters service delivery. When established, the entities will be required to form meaningful relationships with mana whenua within their boundaries to establish how they can best work together.
<p>Privatisation</p>	<ul style="list-style-type: none"> As outlined in <i>Cabinet Paper Two: Designing the new three waters service delivery entities</i>, mechanisms are proposed to protect the entities from future privatisation. Officials are keen to continue to work with Iwi/Māori and local government to hear feedback on how we can further refine these mechanisms.

What the Department has heard	What solutions have been proposed
<ul style="list-style-type: none"> Similar to councils, Iwi/Māori have also expressed concerns that this process will allow the assets to be privatised. They would like to see stronger mechanisms in place to minimise and avoid the possibility of privatisation. 	
Impacts on Iwi/Māori Participation	
<p>Capability and capacity to engage in reform proposal discussions</p> <ul style="list-style-type: none"> Iwi/Māori are keen to engage in the Reform discussions but have indicated to Department officials that this requires them to balance competing priorities within their finite resources. Iwi/Māori note that they are also engaging in other matters regarding their economic, cultural, social and environmental health and wellbeing. This includes engaging on other Government reforms. Many Iwi/Māori have reached out for additional resources and support to develop their capability and capacity to continue to engage in these discussions. Without this support, they have expressed that they will have to prioritise where they can participate. They are clear that they do not want the inability to participate in the early reform discussions to stop them from participating in the future system. 	<ul style="list-style-type: none"> The Reform proposals include a provision for the entities to support mana whenua from the 'go-live' date in July 2024. Until that time, the Department is aware that Iwi require further support to continue to work through the transition period. The Government is investigating how it may provide reasonable support to Iwi/Māori and I expect to finalise this approach with the Minister of Finance, consistent with Cabinet delegations.
<p>Capability and capacity to participate in transition</p> <ul style="list-style-type: none"> Many Iwi/hapū organisations have signalled their interest in participating and preparing for transition. Officials continue to receive requests to collaborate on elements of the transition planning and industry transformation. An important element of this for Iwi/Māori is how they can work with the Government to upskill the Māori workforce to have a future role in the water industry. As above, many Iwi/Māori have expressed that resource constraints limit their ability to undertake this work to the full extent they would like. 	<ul style="list-style-type: none"> In Budget 2021, the Government announced \$296 million to support the transition to and implementation of the new entities. This will include working with Iwi/Māori through the industry transformation work.
<p>Capability and capacity to participate in the future system</p> <ul style="list-style-type: none"> Iwi/Māori want confidence that their ability to participate in the future system is continually supported. Iwi/Māori have raised concerns that the suite of mechanisms proposed to protect and promote their rights and interests also requires involvement which they may not be able to resource. 	<ul style="list-style-type: none"> The Reform proposals include a provision for the entities to support mana whenua to maximise the opportunities designed into the new system and are best place to 'go-live' from July 2024.
<p>Pace of the Reform</p> <ul style="list-style-type: none"> Also contributing to the capability and capacity of Iwi/Māori participation in these discussions is the pace of the Three Waters Reforms and the volume of parallel reforms, such as the Resource Management Reforms. Some Iwi/Māori have said the Government is moving too fast for them to keep up. Others have said this is too slow and that Three Waters Reforms should have occurred long ago 	<ul style="list-style-type: none"> Officials are clear that engagement with Iwi/Māori regarding Three Waters Reforms will be ongoing throughout the lifetime of Reform (until July 2024). Officials will continue to work with Iwi/Māori to refine Reform proposals to ensure that they are consistent with the high-level Reform objectives and are able to meet Iwi/Māori's desired outcomes. Many of the solutions highlighted above, including the provision of support for Iwi/Māori participation throughout the different phases of the Reform and the alignment across different Government agencies, will help to alleviate some of the pressures on Iwi/Māori capacity to participate.
<p>Sequencing of reform</p> <ul style="list-style-type: none"> Iwi/Māori continue to raise concerns around the timing of these Reforms in relation to their other priorities including Treaty Settlement Negotiations and the Resource Management Reforms. Iwi/Māori have expressed that they would prefer questions around water ownership and allocation be resolved as a priority ahead of the Three Waters Reforms. 	<ul style="list-style-type: none"> Timing and sequencing of this Reform is the subject of this Cabinet Paper. Please refer to the content above.

What the Department has heard	What solutions have been proposed
<ul style="list-style-type: none"> However, as above, Iwi/Māori also reflect that Three Waters conversation is already overdue, and delays will not see resolution of their cultural and environmental aspirations. 	
Entity Operations	
<p>Prioritisation of work</p> <ul style="list-style-type: none"> There have been many questions around how the entities will prioritise work to ensure all communities' needs are met. 	<ul style="list-style-type: none"> This is an element that the Government will continue to work with Iwi/Māori and local government to refine further over the coming months.
Out of Scope	
<p><i>The items below are out of scope for the three waters reforms and are noted for the Government's information. However, officials have not proposed a solution to these as many of these elements sit within portfolio responsibilities across Government.</i></p>	
<p>Resource Management Reforms</p> <ul style="list-style-type: none"> Iwi/Māori continue to raise confusion around the Resource Management system and three waters service delivery. Including how these will interact with each other and integrate across any future system following the parallel reforms. 	
<p>Freshwater Management</p> <ul style="list-style-type: none"> As above, Iwi/Māori indicated their preference that questions regarding water ownership and allocation be resolved prior to commencement of Three Waters Reform. 	
<p>Taumata Arowai</p> <ul style="list-style-type: none"> Relationship between Three Waters Reform and Taumata Arowai still unclear to many Iwi/Māori engaging in these discussions. Iwi/Māori are also keen to understand what support Taumata Arowai can provide them to be compliant with new regulations at their marae and papakāinga. 	
<p>Future for Local Government</p> <ul style="list-style-type: none"> Officials have heard concerns from Iwi/Māori regarding uncertainties of the Future for Local Government with the three waters reforms being undertaken at the same time. Noting the above capacity constraints on Iwi/Māori, they are unsure which space to prioritise their resources. 	

Proactively released by the Minister of Local Government

Appendix D withheld by the Minister of Local Government

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Appendix E: Draft communications plan**Purpose and overview**

1. A communications strategy has been developed to support the announcement of Cabinet's decisions on the next steps in the three waters reform process. It builds on Cabinet's decisions in July on the approach to transition and implementation of the reforms and acknowledges areas where further policy development may be appropriate to address concerns raised in feedback by the local government sector and iwi/Māori on the policy proposals (for example, entity governance and accountability).
2. This appendix summarises the core components of the communications strategy, namely its objectives, key issues, audiences, strategic approach and implementation plan.

Objectives

3. The objectives of the communications strategy and plan are to ensure:
 - Councils, sector stakeholders and communities understand the rationale for the "legislated all-in" approach; and
 - the process for public input to the reforms
 - timeframe and milestones for implementation.
 - New Zealanders have trust and confidence in the future management and delivery of New Zealand's three waters system.
 - Media coverage and commentary is fair and balanced with accurate reporting of the Government's policy decisions.
 - Issues and criticism are anticipated and proactively addressed.

Key issues

4. The strategy identifies several key issues that will need to be considered as part of any communications approach. These include potential concerns of councils, media commentators and/or the public in relation to the case for change, whether alternative options exist and have been considered, and the potential risks and impacts of reform.
5. Key issues that are likely to attract public comment and media attention include:
 - The shift in approach from 'opt-in' to 'all-in'
 - Level of influence councils and communities will have in how services are delivered, particularly in smaller council areas
 - The transfer of ownership of assets from councils and the prospect of privatisation of those assets in the future
 - The role of mana whenua in the new service delivery system
 - The pace of reform and amount of time available for councils and communities to understand the proposed model and its implications
 - Ongoing challenges to the economic modelling and data in relation to the size of the investment challenge and potential efficiency gains available through reform.

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Treaty Partner communications

6. Ongoing communication with Iwi/Māori is essential and will need to acknowledge national Iwi/Māori communications and engagement needs, and local whānau/hapū/Iwi discussions. In addition, many groupings of mana whenua, including by entity groupings, will require unique engagement.
7. Iwi-specific communication and engagement on three waters service delivery reform needs to address a different set of issues to those raised by the local government sector, for example: boundary issues (e.g., Ngāi Tahu and Te Tai Ihu takiwā in relation to the boundaries of Entities C and D); giving effect to proposals relating to entity governance; mechanisms required to uphold Treaty settlements; and implementation of proposals relating to Te Mana o te Wai.
8. Ongoing kanohi ki te kanohi engagement, supported through ongoing regular meetings/hui and continued email updates/webinars will be important, as will involving key Iwi leaders in the pre-announcement confidential briefings.
9. Confirmation on how the Government can practically support Iwi/Māori engagement through the transition, will also be important.

Audiences

10. The strategy also considers the target audiences, and their associated needs and interests. This includes consideration of the role and interests of: Iwi/Māori; mayors and councillors (and representative body, LGNZ); council chief executives and officers (and representative body, Taituarā); ratepayers; three waters workforce (including unions); industry bodies (e.g., Water NZ, IPWEA NZ, ACE NZ, Construction Sector Accord members); advocacy groups; and media.

Strategic approach

11. The proposed approach uses a core narrative that is communicated and tailored via multiple channels to reach target audiences. This is similar to the approach taken with the health and tertiary education reforms, and the recent LGNZ conference.
12. To be successful, it will require:
 - Strong, visible leadership (i.e., Prime Minister, Deputy PM and Local Government Minister)
 - Use of 'champions' to communicate the decisions
 - Clarity about timeframes for next steps
 - A clear process for providing sector participation and public consultation in influencing how the reforms are implemented
 - Genuine commitment to ongoing partnership to work constructively with the sector to support a smooth transition and prepare for the future for local government
 - Deliberate and decisive communications that anticipate and respond to issues, concerns and correct deliberate misinformation.

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Implementation plan

13. The proposed implementation plan spans the four phases outlined below. A detailed implementation plan is included in the communications strategy, including outline of key collateral and core narratives.

Phase	Purpose	Key activities and tasks
1. Pre-announcement Now till 17 December	<ul style="list-style-type: none"> Acknowledge feedback received from the sector Prepare for the announcement of the Government's decisions 	<ul style="list-style-type: none"> Ongoing communications with the sector Development of communications collateral including speech, media release, fact sheets, web content, social posts and Q&As Work with LGNZ and other parties to engage champions of the reforms
2. Announcement w/c 18 October (Timing TBC)	<ul style="list-style-type: none"> Formally announce the Government's decisions 	<ul style="list-style-type: none"> Embargoed advanced briefings and communications pack to iwi leaders, LGNZ, and a selected Mayors on day of announcement Parliamentary press conference to announce decisions. Key people may be part of the formal announcement Briefings undertaken with Government MPs and departments on the decision, next steps and timeframes Champions provided with necessary materials to begin sharing with their networks
3. Post-announcement	<ul style="list-style-type: none"> Outline the decisions, explain the rationale and answer any questions 	<ul style="list-style-type: none"> Minister(s), MPs, champions and DIA to continue talking to local government and sector stakeholders about the reforms DIA to continue discussing the policy behind the reforms, how they will be implemented and the process for this, responding to concerns and issues as these arise DIA-LGNZ partnership to continue, including LGNZ role in supporting the mechanisms and processes for working through the outstanding issues like governance and accountability and interface with resource management reforms Social media engagement to communicate and reinforce the announcement DIA, Minister(s) and MPs to correct deliberate misinformation in public domain
4. Ongoing communications and engagement	<ul style="list-style-type: none"> Ensuring the public is well informed ahead of public consultation and select committee submissions process Supporting a successful transition to the new arrangements 	<ul style="list-style-type: none"> Ministers, MPs and champions to continue communicating and engaging with key audiences on the reforms Use of multiple channels and collateral to explain the reforms to New Zealanders Supporting a smooth transition to, and establishment of, the new entities Three Waters Steering Committee (and advisory groups) will also provide advice on: <ul style="list-style-type: none"> governance and accountability of the new water entities; how the reforms interface with the RMA reforms; pragmatic and tailored solutions to address rural water supply issues; the transition of stormwater assets to the new entities; and Treaty of Waitangi and specific Settlement obligations



Summary of local government feedback on the three waters reform proposals

October 2021

**We are.
LGNZ.**

Te Kāhui
Kaunihera
ō Aotearoa.



Taituarā
Local Government Professionals Aotearoa



Te Tari Taiwhenua
Internal Affairs

About this report

1. This report has been jointly prepared by the Department of Internal Affairs (the Department), Local Government New Zealand (LGNZ), and Taituarā to summarise feedback from the local government sector on the Government's three waters reform proposals that were released on 30 June 2021.
2. This report collates and summarises written feedback submitted by individual councils and groupings of councils into a comprehensive national picture.¹ It has also been informed by local government feedback gathered during engagements undertaken by LGNZ, the Department and Taituarā during the eight-week engagement period from 1 August 2021 to 1 October 2021.
3. The report has also been informed by feedback received from individuals, iwi/hapū and other community groups; however, this feedback has not been included in the quantitative analysis.
4. This report summarises and reflects formal submissions only. It does not include responses to questions raised through the letters or submissions from councils, and does not include any analysis of the suggested changes.

Purpose of the eight-week engagement period

5. At the request of LGNZ, the Government set aside a period from 1 August 2021 to 1 October 2021 for local authorities to consider the impact of the reform proposals on them and their communities, and to provide feedback on the proposed model.
6. During this period, the Department also continued engaging with iwi/Māori and industry stakeholder groups, as outlined in Appendix A.
7. Local authorities were not asked to take any formal decisions regarding the reform through this period. The purpose of this period was for all local authorities to:
 - (a) “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 recently announced support package;

¹ Individual council submissions are published on the Department of Internal Affairs' [Three Waters webpage](#).

- (b) take advantage of the range of engagement opportunities to fully understand the proposal and how it affects [your] local authority and [your] community; and
- (c) identify issues of local concern and provide feedback to LGNZ on what these are and suggestions for how the proposal could be strengthened”.²

² From [LGNZ, DIA and Taituarā, *Three Waters Guidance for Councils over the next eight weeks* - 30 July 2021](#)

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Executive summary

Overview of feedback

8. Written feedback was received from all councils currently delivering three waters services, except for the Chatham Islands Council and Waitomo District Council. Written feedback was also received from the Greater Wellington Regional Council, and the following groupings of councils: Entity B; Entity C; LGNZ Zone one; LGNZ Zone six; the Canterbury Mayoral Forum; and Hawke's Bay Mayors and Chair.
9. Written feedback was received from a small number of individuals (including elected members) and iwi representatives. This feedback has been welcomed and considered by the Department, LGNZ and Taituarā, and has informed the content of this report. However, given this report focuses on local government feedback, the report does not include these submissions in the quantitative analysis.
10. Many of the council submissions acknowledged there are challenges facing three waters services across New Zealand. Twenty-seven submissions noted that the status quo is unsustainable, and 39 submissions agreed that all New Zealanders should have access to safe drinking water, and that three waters activities should improve outcomes for the environment.
11. While many acknowledged there is a case for change, about 75 per cent of the submissions stated they did not support the proposed model put forward by the Government. A few councils noted their overall opposition to the reform.
12. The engagement period and feedback process did not require councils to make a decision on whether to opt in or opt out of the reforms. However, many councils discussed this decision in their submission. While most councils noted they did not convey a decision because they were not required to do so, or were silent on this matter in their submissions, eight councils reported taking a decision to provisionally opt out of the reforms.
13. A small number of submissions noted that, based on current available information, if they had to make a decision now, it would be to opt out of the reforms. This was based on a view that neither councils nor the public were sufficiently informed about the case for change, or because of questions or concerns about the proposals.

14. While almost all submissions identified areas of concern and feedback on aspects of the Government's reform proposals, 47 submissions also welcomed the opportunity to continue working with the Government on addressing these concerns and feedback.
15. Submissions contained a wide range of feedback, with key concerns and comments including:
 - (a) the governance model being complex, and not adequately providing for local authority and mana whenua influence in decision making, on behalf of their communities;
 - (b) the loss of local voice in the system, especially given the large size of the proposed entities;
 - (c) how the water services entities will interact with, and be influenced by, local government planning documents and decisions around growth and economic development;
 - (d) that more certainty is needed around the inclusion of stormwater in the reform proposals, and how the entities will interact with, and work alongside, councils to take an integrated approach to stormwater management, including how assets with multiple uses will be treated;
 - (e) that the limitations and assumptions used in the Water Industry Commission for Scotland (WICS) modelling do not reflect the situations of individual councils accurately enough;
 - (f) that there has not been enough engagement and appropriate information to date on the reforms, and there needs to be public consultation before decisions on the next steps are made;
 - (g) the three waters reforms should be better aligned with the resource management reforms and the Future for Local Government review, to create the best possible outcome for local government and communities.
16. In addition to the above areas of feedback, a number of submissions stated support for the establishment of Taumata Arowai, the new water services regulator, and for stronger regulation in general of the water services sector.

17. Many councils also supported the proposal to create an economic regulator for the water services sector, but considered there is not currently enough information on the proposed form and functions of the regulator. Some submissions noted that the economic regulator is a key part of the three water reforms, and therefore they do not feel a decision to opt out should be made until more certainty on this element of the system is provided to councils and the public.
18. Given the above factors, many Entity D councils, and some other councils, requested a pause in the reform programme.

Key themes raised in local government feedback

Case for change

19. The majority of submissions supported the fundamental objectives of the proposed reform, being to ensure all New Zealanders have affordable access to safe drinking water and three waters services that improve environmental outcomes. Most submissions also acknowledged there is a case for change, with three waters service delivery reform needed across New Zealand. A few submissions remained silent on this matter, and a small number of submissions were unconvinced by the case for change and opposed the reform.
20. While most submissions agreed on the need for change in general, many submissions said the Government had not convincingly made the case for the proposed solution. Most commonly, submissions cited concerns with the assumptions and limitations of the WICS modelling, and felt the analysis was not accurate enough to justify the model proposed. A few councils questioned whether they would be better off under the reform scenario, as implied by the 'council dashboards', and a small number of councils had commissioned their own review of the modelling or undertaken their own analysis.
21. Despite these concerns, the general consensus from the body of submissions was that there are challenges with three waters service delivery that need to be addressed, and change of some kind is needed. Forty-seven out of the 66 submissions from councils expressly stated they are willing to further discuss the reform proposals, and will continue to work with central government to arrive at a model that better addresses the concerns raised by the local government sector.

Suggestions for alternative models

22. Many council submissions expressed concern that the Government had not sufficiently considered alternatives to the proposed model, and a few submissions suggested alternatives and asked that these be considered and assessed further.
23. For example, Auckland Council provided a detailed submission. It requested that a scenario be explored in which “the Crown provides some form of explicit financial support to Watercare (either guaranteeing Watercare debt or providing a liquidity facility) to help achieve greater levels of investment whilst maintaining a strong credit rating and consequently a lower cost of borrowing.”
24. The main suggestions in other submissions related to:
 - (a) a regional entity model – particularly for Hawke’s Bay and for Taranaki;
 - (b) a council-controlled organisation model;
 - (c) a shared services model; and
 - (d) consideration of the Tasmania Water or Scottish Water models.
25. In addition to the above alternative reform models, some submissions suggested alternatives to service delivery reform such as proceeding with regulatory reform only, provision of further Government funding to help close the infrastructure deficit without structural reform, or a funding model similar to that used for roading (a ‘Waka Kotahi style model’).

Ownership, governance, and accountability

26. Almost all submissions provided comments on this topic. Many submitters recognised that getting the governance structure right is a critical success factor, but considered the current proposal needs further work. While there was support for aspects of the proposed governance arrangements, there were also some significant concerns about the approach and a number of submissions suggested specific improvements.

27. A common theme across the submissions involved concern about the loss of democratic accountability, and a loss of direct control and influence by councils over infrastructure decision making and levels of service in their communities. The proposed model was described by many submitters as overly complex and at risk of not achieving the intended benefits and objectives. Many of the suggested improvements related to reducing this complexity and/or providing strengthened oversight mechanisms and opportunities for councils to hold the water services entities to account.
28. Statutory recognition of ownership was viewed as meaningless without associated rights and accountabilities. For example, Central Hawke's Bay District Council stated: *"Council struggles to understand what benefit there is from ownership if there is not a direct ability to influence the make-up of the Board of the entities and the Statements of Strategic and Performance Expectations."*
29. Concerns about the risk of future privatisation were highlighted in several submissions, with the general view being that assets should remain in public ownership, and that legislation should include strong protections against privatisation.
30. There was strong support for mana whenua involvement in the governance arrangements, as well a few councils that expressed concerns about this aspect of the reform proposals. These included equity-related concerns around iwi/hapū participation across large geographical areas, and practical challenges associated with identifying mana whenua representatives. Several areas for improvement were suggested, particularly in submissions from iwi/Māori representatives.

Protecting and promoting community voice

31. Many of the submissions expressed concern that the Government's proposals do not include adequate mechanisms for community voices to be heard – either directly or via local authorities. There was a common view that local authorities are best placed to engage with their communities and represent their views – meaning there were close connections between this topic and submissions on the broader theme of governance and accountability.
32. Some submitters were sceptical that, given the scale of the entities, they will be able to engage effectively with local communities. There were general concerns that there will be less consultation and engagement than currently, less recourse if services are poor, and a lack of accountability to communities.

33. There were particular concerns that community voices in districts will be lost, and that the water services entities will not focus on or reflect local views when making investment decisions or determining priorities and service standards. Submitters noted a lack of clarity about how much ability communities would have to directly influence entity decision making, and the process for engaging with entities.
34. Submissions also made connections between community voice and the proposed governance arrangements. Submitters suggested the ability to provide 'local voice' could be limited by the number seats available on the Regional Representative Group and questioned how communities would have influence and ensure their voices are heard if their council is not represented on this Group.
35. Some submissions indicated that future legislation should recognise that local government must have a role in community engagement and entity consultation processes, to ensure community and consumer voices are heard and local priorities are communicated to the water services entities.

Planning interface

36. An area of critical interest to local government was the way the proposed entities would interact with council planning and place-making. Many submissions noted the strong links between planning for urban development and growth, and water infrastructure provision, and the new water entities would have to work within the resource management and local government planning frameworks. Others discussed the uncertainties presented by the resource management reforms, including a lack of clarity about what the future planning system would mean for three waters service provision, and the role councils play in that system.
37. Equitable distribution of resources for growth and urban development was a concern raised in submissions. Many councils want assurance that the new entities would give effect to current council long-term (and other associated) plans. Others want assurance they would be able to direct the entities to deliver on the objectives of future council plans, particularly where those plans relate to housing and economic development.

Resource management reform and Future for Local Government

38. Submitters raised concerns about the pace and cumulative impact of several reform programmes affecting councils, with three waters reform, resource management reform, and the Future for Local Government Review happening concurrently. Some suggested three waters reform should happen over a longer period, which would give more time for communities to better understand the changes and allow the impacts of other reforms to play out first.
39. There was a strong desire among submitters for there to be better sequencing of, and alignment between, the three major reform programmes currently underway, and an expectation that central government agencies be better aligned in planning and communicating the roadmap for these concurrent reforms.
40. Many submitters requested that the Future for Local Government Review take place ahead of the three waters reforms, while several other submitters suggested the resource management reforms should take place first.

Charging and pricing

41. Many submissions raised concerns about the uncertainty of the short-term pricing and charging impacts following the reforms, noting the WICS analysis primarily discussed average costs in 30 years' time. Affordability and equity were two main issues underpinning these concerns.
42. Councils in areas with high deprivation were particularly concerned about ratepayers' ability to absorb higher costs, while acknowledging these would need to rise with or without reform. Several submitters suggested households that receive benefit payments should pay discounted charges, similar to rates relief offered by councils or winter energy payments.
43. Equity was another key issue. Some councils suggested there should be equal costs for all households within an entity, while some larger councils expressed concerns about cross-subsidisation of higher cost rural communities by urban ratepayers. Some councils wanted clarity that areas could ringfence different charges for communities that choose to receive a higher level of service.
44. Several councils brought up the value of development contributions as a tool to enable growth, and requested that this funding tool continue in use under the proposed reforms.

45. Submitters also requested transparency around pricing and charging decisions taken by the entities for their communities.

Number of water services entities and their boundaries

46. Many submitters felt that the four entities were too large and compromised the benefits of local voice and influence in the system. Thirteen councils signalled a preference for regional models, stating that this level of aggregation strikes the right balance between achieving some benefits from scale, while maintaining community and council influence. Ten out of those 13 councils are located in the Entity C grouping, in particular in Hawke's Bay.
47. A few councils located on or near the proposed entity boundaries also discussed issues with the proposed divisions. Most commonly discussed was the Entity C/D boundary, with mixed views about whether the whole of the South Island should be included in one entity or not. A small number of submissions suggested that conversations should continue with the councils and iwi in the affected areas, to determine the best boundary line for those communities most affected.
48. In addition, some practical questions were raised around the impact of the boundary lines. For example, submitters in Entity A questioned whether they would still be able to receive water from the Waikato River (which would be in Entity B), and the potential impact on planning and resource management in Horizons Regional Council was raised, given the proposed Entity B/C boundary splits the region.

Regulatory environment

49. Many submissions signalled support for the establishment of Taumata Arowai and the new regulatory system introduced by the Water Services Act 2021. Some councils noted that the establishment of Taumata Arowai by itself is expected to result in a step change in performance across the sector, as drinking water and wastewater standards are enforced. Submitters were generally supportive of this.
50. Some submissions also supported the proposal for the establishment of an economic regulator. However, a common concern was the lack of information currently available regarding the form and function of the economic regulator, given its importance in the new system. Some of the councils that requested a pause in the reform programme stated that this would allow more time for further clarity and certainty on the role of the two regulators.

Rural supply arrangements

51. Councils with large rural communities had specific concerns about how the reform would affect rural areas. In particular, submitters noted reticulated water supply was not appropriate in all areas of New Zealand, and this needed to be accounted for in the reform.
52. Submitters suggested communities should have the ability to buy-back council-owned and operated rural schemes prior to the reforms being implemented, and these schemes should be able to opt out of the reform.
53. Rural councils also expressed concerns about the cost of the reform. Submitters believed rural communities may not see the same benefits as urban communities, and rural ratepayers were concerned they would bear the cost for services they would not receive due to low connectivity to council networks.

Stormwater

54. There were a wide range of responses on the proposal to transfer responsibility for certain stormwater assets to the new water services entities.
55. While only four submissions expressly signalled opposition to the proposed approach, the majority of submissions that discussed stormwater noted a need for further information and analysis. Common questions related to what specific assets and functions would be transferred, and how the interface with other district and regional council functions would be managed.
56. Some submissions argued the decision on whether to transfer stormwater functions and assets should sit with individual local authorities. Others drew attention to the scale of the task associated with transferring drinking water and wastewater services, suggesting stormwater could be dealt with in a subsequent phase instead of transferring all three waters at once.
57. There were also suggestions for how the transfer could work in practice, with many submitters recommending that mechanisms and processes be introduced to clarify roles and responsibilities, and enable effective and integrated working arrangements between councils and entities.

Transition considerations

58. There was a wide range of feedback on transition-related matters that would need to be addressed should the reforms proceed. These submissions reflected on the scale and complexity of the reforms, and the associated transfer of three waters assets, debts and liabilities.
59. Common issues related to the mechanism for calculating and transferring debt associated with three waters assets; the process for and approach to due diligence; how local staff and contractors would be provided with certainty; and ensuring local knowledge, expertise, systems and data are not lost through the transition. Some submissions raised questions around the feasibility of achieving the establishment of the new water services entities by July 2024.
60. A common challenge noted across multiple submissions was the need to find the workforce, skills and technical capability required to support the transition period, and fill governance and management positions for the new entities. Further detail was also sought on the Government's commitment to ensuring continued employment of local staff, with some feedback commenting on the local employment and career development opportunities created through reform, including for iwi/Māori.
61. Several submissions noted that a collaborative approach between the Government, mana whenua and local authorities would be necessary to ensure a smooth transition process and establishment of the new entities, and made suggestions for how this could be undertaken.

Process and timeframes

62. Concerns were raised across many submissions around the information and analysis provided to date, including in relation to the public information campaign, the WICS analysis and modelling, and the lack of information in relation to economic regulation and outcomes for service levels and the environment.
63. Several submissions sought clarity on the decision-making process, as well as the ongoing engagement with the sector on the design and establishment of the water services entities beyond the current period of engagement. Some local authorities recommended that the Government should refine the modelling and analysis further and provide councils with an opportunity to review the data.

64. A consistent theme in the submissions was concern about the pace and scale of the reform programme. This included requests for more time for local authorities to consider the three waters reform proposal alongside the other significant reform programmes, and to consult their communities. Many submissions noted the importance of community consultation prior to decisions being made, and sought assurance about how and when this would occur.
65. Concerns were also raised in relation to engagement with iwi/Māori, including the need for more consistent engagement, and for iwi/Māori to be adequately resourced to participate in the reform process.

Comments on other matters

66. A common concern from a few councils was the need for the new system to take more account of climate change, resilience and emergency management considerations. A few councils provided specific suggestions for what the entities should be required or encouraged to do, to ensure these considerations are provided for within the policy design.
67. Other concerns and suggestions included:
- (a) the risk of declining levels of service in communities that currently have relatively high levels of service following transition, to match the average levels found across the new entity;
 - (b) the need for more information on how the reforms might impact certain businesses (for example trade waste businesses);
 - (c) the incorporation of the 'four well-beings' into the operational and decision-making principles for the water services entities; and
 - (d) the potential impact on current and future Treaty settlement arrangements.

Introduction

Background

68. The Three Waters Reform Programme began in mid-2020 following agreement at the Prime Minister's Central/Local Government Forum (between Cabinet Ministers and LGNZ National Council) that council-owned three waters services were facing urgent challenges, and central and local government should partner to progress reforms. This agreement built on work undertaken as part of the [Three Waters Review](#) from 2017-2020, led by the Minister of Local Government and Department of Internal Affairs.
69. This led to the establishment of the [Joint Central and Local Government Steering Committee](#) to inform policy development and sector engagement in relation to the Government's reform proposals. The Government also committed [\\$761 million](#) to stimulate investment in three waters infrastructure, as part of the COVID Response and Recovery Fund.
70. Following a series of sector [workshops in July/August 2020, at which officials provided an overview of](#) the Reform Programme, policy direction and available stimulus funding, all eligible councils across New Zealand entered into a [Memorandum of Understanding](#) to engage on and further explore reform to service delivery arrangements.
71. The subsequent year saw extensive research, policy design, and sector and iwi/Māori engagement, overseen by the Joint Steering Committee (supported by a joint Department of Internal Affairs, LGNZ and Taituarā secretariat).
72. During June 2021, the Department of Internal Affairs (the Department) published the [national evidence base](#) on the case for change, and [local dashboards](#) pulling information together (on a council-by-council basis) into one, nationally consistent place.

Reform proposals

73. On 30 June 2021, [Cabinet released detailed decisions](#) on the reform proposals. These proposals are summarised [here](#). They include the number and boundaries of the entities, governance and accountability design features, and mechanisms to protect and promote iwi/Māori rights and interests.

74. At the LGNZ National Conference in July 2021, the Government announced a \$2.5 billion package to support local government transition through the reforms. This package was provided for within the [Heads of Agreement](#) entered into between the Government and LGNZ, under which both central and local government committed to continuing to partner on three waters reform and related reforms.

Engagement period

75. At the request of LGNZ, the Government agreed to an eight-week period from 1 August 2021 to 1 October 2021 for local authorities to consider the impact of the reform proposals on them and their communities, and to provide feedback on the proposed model, including suggestions for improvement.
76. This report collates and summarises the feedback received from the local government sector during this eight-week engagement period. This includes written feedback submitted by individual councils and groups of councils. The individual submissions are available on the [Three Waters website](#) alongside this report. Some councils used standard submission templates, either by editing the exemplar report provided by Taituarā, or through a shared submission with neighbouring councils.
77. The report is also informed by local government feedback gathered during engagement undertaken by LGNZ, the Department and Taituarā during the eight-week period, as well as feedback received from individuals, iwi/hapū and community groups.
78. During this period, the Department continued to engage with iwi/Māori and industry stakeholder groups. A full list of these engagements, including with local government, is outlined in Appendix A.

Feedback on the case for change

Summary of feedback

79. The majority of councils and submissions agreed that all New Zealanders should have access to safe drinking water and that three waters activities should improve environmental outcomes. Most submissions also acknowledged that reform of the three waters sector is needed across New Zealand. A few submissions remained silent on this matter, and a small number of submissions were unconvinced by the case for change and therefore opposed the reform.

80. While many submissions agreed in general that there is a case for change, and acknowledged that the status quo is not sustainable, they also noted that, in their view, the Government had not successfully made the case for its proposed model. For example, the Hawke's Bay Mayors and Chair, in a letter to the Minister of Local Government, noted that *"...the status quo for the supply of three waters services is not a viable model for our communities and there is a compelling case for change to ensure ongoing safe, efficient and affordable drinking, waste and storm water services. However, after comprehensive assessment of Government's service delivery proposal, a detailed comparison of the proposal against our own Hawke's Bay Three Waters Review and feedback from our communities, we have concluded that our preference remains for a Hawke's Bay regional option"*.
81. Similarly, a few councils considered that, while the case for change had been made for many areas of New Zealand, it did not universally apply. Most notably, Auckland Council said that Watercare had already achieved the size and scale benefits proposed under the reform.
82. Many submissions cited concerns with the assumptions and limitations in the Water Industry Commission for Scotland (WICS) modelling, and believed the analysis was not accurate enough to justify the proposed model. Councils considered the analysis did not take into account their specific circumstances and were worried the potential efficiency gains were overstated. A few councils questioned whether they would be better off under the reform scenario, as the modelling presented in the council dashboards suggested. For several councils, this was based on externally commissioned reviews of the modelling, and for others this represented the conclusion from their own analysis.
83. A typical comment was along these lines: *"When comparing our LTP to the Department of Internal Affairs WICS data, we are concerned that the calculations based on population, area and population density tested against experience and observations in the United Kingdom are over-stated and unnecessarily inflate costs at the local level."* (Ashburton District Council).

84. Another common concern was that the analysis relied too heavily on financial and economic analysis when assessing the case for change and the viable options. For example, Napier City Council stated: *“The Central Government’s Three Waters Reform bases its justification of scale on economic indicators and would be enhanced by adopting a more holistic and contemporary view of efficient delivery. Subsidiarity is essential for sustainable three waters service delivery and community resilience”*.
85. A few of the submissions suggested that it was unclear why the Government, in arriving at the current proposal, discounted other alternatives such as a Waka Kotahi style funding model.
86. Nearly all submissions expressly stated they were willing to further discuss the reform proposals, and would like to continue to work with central government to arrive at a model that better addresses the concerns raised by the local government sector and iwi/Māori.

Sentiment by entity groupings

Entity A³

87. Two out of the four councils in Entity A indicated they had provisionally opted out of the reforms, with the remaining two not indicating a decision in their submission. Two out of the four councils acknowledged that the status quo was unsustainable, and all four councils expressed support for the core objectives of the reform.
88. Common themes across the Entity A councils were concerns about prioritisation of investment, due to the large differences in needs and environmental factors between the councils, the need for further engagement by central government on the reform, and the loss of democratic accountability in the proposed governance model.

³ Entity A comprises the Auckland Council and territorial authority districts in the Northland region.

Entity B⁴

89. Twenty one out of the 22 councils in Entity B made a formal submission. Seven of the Entity B councils who submitted acknowledged that the status quo is unsustainable. Nine signalled support for the main objectives of the proposed reform, while the remainder were silent on the matter. Only one council signalled that they would opt out of the reforms when given the chance to do so. Fourteen councils expressly signalled the desire for further engagement with central government on these reforms.
90. Key themes that emerged from the Entity B council submissions included: the number of representatives in the Regional Representative Group being too few (six seats for 21 councils); that council influence in the proposed model should be strengthened; concerns about pricing differences between urban and rural areas; and that many councils felt there has not been enough engagement from central government.

Entity C⁵

91. Out of the 22 councils in Entity C, one council (the Chatham Islands) did not send in a formal submission. Nine councils acknowledged that the status quo is unsustainable, and 13 councils supported the core objectives of the reform. Two councils signalled their intention to opt out of the reforms, with the rest either not mentioning this or stating that they have not taken a decision yet. Seventeen councils signalled their willingness to engage further with central government on the reforms, and the remaining councils did not mention this in their submission.
92. Shared concerns mentioned in the submissions included that: the proposed governance model is too complex; the engagement requirements are not strong enough; there are risks of privatisation; and the pace of the reform is too fast.

⁴ Entity B comprises all districts from the Waikato, Bay of Plenty, and Taranaki regions, and the upper parts of the Manawatū-Whanganui region (Ruapehu, Whanganui, and Rangitikei).

⁵ Entity C comprises the districts in the eastern and lower part of the North Island (Gisborne, Hawke's Bay, lower parts of the Manawatū-Whanganui, and Wellington regions); and the districts at the top of the South Island (Tasman, Nelson, and Marlborough).

Entity D⁶

93. All 20 councils within the proposed Entity D made a formal submission. Nine acknowledged the status quo is unsustainable and 13 supported the objectives of the reform. Most of the councils either did not support the current proposed model or stated they would like more information on it. Three councils signalled a provisional decision to opt out of the reforms, and nine councils asked for the reforms to be paused. Twelve councils stated they would like to further engage with central government on these reforms.
94. Some strong themes that were evident across the submissions from Entity D included: concerns about the loss of democratic accountability and investment prioritisation; the need for a better alignment between local government reforms; and the need for further information for councils and the public. Mayors in Zone 6 and the Canterbury Mayoral Forum requested a pause in the reform programme, to allow for more time to properly understand the reforms and the new regulatory environment.

Changes suggested in feedback

95. Feedback on the case for change primarily requested that alternative options to the Government's proposed model be considered. Some councils also requested a review of the modelling and analysis on which the case for change was based. In particular, councils would like to see further options analysis undertaken, including considering alternative models suggested in the submitted feedback.
96. The majority of councils suggested appropriate solutions could be found by continuing and enhancing the Government's approach to partnering with the local government sector and iwi/Māori. Many councils would like to see further engagement led by central government, and have signalled they would be interested in working with government and iwi/Māori to create a better model.

⁶ Entity D comprises the districts in the remainder of the South Island, including those parts of the Marlborough and Tasman Districts that comprise the Ngāi Tahu takiwā.

97. For example, Mackenzie District Council noted that it would like the Crown to “*work with local government to align its case for change regarding three waters delivery and thoroughly examine a range of options from the status quo to the proposed four entities, as well as several options between*”. Dunedin City Council stated that they are “*eager to work in partnership with the Government and iwi/Māori to achieve these goals*”.

Suggestions for alternative models

Summary of feedback

98. Feedback on the Government’s proposals expressed a concern that the Government had not sufficiently ruled out other alternatives to the current proposals. The submissions included suggestions for other alternative models for further consideration. The main suggestions are summarised below.
99. In addition to other reform models, some submissions suggested alternatives to aggregation of service delivery, such as proceeding with regulatory reform only; the provision of further Government funding to help close the infrastructure deficit without structural reform; or a funding model similar to that used for roading (a ‘Waka Kotahi style model’).

Changes suggested in feedback

100. New Plymouth District Council suggested that the water services entities become cooperatives, with non-transferable shareholding for each property connected to drinking water or wastewater networks, and shareholders electing community representatives on the Regional Representative Group (from a pool approved by territorial authorities). This would be similar to the Fonterra model.
101. South Taranaki District Council and Stratford District Council suggested a ‘Taranaki Region Asset-Owning Entity’, which meets the outcomes of the three waters reforms, but is focused on the Taranaki region. Their suggested model:
- (a) is a stand-alone asset-owning entity, with a separate identity and direct relationship with customers (including direct billing for services);
 - (b) has councils as shareholders (with proportions to be determined) and a governance structure including council and non-council directors;
 - (c) is able to borrow in its own right.

102. Auckland Council asked that a scenario be explored in which *“the Crown provides some form of explicit financial support to Watercare (either guaranteeing Watercare debt or providing a liquidity facility) to help achieve greater levels of investment whilst maintaining a strong credit rating and consequently a lower cost of borrowing.”*
103. *“This approach could see a model developed that includes potential shareholdings for the Northland councils (proportionate to their asset value), and potentially a shareholding or step-in rights for the Crown. The overall framework could then retain the current council-controlled organisation arrangements and accountability mechanisms, with appropriate modifications to reflect any additional shareholding interests and mechanisms for iwi input. It would have sufficient scale to create strategic capacity across the region and support the areas where that is currently lacking. Importantly, the capacity and capability is shared across the region in an ongoing and sustainable way.”*
104. *“This option would also retain direct accountability to shareholders. Leaving to an independent water services entity board the power to determine the price of water, within the constraints set by the economic regulator, should provide comfort to the credit rating agencies’ concern that there might be political interference in price setting.”*
105. The other main suggestions, from across a range of submissions, were for:
- (a) a regional entity model for Hawke’s Bay;
 - (b) a council-controlled organisation model;
 - (c) a shared services model;
 - (d) consideration of the Tasmania Water services model;
 - (e) consideration of the Scottish Water model.

Ownership, governance, and accountability

Summary of feedback

106. This topic was the most heavily discussed through submissions, with nearly every submission providing comments on this topic in some form.

107. Many submitters recognised that getting the governance structure right is a critical success factor, but felt that the current proposal needs further work. While there was support for some aspects of the proposed governance arrangements, there were also a range of concerns about the approach and a number of suggested improvements.
108. For example, Hamilton City council stated that *“It is disappointing, and a missed opportunity, that the proposals do not include alternative options on the key issues of ownership and governance.”... “In the spirit of partnership, we have provided feedback on improving the proposed governance structure as proposed”*.

Ownership and protections against privatisation

109. A common theme through this feedback was that it was difficult to see the benefits of council ownership of the entities, if councils could not directly influence the composition of the board nor the statement of strategic and performance expectations.
110. Some submissions viewed ownership by local authorities as meaningless without associated rights and accountabilities. For example, Matamata-Piako District Council noted that *“the Council’s ownership is not demonstrated in any substantive way in the proposed governance framework. Councils do not appear to have influence or be able to hold to account the entity directors, as would be the case in a traditional relationship of an owner or part owner of a company”*.
111. Concerns about privatisation were highlighted in a smaller number of submissions. Common views were that assets should remain in public ownership, and any legislation establishing the entities should include strong protections against privatisation. Some submitters recognised that protections are already proposed, but suggested further strengthening these – for example, by referring any privatisation proposal back to the original asset owners (councils) for resolution.

Governance and accountability

112. There were general concerns across many submissions about the perceived loss of democratic accountability and loss of direct control and influence by councils, and that the proposed model is overly complex and at risk of not achieving the intended benefits and objectives. There were requests to explore other options that involve fewer governance layers.

113. Specific concerns included:
- (a) the limited ability to hold the board to account for local decisions and actions;
 - (b) that the Regional Governance Group would not provide effective oversight and accountability, and that its ability to influence the board of the entities appeared too far removed;
 - (c) a loss of local representation to advocate for communities in the proposed governance structure;
 - (d) concerns from local boards in Auckland that there was not a role for them in the proposed model;
 - (e) that the proposed model will create confusion in communities regarding councils' roles, accountability, and ability to effect change;
 - (f) that the entities will focus on financial performance, to the detriment of environmental, social and cultural outcomes;
 - (g) that the proposed model does not provide for strong connections between infrastructure planning and spatial planning at regional and local levels.
114. There were some contrasting viewpoints and concerns from metropolitan and rural councils. For example, larger, urban councils (such as Auckland and Christchurch) suggested that the governance arrangements should reflect those councils' relative size and proportionate investment in assets. However, smaller, rural councils (such as Far North, Kaikōura and Manawatū) were concerned that representation on the Regional Representative Group has the potential to become urban-centric.
115. Kaikōura District Council reflected a common concern of smaller councils, asking *“how can our small council have guaranteed influence over the direction of the water services entity and how [can] our growth aspirations be considered within the context of the wider entity?”* They commented that *“we would be deluding ourselves to imagine that a structure could be put in place to deliver services at a multi-regional level that did not compromise localism”*.

The role of mana whenua in governance arrangements

116. There was strong support for mana whenua involvement in the governance arrangements, as well as support for aspects of the proposals that relate to cultural competency and expertise on entity boards, and the Te Mana o te Wai statement.

117. However, there were concerns, expressed by councils, about the mana whenua forum approach, including:
- (a) equity-related concerns around iwi/hapū participation across large geographical areas;
 - (b) that the number of mana whenua representatives was not large enough;
 - (c) challenges associated with finding a small number of representatives in areas with a large number of hapū, iwi and Māori organisations;
 - (d) that mana whenua and/or iwi/Māori will have limited influence and voice through this model;
 - (e) that some iwi/Māori may not feel properly represented by mana whenua; and
 - (f) that entity responses to Te Mana o te Wai statements might not be meaningful.
118. A very small number of submissions suggested that a ‘co-governance’ approach was not appropriate, or that an equal number of council and mana whenua representatives on the Regional Representative Group was not the right ratio. For example, Southland District Council noted that Entity D would cover 21 councils and one iwi. Waipā District Council submitted that it does not agree that iwi/Māori rights and interests should be achieved through *“vesting 50 per cent control of community assets, which have been funded by local communities over many generations.”*
119. Several areas for improvement were suggested by submissions from iwi/Māori representatives, including in relation to:
- (a) partnership arrangements;
 - (b) the degree to which Iwi Mana Motuhake has been acknowledged;
 - (c) the degree to which water is recognised as a taonga;
 - (d) the degree to which the reforms protect Treaty settlements and initiatives;
 - (e) ongoing provision for significant resourcing to help ensure the proposed model is workable.
120. The Auckland Council Independent Statutory Māori Board recommended that timeframes for water services entities to respond to Te Mana o te Wai statements should be agreed between mana whenua and the entity.

Changes suggested in feedback

121. Several submissions expressed support for a model that uses the same accountability mechanisms as council-controlled organisations. This would include, for example, the ability to approve and modify statements of intent, and directly appoint and remove directors.
122. Auckland Council provided specific suggestions to improve the current proposal, including additional oversight mechanisms and ways to hold the water services entities to account. These mechanisms (some of which were also suggested in other submissions) include:
- (a) requirements to report biannually to Auckland Council, and report to 'owners' in a public meeting;
 - (b) providing board performance reports to owner representatives;
 - (c) requirements to consult the Mayor in relation to performance reviews;
 - (d) the ability to call the board chair and entity chief executive to attend council meetings;
 - (e) the ability to provide direction on matters to consider when appointing the board; and
 - (f) the ability for the Regional Representative Group to develop a charter regarding appointments of the chair and deputy chair.
123. Kaipara District Council – which would be in the same proposed entity as Auckland – requested an enduring seat on the Regional Representative Group for Entity A. They proposed the Group be comprised of three seats for Auckland Council, and one seat each for the Far North, Whangarei, and Kaipara Districts.
124. Christchurch City Council suggested that, if the reforms proceed, the Regional Representative Group should reflect the proportional investment and service requirements of councils. This would include:
- (a) guaranteeing that the largest metropolitan council in each entity is a member of the Regional Representative Group;
 - (b) using a proportional voting system at Regional Representative Group meetings;
 - (c) providing a clear process for rotating representatives.

125. Hamilton City Council suggested including a schedule to the legislation that defines the process by which councils would come together to make decisions about their representatives on the Regional Representative Group, and subsequently hear from those representatives. This process could include creating a permanent joint committee, with a single representative for each council and voting based on population.
126. On a similar theme, Hauraki District Council noted that it will be essential for councils to have regular, effective communication with the local authority representatives on the Regional Representative Group, and for people with sub-regional knowledge to be members. They suggested setting up sub-regional areas for each entity, from which these representatives would be chosen.
127. Rotorua District Council suggested the early development of agreements (a 'three waters strategy') between councils, mana whenua, and the entities setting out how they will work together to ensure communities receive the outcomes they need. This process would involve each entity working with the relevant councils on a business plan that articulates the methodology by which the outcomes and objectives of the agreed three waters strategy will be pursued, and then regular reports on progress against the business plan. There would be a partnership-based approach, recognising that the entity would hold the technical expertise, while councils and iwi have greater knowledge of local needs and values.
128. Other suggestions made in submissions included:
- (a) increase the size of the Regional Representative Group, so all territorial authorities are represented – or, alternatively, introduce a 'shareholder council' model in which all councils have a seat (with a corresponding number of mana whenua representatives);
 - (b) remove the Independent Selection Panel from the proposed governance model, so the Regional Representative Group establishes/appoints boards directly – or, alternatively, enable that Group to approve appointments and remuneration policies, and require the Independent Selection Panel to include members with local government knowledge and experience;
 - (c) make the Independent Selection Panel an advisory board to or sub-group of the Regional Representative Group, not an additional layer between that Group and the board;

- (d) include a requirement for direct negotiation between the entities and individual councils or groups of councils over service delivery levels and infrastructure investment plans in their respective areas;
- (e) that the entities should be required to provide funding to support the Regional Representative Group, and meetings of councils and mana whenua (including funding members of these groups);
- (f) work with iwi and councils to develop a model that allows for strong local and regional representation based around sub-boundary 'clusters' or catchments;
- (g) amend the governance structure to enable direct council involvement in board performance, accountability, and appointments;
- (h) enable councils to approve and modify the statement of intent;
- (i) the approach to mana whenua participation in the Regional Representative Group should be replicated across the governance structures, so there is also equal representation in the entity board and Independent Selection Panel;
- (j) that people with local government experience should be eligible for appointments;
- (k) water services entities should be subject to similar consultation requirements as provided in the Local Government Act 2002;
- (l) that members of the Regional Representative Group should be elected;
- (m) provide a voice for rural water supplies in the governance structure, such as through a sub-committee to the Regional Representative Group; and
- (n) require the entities to provide quarterly reports to councils.

Protecting and promoting community voice

Summary of feedback

129. Many of the submissions expressed concern that the proposed approach does not include adequate mechanisms for enabling community voices to be heard – either directly, or via local authorities.

130. There was a common view expressed through submissions that local authorities are best placed to engage with their communities and represent their views, through internal processes and requirements in the Local Government Act 2002. There were, therefore, close connections between this topic, and the comments relating to governance and accountability outlined above.
131. Specific concerns in the feedback included:
- (a) scepticism that, given the scale of the entities, the entities will be able to engage effectively with local communities;
 - (b) lack of clarity about how much ability communities will have to influence the entities' decision making, and the process for connecting with those entities;
 - (c) the ability to provide 'local voice' is limited by the consolidation of seats available on the Regional Representative Group – if some councils are not on this Group, how will their communities have influence and ensure their voices are heard?
 - (d) that entities will not focus on or reflect local voice when making investment decisions, or determining priorities or service standards;
 - (e) that voices in smaller districts will be lost;
 - (f) that there will be less consultation and engagement than currently, less recourse if services are poor, and a lack of accountability; and
 - (g) that the needs of Tāmaki Makaurau mātāwaka (Māori who reside in Tāmaki Makaurau who do not whakapapa to the area) have not been considered.
132. Some submissions sought assurances relating to, or further clarity about, the future system including:
- (a) seeking assurance that small and rural communities will receive the same level of service as people living in large, metropolitan areas;
 - (b) how the consumer forum will work in practice;
 - (c) how local voices will be heard;
 - (d) opportunities for local influence and the integration with the spatial planning system; and
 - (e) how people who are not currently receiving a council supply will have their voices heard regarding future service provision.

Changes suggested in feedback

133. Some submissions indicated that future legislation should recognise that local government must have a role in community engagement and consultation processes, to ensure community and consumer voices are heard, and local priorities are communicated to the water services entities.
134. Hamilton City Council suggested a specific process that would provide each council with the opportunity to participate in a 'pre-engagement' process and work with the relevant water services entity on its strategic documents (funding and pricing plans; asset management plans; and prioritisation methodology that informs the asset management plan). Councils would do this as representatives of their communities, and to ensure alignment with their own plans.
135. The suggested process involves (in summary):
- (a) entities being required to develop an engagement policy, with local councils, communities, and consumers;
 - (b) entities including sufficient information in their key strategic documents that councils can understand the proposed service levels for communities, investment in assets, and fees and charges for consumers, within each council district;
 - (c) entities consulting with councils about these strategic documents prior to consultation with communities and consumers; and
 - (d) enabling councils to provide written statements expressing views on the entities' proposed strategic documents, for inclusion in community/consumer engagement relating to those documents.
136. Other suggestions across the feedback included:
- (a) legislative requirements relating to reporting to communities;
 - (b) enabling entities to have 'sub-regional ring-fencing' to ensure equitable spend in smaller areas;
 - (c) a 'request for service' system for consumers to use to deal with service disruptions, complaints, and general queries;
 - (d) an Ombudsman (or similar consumer protection body);
 - (e) a community liaison group; and

- (f) that a 'District Social Action Plan' should be created that ensures a direct link to the community wellbeing in the district.

Planning interface

Summary of feedback

137. Feedback on this theme highlighted the inextricable links between water infrastructure provision and urban development/growth, and noted that water services entities will have to operate within a larger planning framework.
138. This planning framework includes responding to the long-term plans (and other associated plans) for multiple councils within each entity. Many councils felt that the current governance design does not provide strong enough connections to, or influence over, growth infrastructure, integrated planning at a regional and local level, and levels of service. Several councils suggested that, at a minimum, there needed to be a guarantee the 2021-2031 long-term plans would be delivered.
139. Hamilton City Council noted that *"The entity must ensure that Council's aspiration for growth and spatial planning outcomes (including any Special Purpose Vehicle or Infrastructure Funding and Financing solutions) has surety that any waters entity will prioritise and give effect to our long term local, sub-regional and regional plan"*.
140. There was also a strong desire from councils to continue to have meaningful knowledge of, and input on, the strategic direction of the entities, and to uphold principles of localism by aligning the new entities with local government plans. For example, Dunedin City Council was worried that *"a water services entity with a geographical footprint much larger than the local communities it services will exert an investment power over councils' ability to plan for future land use"*. It further noted that *"Councils are best placed to balance the wide variety of considerations that inform land use planning decisions, of which three waters service provision is but one part."*
141. Councils wanted the new entities to support growth and urban development, and ensure equitable distribution of resources for this. Councils wanted assurance their development priorities would not lose out to priorities in other areas. *"There is the possibility that in the medium-term the priorities of the new entity may not align with council's growth priorities"* (Palmerston North City Council).

142. In addition, a few councils were concerned about the impact of the reforms and competing priorities within the entity on high growth areas. For example, Tauranga City Council was concerned about the impact of timely decision making by the entity. Queenstown Lakes District Council was worried about the impact of the multiple reforms, as they felt in limbo until the proposed Spatial Planning Act is passed and existing spatial plans are given legislative weight.
143. Many of the submissions wanted more information and certainty around the role for councils and their planning functions: *"Water is a key tool for shaping how communities develop and grow. So how do we ensure councils can continue to do this if part of the reform? How would WSEs understand exactly what is happening locally, and have the flexibility to respond to local needs and changes?"* (Stratford District Council).

Changes suggested in feedback

144. Multiple submissions requested there be a requirement for councils to be involved in decision making and planning of water services in their district, for the planning instruments to be integrated, and for the entities to be required to 'give effect' to local planning documents. There were also requests for the process of investment prioritisation to be transparent, include community consultation, and contain an independent review/regulatory process to manage conflicting planning priorities.
145. Several councils requested that, at a minimum, the new entities should guarantee the delivery of 2021-2031 long-term plan and any associated plans. Many councils also asked for the entities to be able to charge for development contributions, or similar, to ensure equitable funding across the entity area.
146. Some specific suggestions from councils included:
- (a) Christchurch City Council suggested legislation should include a requirement for the entities to align their work programmes with other infrastructure planning organisations, such as councils. The Council also recommended a memorandum of understanding/cost sharing agreements to ensure both the entity and territorial authority had some flexibility of work programmes.

- (b) Dunedin City Council requested “*assurances, through legislation, that any new water services entity will answer to councils in relation to the provision of three waters infrastructure to support growth and increased housing capacity*”. The Council also requested the establishing legislation should require the “*water services entities to give effect to councils’ land use strategies, policies and plans*”.
- (c) Clutha District Council stated that councils must retain the balance of power for determining where and when growth occurs.
- (d) South Waikato District Council suggested that, to ensure local-level plans are accommodated, each council should have a statement of intent with the entity.
- (e) Waitemata District Council noted that decision making needs to be integrated with urban planning, there should be a closer relationship between the water services entities and the regional planning bodies, being either a regional council or a council in co-governance with mana whenua.
- (f) Waitemata District Council also suggested that the water services entities should be consulted during the development of each region’s land use, spatial, environmental and other planning documents to help ensure alignment and buy-in.
- (g) Queenstown Lakes District Council recommended the Government “*consider requiring the new entities to commit to delivery on the Future Development Strategies of high growth councils*”.
- (h) Auckland Council recommended a council-controlled organisation model, which would require the water services entities to give effect to long-term plans and growth strategies.
- (i) Buller District Council requested a ‘lessons learned’ study from the amalgamation of the councils that now constitute Auckland Council.
- (j) Waipā District Council suggested there should be a system to manage conflicts that arose from competing priorities. It noted going through the High Court would be inappropriate. It also suggested a Lisbon Charter model.⁷

⁷ The Lisbon Charter is an international framework of good practice for public policy and regulation in drinking water supply, sanitation and wastewater management services: <https://iwa-network.org/publications/the-lisbon-charter/>

Resource management reform and Future for Local Government

Summary of feedback

147. Many submitters raised concerns about the number of changes councils were facing in a short period of time, with three waters reform, resource management reform, and the Future for Local Government review happening concurrently. One council described the cumulative effect as "overwhelming".
148. The predominant theme from councils was that these reform programmes need to be better aligned, and for the Government to be better aligned in planning and communicating the roadmap for these concurrent reforms.
149. Several councils specifically requested that the Future for Local Government review should take place first. This was seen as important to ensure an enduring and strong local government following the other reforms.
150. A smaller number of councils requested that the resource management reform should take place first. Some also suggested three waters reform should happen over a longer period, which would give communities time to better understand the changes and allow the impacts of other reforms to play out first.
151. *"The Three Waters Reform Programme is effectively removing one third of MDC's business ahead of the future of local government review. This is not appropriate."* (Manawatū District Council)
152. *"The Three Waters Reform continuing without appropriate consideration for, or integration with, the Resource Management Act Reform or the Future for Local Government Review, risks undermining the lasting success of all these reform programmes. A whole of local government approach with aligned direction and goals across all three reforms would undoubtedly be more beneficial for community wellbeing outcomes."* (Timaru District Council)

Changes suggested in feedback

153. The most common suggestion was for better alignment between the three reform programmes. As Auckland Council noted, the reforms *"currently appear quite siloed"*.

154. Many councils requested further information on the cumulative impacts of the three reform programmes on local government and their communities. Ashburton District Council specifically suggested *“that before the three waters reform process proceeds, an issues analysis is completed and understood in relation to the impact on the water reform of the Resource Management and the Future for Local Government reforms as these are all inextricably linked”*.
155. As noted above, there were several suggestions for both the Future for Local Government review and resource management reform to take place first. Christchurch City Council suggested that the *“Future for Local Government review should occur first and cast its net wider and look at the future for local and central government in terms of public benefit service delivery both national, regionally and locally”*.
156. Other councils suggested that the reforms be coordinated differently and should take place over a longer period, to allow the councils and communities time to better understand the impacts and implications. *“This Government is undertaking many once in a generation reforms which are interlinked in terms of their impact on local communities and Local and Regional Government...It is essential that these reforms are undertaken in a coordinated manner and in a form which is possible for local government and communities to absorb the information and participate effectively.”* (Invercargill City Council)
157. Other specific suggestions from councils included:
- (a) Queenstown Lakes District Council suggested all three concurrent reforms should be prioritised and managed by the same government entity.
 - (b) Porirua City Council requested an explicit programme of reform alignment that takes a community-centred and system approach.
 - (c) Timaru District Council requested that the Government review the Productivity Commission’s advice following the 2019 review of local government funding, which recommended councils have control over how they structure their three waters business.

Pricing and charging

Summary of feedback

158. Feedback about pricing and charging was largely about equity of charging, potential cost increases, transparency, and affordability for ratepayers. Another key issue raised was the potential for cross-subsidisation, including concerns about communities that have heavily invested in water infrastructure paying for communities that may not have invested 'responsibly'.
159. Councils raised concerns about the potential for inequitable pricing across different areas within an entity, especially if consumers in one area end up paying for higher levels of service in another. *"Affordability is a broader issue than just the direct cost of providing three water services. The issue of user-pay charges, currently substantially different across proposed Entity A, will need more consideration to be unified"*. (Far North District Council)
160. Many councils requested transparency about pricing and charging. Some councils suggested volumetric charging (water metering) would be a way of ensuring equity across the entity; however, this was not something supported by all submitters.
161. Rates harmonisation was another tool some councils recommended be used to ensure equity across the entity; however, others questioned whether that would be fair, especially in districts that have lower rates. For example, Hauraki District Council stated that they *"have questions about whether rates harmonisation, should this be implemented, will increase the Hauraki District's household three waters cost, which is currently 20% lower than the Entity B average. As affordability is a key issue in the district this uncertainty is a concern for us, especially when higher costs may not necessarily deliver better services for our residents."*
162. Affordability was another key issue raised. Invercargill City Council noted *"Affordability is one of the key financial benchmarks which Council legally must utilise in setting its Long-term plan. As a result of the reform it will no longer be able to control a large part of the bill for services which the community is receiving. It will become very difficult to manage affordability in this context."*
163. The issue of development contributions was also raised, with several councils noting they wanted this funding model, or a similar funding model, to continue. Councils requested more information on the development contributions framework, and how existing agreements would transition.

Changes suggested in feedback

164. Various, often contrasting, suggestions were put forward by councils to address their concerns about pricing and charging. For example, several councils requested a user-pays model, whereas others requested equity across the entity. Some councils noted the importance of cross-subsidisation as a key driver of ensuring costs remain affordable for all; however, others were worried about their community paying more to increase the levels of service elsewhere in their entity's region.
165. Some of the main suggestions put forward by councils included:
- (a) Buller District Council suggested the water entities offer a discounted rate to beneficiaries.
 - (b) Horowhenua District Council suggested ratepayers offered rates relief are also recognised by the water service entities.
 - (c) Christchurch City Council recommended that *"entities should be required to have a robust and equitable a process in place to address ability to pay, in advance of any new charging scheme being introduced"*.
 - (d) Central Otago District Council recommended a standardised base rate, with higher levels of service paid for by the community that receives the benefit: *"The model should have standardised pricing for baseline services that is a level of service that meets minimum compliance requirements irrespective of location. The Council proposes that service levels higher than baseline could be paid for by the specific community who receives that benefit. We recommend that this requirement is written into legislation to protect the consumers"*.
 - (e) Western Bay of Plenty District Council recommended pricing principles be made public as soon as possible, and consideration should be given to mandating pricing changes in the lead up to 1 July 2024 to shorten any period of transition.
 - (f) Central Hawke's Bay District Council *"expect there to be a consistent pricing approach within an entity, and between entities, and for industry to pay for what it uses"*.
 - (g) Manawatu District Council noted that uniform pricing may not be relevant, as it does not take different costs related to water infrastructure into account (topography, ground water, climate, etc.), and they believe these considerations should be reflected in pricing.

- (h) Waikato District Council would like certainty that price paths would be in line with, or lower than, their long-term plan budgets, and would like more assurances and detail around affordability and impacts on ratepayers under the proposed model.
- (i) Whakatane District Council suggested that the waters services entities should be required to consider total household costs when setting their charges to communities.

Number of water services entities and their boundaries

Summary of feedback

166. The feedback on the number and boundaries of entities was mostly specific to the entity boundary relevant to the submitter. That said, many submissions raised general concerns about entities being too large, and therefore risking loss of local voice, influence and prioritisation for smaller communities.

Entity size and scale

167. A few submissions raised questions around the size, scale and number of entities that were decided by central government, and some did not see the rationale behind the decision beyond scale benefits. There was a strong theme throughout the submissions of concern for the loss of local voice and influence, and many cited the size of the entities as one source for that concern.

168. Many of the smaller councils were worried about competition for prioritisation of investment, if placed in an entity with many larger cities. Mackenzie District Council stated that the Crown has not made a sufficiently compelling case about why it is not feasible for the new regime to be delivered successfully by smaller entities. Matamata-Piako District Council believed that the changes will be more challenging in large geographic areas with no historic relationships and competing interests.

169. *“Entity B is too large, with 22 councils, 78 iwi, large rural areas and remote isolated communities. There will be competing demands between the rural areas, provincial towns and metros across Entity B. Entity B has a significant amount of growth identified, and the prioritisation of investment for delivery against this growth will be challenging.”* (Whakatāne District Council)

170. Waimakariri District Council noted some smaller models that may appear suboptimal from an economies of scale perspective based on the Department's modelling would only lead to marginal differences for entities, while improving other factors of value to communities such as local voice. They also noted that the justifications for a "sweet spot" of approximately one million in population for each entity (based on the Departmental modelling) seems to ignore the fact that Entity A has 1.7 million people, suggesting that there is some acceptance of a loss of efficiency due to diseconomies of scale.

Specific boundary issues

171. There were mixed views from the Local Boards in Auckland Council's submission on whether Entity A should include both Auckland and Northland, with many noting concerns around cross-subsidisation. Auckland Council's submission also touched on the boundary between Entities A and B. There were concerns around the utilisation of water from the Waikato River to support Auckland's water supplies and how assets that are shared across the boundary (such as the Pukekohe Wastewater plant) would be dealt with. The Mana Whenua Kaitiaki Forum raised concerns with how Entity A's southern boundary has been established; in particular, the splitting of the rohe of Ngāti Whanaunga, and disconnecting Auckland from the Waikato River.
172. A few iwi submissions also noted similar boundary issues between Tāmaki Makaurau and Te Tai Tokerau, and the need to consider water supply.
173. Manawatū District Council and Palmerston North City Council questioned why Entity B and Entity C are split across the Horizons region. Manawatū District Council stated that this could cause an issue for Manawatū ratepayers, as they provide three waters infrastructure for Rangitikei, which falls into a different entity under the current proposals. Palmerston North City Council noted that this could also cause issues for integrated land-use and infrastructure planning.
174. The boundary line between Entities C and D attracted views from councils in the surrounding areas. Some councils believed that the whole South Island should be one entity, while others signalled a preference for Entities C and D to be split along the existing unitary authority boundaries. Tasman District Council noted its preference was to remain undivided and, while there was a strong case for them to join Entity C, there was also community interest in them joining Entity D. Ngāi Tahu emphatically supported the alignment to the takiwā boundary.

Changes suggested in feedback

175. There were many specific suggestions and requests based on the proposed boundaries of the four entities:
- (a) Ashburton District Council stated that it would like further work done on whether the Chatham Islands should be part of Entity C or D, citing the strong links between Canterbury and the Chatham Islands. (The Chatham Islands Council did not submit any written feedback.)
 - (b) The boundary at the top of Entity D and bottom of Entity C was signalled in a few submissions as a complex issue, and in need of further discussions with the mana whenua and councils in those areas.
 - (c) Hauraki District Council has signalled an intention to meet with the Department to discuss the option of being in Entity A, instead of Entity B, whereas Ngāti Whātua Ōrākei supported Hauraki's inclusion in Entity B.
 - (d) Thames Coromandel District Council requested ongoing dialogue and meetings between Thames Coromandel District Council, the Department, LGNZ, Pare Hauraki Collective, Waihou Piako Catchment Committee, neighbouring local authorities, and any other invited parties to consider the issues and opportunities of joining with Entity A and implications for Entity B.
 - (e) Marlborough District Council signalled a preference to be in Entity C if the reforms proceed, as future cost projections are more favourable compared with Entity D.
 - (f) Nelson City Council stated a preference for Entity D to cover the whole of the South Island, and for Marlborough and Tasman to not be split between different entities.
 - (g) Stratford District Council noted their preference is for the regional alternative, as proposed in their feedback. However, if the reforms proceed they noted support for placement in Entity B.
176. In response to the size of the entities proposed, many councils signalled a preference for smaller, more regionalised entities or models. For example:
- (a) Central Hawke's Bay District Council proposed a regional council-controlled organisation model comprising all the councils in the Hawke's Bay Region (Hawke's Bay Regional Council; Hastings District Council; Wairoa District Council; Napier City Council; and Central Hawke's Bay District Council).

- (b) Waimakariri District Council suggested that the alternative models being prepared by councils and regions should be considered and compared against the WICS modelling, to show the differences in benefits between scales.

177. In contrast, Gore District Council questioned why central government had not seriously considered having just one entity, as they noted it would reduce bureaucracy and costs.

Regulatory environment

Summary of feedback

178. Many submissions supported the Water Services Act 2021, the establishment of Taumata Arowai, and the proposed establishment of an economic regulator should the reforms proceed. Some councils noted that, with the establishment of Taumata Arowai alone, they expect to see a step change in performance across the sector as drinking water and wastewater standards are enforced, and were very supportive of this. South Taranaki District Council acknowledged that *“better regulation of the water sector is needed and the introduction of Taumata Arowai is a welcomed addition”*.
179. The majority of the submissions that mentioned the role of the economic regulator noted concern about the current lack of detail and information available about this regime. A few councils requested a pause in the reform programme to allow time to better understand the role of the economic regulator, and to assess how Taumata Arowai will have an impact on the system.
180. A few submitters noted the need to take into account and align with various national policy statements, such as the National Policy Statement – Urban Development, and the National Policy Statement – Freshwater.
181. Ōtorohanga District Council mentioned the impact that the Water Services Act might have on councils. It was concerned that councils might have to inherit the many small and rural schemes that have not been subject to any regulation in the past, noting the large additional compliance and maintenance costs this might create for councils.
182. Waimakariri District Council stated that the current proposal was counter to an integrated regulatory system, and the separation of three waters regulation would lead to less integration and introduce a number of transactional complexities.

Changes suggested in feedback

183. Many councils signalled the need for further information about the economic regulator, including requesting clarity on:
- (a) who would be regulated by the economic regulator, including whether councils who opt out or private supplies would be captured;
 - (b) whether councils could be confident that regulation would lead to standardised pricing across the entity overtime;
 - (c) how the economic regulator would sit alongside the governance model; and
 - (d) how prices would be set, especially for different activities such as stock water.
184. Many councils in Entity D requested a pause in the reform programme until further clarity is provided on the role of the two regulators in the system.
185. Noting the wide range of environmental consents for infrastructure upgrades and work from day one, Napier City Council suggested that the consenting and planning connections would be better dealt with under a regional model.
186. Whakatanē District Council recommended the reform package should include funding to support private and rural schemes to meet new regulatory standards. Ōtorahanga District Council supported the provision of funding for marae to enable compliance.

Rural supply arrangements

Summary of feedback

187. Councils with large rural populations raised specific concerns about the impact of reform on these communities. In particular, councils requested that rural schemes be given the option to make their own decisions about opting out of the reform, and that there be a streamlined process for returning council-owned rural supplies to community ownership. There was also concern rural communities would end up contributing to water costs when they did not receive any service.
188. *“Significant further work is required to understand the impacts on rural water schemes and assets including floodwater management, regulation and when and how water standards can be practically applied to local schemes.”* (South Wairarapa District Council)

189. Many councils with rural communities noted water is critical to land productivity, and often supplied through a rural scheme. Rural councils also noted that reticulated water supply is not practical or appropriate for some areas in the New Zealand context.

190. Clutha District Council noted rural communities were unlikely to see the same benefit as urban customers over the next 10 years, and benefits over the next 30 years were unclear. The cost for rural customers was a key issue raised by rural councils, with many noting their rural ratepayers were concerned they would pay for services they did not receive.

Changes suggested in feedback

191. Suggestions included that:

- (a) rural supplies be further defined;
- (b) a streamlined process be implemented to transfer council-owned rural supplies back to community ownership; and
- (c) the Government work with councils to tackle the complex issue of rural supplies.

Stormwater

Summary of feedback

192. Fewer submissions reflected on this aspect of the reforms than some of the earlier themes. The section below reflects a summary of those submissions that did discuss this matter.

193. There was some support in submissions for the transfer of stormwater services to the new water services entities:

- (a) Greater Wellington Regional Council noted it supported this proposal in-principle.
- (b) Entity C councils noted the plan to keep stormwater within scope of the reforms, but that this required further work as there were mixed views among member councils.

- (c) Hutt City Council noted it was encouraged by the “approach to the transfer of stormwater functions outlined in the [Stormwater] Working Group's report and the report's recommendations”.
 - (d) South Taranaki District Council noted that, should drinking water and wastewater services be transferred, it would make it more difficult for the Council to retain suitably qualified staff to manage the stormwater function on its own.
194. Many councils commented that there is a need for further information and analysis on the case for transferring stormwater. These submissions sought further work and clarification around this, in particular raising questions around:
- (a) which assets will be transferred;
 - (b) whether water services entities would honour current consent conditions on council infrastructure;
 - (c) the scope of the stormwater management role that the water services entities would play, including growth and development planning, asset management and maintenance (particularly of green and water sensitive assets);
 - (d) how to ensure integration between stormwater management and local planning of other assets such as roading, parks and wider environmental management needs; noting it is likely that a large number of stakeholders would need to be involved;
 - (e) how these services would be charged for, given it was not as easy to identify users or beneficiaries of stormwater services in a similar way to those for drinking water and wastewater services;
 - (f) how this would impact on the management of flood control (the ‘fourth water’ as noted by Gisborne District Council), with Greater Wellington Regional Council and Nelson City Council noting the need to clarify the boundaries between stormwater and flood control and resilience; and
 - (g) what the proposed pathway for transfer would be.
195. Kaipara District Council sought clarity about land drainage parts of the stormwater network, which in Kaipara are managed by the district council rather than the regional council.

196. Some submissions requested that the decision on whether to transfer stormwater functions and assets should sit with individual local authorities. Others drew attention to the scale of the task associated with transferring drinking water and wastewater services, and suggested stormwater could be dealt with in a subsequent phase of the reforms instead of transferring all three waters at once.
197. Auckland Council listed the key risks to transferring stormwater to the water services entities as:
- (a) Auckland’s ability to drive an integrated land and water response to big challenges, such as climate change and growth;
 - (b) the Council’s ability to carry out regional council functions – transfer could require duplication of resources and break connections between freshwater planning, monitoring and implementation;
 - (c) an optimised response to natural hazards; and
 - (d) connected and consistent stormwater regulation.
198. Christchurch City Council, and New Plymouth, Selwyn and Stratford District Councils, did not support the transfer of stormwater to the new water services entities, for the following reasons:
- (a) it could risk undermining the existing integrated and holistic approach to managing stormwater and its interfaces with other assets like parks and roads;
 - (b) the complexities of integrating land use and infrastructure planning in relation to stormwater were best managed at a local authority level;
 - (c) the new water services entities “*would need to collaborate with multiple local authorities to reduce contaminants at source, from building site runoff to roof material approval to industrial site audits, amongst many others. This will introduce inefficiencies and gaps in the response*” (cited from Christchurch City Council’s submission); and
 - (d) it would be complex to unbundle water assets, liabilities, associated contracts.
199. New Plymouth District Council recommended that regulatory improvements and co-funding arrangements be explored as alternatives to transferring stormwater.

Changes suggested in feedback

200. Notwithstanding its preference that responsibility for stormwater should remain with councils, Auckland Council proposed that, should this be transferred, mechanisms and processes should be introduced to:
- (a) agree working arrangements between councils and the water services entities, such as memoranda of understanding or service level agreements. This should include establishment of key stormwater roles and boundaries prior to transfer of assets and functions;
 - (b) ensure that entity data and models will be freely available to the council;
 - (c) strengthen the council's remaining regulatory tools;
 - (d) ensure the funding streams required to support the assets and functions that will remain with council are maintained; and
 - (e) ensure an integrated view of land and water directs coordinated decision making across the council and water services entity.
201. Greater Wellington Regional Council suggested that regional councils could take responsibility for all stormwater and flood water management functions that are not transferred to the water services entities. This includes emergency management, integrated catchment management, managed retreat, land use, and river and stream work restoration. It also requested that the Government contribute funding to flood risk management work, whether undertaken through the water services entities or the regional council. (This was the only regional council to submit written feedback, as Greater Wellington delivers some services as part of Wellington Water).
202. New Plymouth District Council recommended that, if stormwater is included within scope of the reform, there should be work to standardise asset classifications and introduce agreements between water services entities and local authorities. It also noted that there will need to be a process for territorial authorities to divest any flood protection schemes they manage to relevant regional councils.
203. Palmerston North City Council noted that, if there was greater alignment between the entity boundaries and catchment areas, there would be more flexibility regarding the ability to take on catchment-based management and river management functions.

204. Palmerston North City Council also suggested that *“stormwater in the context of land use planning, development and growth, remains with local authorities, and that the stormwater roles of the new entities are more clearly defined as network provision and maintenance to comply with regional plans. This includes water entities working with flood-protected floor levels and the like set by councils”*.
205. Waitematā Local Board suggested that a logical division of responsibility could be for *“the initial collection of stormwater off roads, other public areas and private property to be the responsibility of councils and for the eventual release of stormwater into the receiving environment to be the responsibility of the water entities”*.

Transition considerations

Summary of feedback

206. Submissions noted a significant number of issues that will need to be addressed through the transition, reflecting the complexity and scale associated with the transfer of three waters assets, debts and liabilities. Noting some matters raised earlier in this report could also be considered matters to resolve during any future transition, other transitional issues included:
- (a) the mechanism for transferring debt associated with three waters assets, and how this will be calculated;
 - (b) the process, timeframes and funding to enable due diligence;
 - (c) how local contracts, contractors and their staff will be protected through the transition, including situations where councils may be liable for legal action and compensation;
 - (d) addressing community resistance to change;
 - (e) ensuring the pace of change does not result in mistakes or unforeseen issues;
 - (f) ensuring service delivery and efficiency to local users is not disrupted;
 - (g) ensuring communities are well informed of the changes from a practical perspective (for instance, knowing who to call in the event of a fault or delay);
 - (h) understanding development / financial contribution charges linked to debt (including the possibility of refunds);

- (i) the transfer of asset management systems and data will need to be clearly established, as the loss of data or failure of systems will affect the continuity of service delivery;
- (j) stranded overheads within local authorities will need to be well understood and plans established to mitigate impacts;
- (k) the continued employment, and creation of employment and procurement opportunities in local areas, not only the metropolitan areas;
- (l) novation of contracts and tenders in progress, including communication to the market of any changes in the procurement rules and processes they will be expected to follow;
- (m) transferring consents, including where these relate to more than one land parcel;
- (n) greater transparency and community engagement on the likely pricing and charging model for the water services entities; and
- (o) recognising different approaches to managing and maintaining three waters networks. For instance, Waimakariri District Council noted it had built up renewals funding from depreciation funding surpluses and ring-fenced this funding for future renewals expenditure – funding that would be transferred to the new entity without necessarily recognising that ratepayers had already contributed to future renewals. This could lead to inequitable outcomes relative to other local authority areas.

207. Some submissions raised questions about the feasibility of achieving the proposed reforms and establishment of the new water services entities by 2024.

208. Submissions also noted some of the challenges and risks associated with the transition period. In particular, a common challenge noted across multiple submissions was the need to find the workforce, skills and technical capability required to support the transition, and fill governance and management positions for the new entities. The workforce challenge would likely be exacerbated given current constraints in the labour market and the likelihood of increased investment by the four water services entities once established.

209. It was recognised that the Government had committed to ensuring continued employment of local staff, but further detail was sought on this commitment and how staff would transfer to the new water services entities, including what change management processes would be put in place.

210. Some submissions commented on the positive opportunities created through reform for employment and career development pathways, including for iwi/Māori. Kāpiti Coast District Council noted that the new entities *“would have deeper resources, and yet can still be expected to ensure local suppliers are involved in water services”*.

Changes suggested in feedback

211. Several submissions noted that a collaborative approach between government, mana whenua and local authorities would be necessary to ensure a smooth transition process and establishment of the new entities.
212. Ashburton District Council recommended that the Government form a transition team with representation from local authorities. However, it acknowledged this would require a balance of ensuring local authority staff have the opportunity to contribute to the transition process, while also ensuring that local authorities can continue to deliver business as usual services.
213. Many local authority submissions noted the importance of local staff and suppliers with expertise and experience continuing to design, maintain and manage networks. Central Hawke’s Bay sought assurances that local knowledge, local staff and local network management will be the starting point should reform proceed, and that *“any possible arrangements for local staff will ensure an environment of local ownership and empowerment so that staff continue to remain engaged and responsive to local issues and are not ever hindered by burdensome process and reporting back via any centralised control points”*.
214. Some local authorities noted they had begun work to establish their existing positions and support discussions around the ‘no worse off’ support package, and recommended this would need to consider broader impacts. For instance:
- (a) Christchurch City Council sought assurances that, should the support package payments exceed the amount the Government had allocated, local authorities would still be compensated appropriately.
 - (b) Some local authorities sought assurance that appropriate compensation could be agreed for any stranded overheads with an impact extending beyond two years.

- (c) Other local authorities noted that reform would have an impact on other activities within their organisation that three waters staff have responsibility for, and that when staff are transferred to the new entities there should be appropriate compensation to fill these roles. Ōpōtiki District Council used the example of its Harbour Development programme that it had committed to with the Government on the understanding it would be overseen by its asset managers.
 - (d) Hamilton City Council requested that the Government guarantee it would fund all reasonable costs of council participation in the reform programme and transition process between now and 2027, including the costs of any formal consultation with their communities.
 - (e) Hamilton City Council also requested that the Government guarantee funding for all reasonable costs of the Regional Representative Group during the establishment phase until Entity B can fund its activities.
 - (f) Some councils called for the Government to increase funding for the support package and/or to fully fund the support package as opposed to these being funded through the water services entities.
215. Christchurch City Council recommended that statutory provisions be enacted in respect of three waters assets, similar to those that exist for electricity, telecommunications and gas infrastructure situated in legal roads. This would avoid the complications associated with creating and transferring property rights to the new entities, and would make use of a model that is already in use by other utility service providers and is well understood.
216. Dunedin City Council recommended that a nationwide three waters workforce development initiative be established to support the reform programme, and which would require increased funding and training of new staff by the Government. This was also signalled in Waikato District Council's submission.
217. Queenstown-Lakes District Council noted that the 'better off' and 'worse off' funding had been calculated on the basis of population-based modelling, which would be insufficient to meet its needs given its high visitor numbers and the need to provide three waters services for peak day populations. It recommended apportioning funding on a demand basis, rather than a resident population basis.

218. South Waikato District Council recommended that the Government establish a central body to oversee training and workforce development, and that it seeks to harmonise terms and conditions of employment. A similar suggestion was made by New Plymouth District Council, for the Government to consider the possibility of entering into multiple-employer collective agreements now for water functions within each water services entity area.

Process and timeframes

219. A number of submissions, particularly from Entity D councils, called for a pause to the reform process. These submissions raised concerns over the scale and pace of the reform programme, noting insufficient time had been allowed for engagement with local government and their communities. Some councils also commented the eight-week period for engagement was not sufficient for councils to undertake a meaningful analysis of the proposal and/or to engage with their communities.
220. Submissions that requested a pause in the reform programme indicated this would provide more time for local authorities and their communities to consider the three waters reform proposal alongside other significant programmes of work, like the resource management reform and the Future for Local Government review. Other councils saw a pause as enabling a 'reset' to occur, providing an opportunity to revisit the parameters of the reform programme and to consider alternative options.
221. There was some support for the engagement approach with iwi/Māori. However, the Auckland Council Independent Statutory Māori Board, as well as a number of submissions from iwi, noted that the current engagement approach had not provided easily understood information for/to Māori, and called for Māori to be adequately resourced to participate in reform discussions. Other submissions noted that Government engagement with mana whenua had not necessarily met local government requirements for engagement.
222. Some submissions raised concerns over the public information campaign that had been undertaken, commenting that it should have focused on providing detailed information to the public on the reform proposal.

Concerns over the information and analysis

223. Some submissions raised the need for more information and clarity about aspects of the proposals to be provided to councils, including in relation to economic regulation, and outcomes for service levels and the environment.
224. There were questions raised by some submitters on the accuracy of the information and assumptions that underpinned the Government's modelling and analysis. This included some noting the limitations of the WICS analysis and modelling, with councils including Ashburton, Kaikōura and Kāpiti Coast commenting that they disagreed with the WICS analysis.
225. Some councils, including Christchurch City and Mackenzie, noted they had undertaken their own analysis that suggested they could be better off without reform, which led them to question the projected economic benefits in the Government's modelling.

Clarity on the process for decision making and next steps

226. Several submissions sought clarity on the decision-making process, as well as the ongoing engagement with the sector on the design and establishment of the new entities, beyond the current period of engagement.
227. Horowhenua District Council noted that *"the Government has not appropriately publicly messaged the stage at which the reforms are at, nor explained at what point communities will be able to properly consider the case for change and meaningfully contribute to the reform development"*.

Changes suggested in feedback

228. Several submissions raised concerns that the Government might make the reforms mandatory, recommending that the decision should be left to councils to make on a voluntary basis.
229. Many submissions noted the importance of community consultation prior to decisions being made, with some pointing to the wide range of responses triggered by the reform proposals. It was noted that community consultation should occur irrespective of whether reform is pursued on a voluntary or mandatory basis. Some submitters noted that a referendum might be appropriate.

230. Auckland Council recommended the Government seek further engagement on the following aspects of the proposals:
- (a) representation from and on behalf of mana whenua;
 - (b) integration with other local government reform processes;
 - (c) integration with spatial and local planning processes, and growth;
 - (d) the nature, role and timing of economic regulation;
 - (e) process for decision making regarding prioritisation of investment;
 - (f) the transfer of stormwater assets and functions;
 - (g) process for local authority decision making on 'opting in or out' of the three waters reform;
 - (h) conditions associated with the Government's package of funding for local government; and
 - (i) transition arrangements, including for the council group workforce, information sharing, and due diligence for asset transfers.
231. Howick Local Board suggested trialling the reforms in the South Island and, if successful after five years, to roll it out to the rest of the country. Other councils suggested trialling the reforms in Entity B.
232. Some local authorities recommended that, in relation to the concerns around the modelling, the Government should refine this analysis further and provide councils with an opportunity to review the data.

Comments on other matters

Summary of feedback and changes suggested

233. A few submitters raised concerns about how the entities will be involved in the emergency management system, and how having three waters services managed by a different entity could create further complexities, especially for areas that already have small emergency operations at a local level. Many wanted further information about how the water services entities would incorporate resilience and climate change considerations into their decision making.
234. Hamilton City Council suggested that climate change mitigation principles be added into the operating principles of the water services entities.

235. Dunedin City Council would like the legislation to require the entities to engage in emergency management and event response: *“The council urges the Government to ensure legislation that establishes any new water services entities requires the entities to actively work with Civil Defence and local communities on response planning and emergency event response”*.
236. Kaipara District Council would like confirmation that the entities will align with, and support the outcomes of, the climate change adaptation work being done by their communities.
237. Masterton District Council would like more clarity on how the proposed entities will deliver on local strategies that are already in place, for example the Wairarapa Water Resilience Strategy.
238. Queenstown-Lakes District Council reflected that, because the three waters system has an important role to play in the management of climate change, it was concerning the reforms were progressing ahead of the National Adaptation Plan (anticipated in 2022). The Council also suggested a carbon accounting exercise should be done to fully assess the benefits of the different models, and this should be displayed publicly on the dashboards.
239. Gore District Council was concerned that once the reforms are implemented, *“all bets are off”* in regard to capital investments. Gore District Council asked for a minimum guarantee on future capital investment before it can support the reform proposals.
240. A few councils mentioned the process for the development of the Government Policy Statement was currently unclear and requested to be consulted meaningfully during the development of the statement.
241. Southland District Council suggested that the 'four well-beings' (cultural, social, environmental and economic) provided for in the Local Government Act should be integrated into the operational and decision-making principles for the entities and the reform.
242. Waitematā Local Board stated *“Climate change resilience, ensuring food security, biodiversity, the health of harbours and water courses should all be important considerations of water entities as well as the provision of quality potable water, and the management of waste water and storm water. We recommend a holistic approach.”*

243. Whanganui District Council noted that there is not any information currently available from the Department on the impact these reforms will have on large businesses, especially trade waste businesses.
244. Whangarei District Council raised concerns around decreasing levels of service post reform, noting *“Service levels is also a significant issue. Currently, Whangarei enjoys generally better three waters outcomes than Auckland. We rarely (if ever) need to close beaches because of wastewater contamination, we rarely have water use restrictions, and our response time for faults are generally quicker. If WDC joined with Entity A there is a reasonable chance that service levels would decrease to match those found in Auckland.”*
245. Ashburton District Council was worried about the impact of removing the three waters services on local body elections, as they were concerned the loss of this role from councils might affect the pool of candidates wanting to stand for election.

Appendix A: List of engagements with local government, iwi/Māori, and industry stakeholders

The table below provides an overview of formal engagements and discussions held with the local government sector, iwi/Māori, and industry experts on the case for change and the reform proposals. This table begins with the Government's national evidence base released (1 June 2021) and runs through to the end of the August/September 2021 period of engagement (1 October 2021).

Key:	Iwi/Maori	Local Government	Joint Local Government and iwi	Other/Industry
Date (2021)	Engagement	Engagement with	Where	
1 June	Webinar with for Mayors, Chairs and Chief Executives to explain the national evidence base release	DIA	Online	
3 June	Meeting with LGNZ Executive Leadership team	MoLG and LGNZ	Wellington	
4 June	Meeting with Te Tau Ihu iwi	MoLG	Online	
8 June	Detailed question and answer webinar for council technical leads	DIA	Online	
10 June	Meeting with Ngai Tahu representatives	DIA	Online	
14 June	Presentation to industry hosted by Russell McVeagh	MoLG	Wellington	
15 June	Discussion at Zone Five (upper South Island Councils) meeting	MoLG, LGNZ and DIA	Christchurch	
15 June	Hui with Waikato Tainui	DIA	Hopuhopu	
16 June	Trade and Industrial Waters Forum Conference	MoLG	Wellington	
16 June	Institute of Finance Professionals New Zealand, Infrastructure panel	DIA	Wellington	
17 June	Presentation to industry hosted by Russell McVeagh	MoLG	Auckland	
17 June	Hui with Hawkes Bay Regional Council and Ngāti Kahungunu representatives	DIA	Napier	
18 June	Meeting with Auckland Council Governing Body	MoLG and DIA	Auckland	
21 June	LGNZ Chief Executives Forum	LGNZ and DIA	Wellington	
23 June	Construction Sector Accord Workshop on interface with Water Reform	DIA and MBIE	Wellington	
25 June	Meeting with Otago Regional Council	DIA	Otago	
28 June	Joint Central/Local Government Steering Committee meeting	LGNZ, Taituarā and LGNZ	Wellington	
29 June	Webinar for all council elected members and Chief Executives on Cabinet decisions on entity size, shape and design features	DIA	Online	
30 June	Webinar for all iwi on Cabinet decisions on entity size, shape and design features	DIA	Online	
1 July	Hui with Waikato River iwi	DIA	Rotorua	

Date (2021)	Engagement	Engagement with	Where
1 July	Meeting with LGNZ	MoLG, MoF and LGNZ	Wellington
2 July	Discussion at Zone Six (lower South Island councils) meeting	MoLG, LGNZ and DIA	Dunedin
2 July	Hui with Maniapoto Māori Trust Board	DIA	Te Kuiti
2 July	Discussion with Institute of Public Works Engineering Australasia (IPWEA) Canterbury members	DIA	Christchurch
5 July	Hui with Wellington iwi	DIA	Porirua
8 July	Question and answer webinar for all council elected members and Chief Executives	DIA	Online
9 July	Meeting with Auckland Council	MoLG and DIA	Auckland
11 July	Meeting with LGNZ	MoLG, MoF and LGNZ	Online
12 July	Webinar for council Chief Executives and nominated staff on early transition planning	DIA	Online
12 July	Discussion with Central North Island council Chief Executives	DIA	Wellington
12 July	Meeting with Māori Council officers on working with mana whenua through reform	DIA	Wellington
12 July	Meeting with Environmental Defence Society	DIA	Wellington
14 July	Hui with Te Maruata (LGNZ Māori Committee – a sub-group of National Council)	MoLG, LGNZ and DIA	Blenheim
14 July	Hui with ngā iwi o Te Tau Ihu	MoLG and DIA	Blenheim
14 July	Meeting with councils from the top of the South Island	MoLG and DIA	Blenheim
15 July	Waikato District Council stormwater regulation hui	DIA	Online
15-16 July	LGNZ National Conference including announcement of financial support package	Prime Minister, Minister of Finance, MoLG, Minister of Housing, Steering Committee Chair, LGNZ, and DIA	Blenheim
19 July	Discussion with E Tu Union	DIA	Online
20 July	Discussion with Public Service Association	DIA	Auckland
21 July	Meeting with Auckland Council Planning Officers	DIA	Auckland
22 and 23 July	Discussion with Zone Two (Upper North Island councils below Auckland)	LGNZ and DIA	Taupō

Date (2021)	Engagement	Engagement with	Where
22 July	Meeting with representative from Waikato-Tainui	MoLG	Hamilton
22 July	Webinar for all Mayors and Chief Executives	LGNZ	Online
22 July	Presentation at Local Government Funding Agency Shareholders event	DIA	Wellington
22 July	Infrastructure NZ policy event	MoLG and DIA	Auckland
23 July	Transformation hui with Christchurch City Council	DIA	Christchurch
23 July	Transformation hui with WSP	DIA	Christchurch
26 July	Joint Central/Local Government Steering Committee meeting	LGNZ, Taituarā and LGNZ	Wellington
28 July	Discussion with Amalgamated Workers Union NZ	DIA	Auckland
28 July	Meeting with Greater Wellington Regional Council Chair	MoLG and DIA	Wellington
28 July	Meeting with Gisborne District Council	DIA and Steering Committee Chair	Gisborne
28 July	Meeting with Waikato-Tainui	DIA	Ngaruawahia
29 July	Transformation hui with AECOM	DIA	Auckland
2 August	Meeting with Dame Karen Poutasi, Taumata Arowai Chair	MoLG	Online
2 August	Waikato District Council/ Transitional Industry Training Organisation Steering Group Meeting	DIA	Online
2 August	Webinar for council Chief Executives and nominated staff on transition planning	DIA	Online
3 August	Question and answer session with Waimakariri District Council	DIA	Online
4 August	Discussion with Tasman District Council on the transition approach	DIA	Online
5 August	Hui with all council's collectively from across Entity B	LGNZ and DIA	Taupō
5-6 August	Iwi Chairs Forum	MoLG	Online
5 August	Webinar for Mayors and Chief Executives with guest speakers from Beca and FarrierSwier	LGNZ	Online
6 August	Meeting with senior waters staff from councils across all of Entity A	DIA	Whangarei
6 August	Discussion at Zone Four meeting (greater wellington region)	LGNZ and DIA	Hutt City
6 August	Meeting with Wairoa Mayor Craig Little	MoLG and DIA	Online
9 Aug-21	Local Authority Protection Programme Disaster Fund (LAPP) Board meeting	DIA	Wellington

Date (2021)	Engagement	Engagement with	Where
9 August	Question and Answer session with Canterbury Engineering Managers Forum (collective of council staff across the Canterbury region)	DIA	Online
9 August	Wellington Council working group	LGNZ	Wellington
9 August	Grey District Council workshop	LGNZ	Online
9 August	Webinar for council elected members	LGNZ	Online
10 August	Discussion with Engineering Leaders Forum (includes IPWEA, Water NZ, Association of Consulting Engineers, Civil Contractors NZ, Cement NZ, University of Canterbury, Electricity Engineers Association, IT Professionals NZ)	DIA	Wellington
10 August	Kapiti Coast councillor workshop	LGNZ	Kapiti
10 August	Te Ao Māori Technical Working Group	DIA	Auckland
10 Aug-21	Overview of reform proposals and question and answer webinar hosted by Water NZ for their members	DIA	Online
11 August	Meeting with West Coast council Mayors	LGNZ	Online
11 August	Technical call to discuss indicative financial modelling and 'no worse off' funding support with Chatham Islands Council	DIA/LGNZ	Online
11 August	Technical call to discuss indicative financial modelling and 'no worse off' funding support with Manawatu District Council	DIA/LGNZ	Online
12 August	Technical call to discuss indicative financial modelling and 'no worse off' funding support with South Waikato District Council	DIA/LGNZ	Online
12 August	Technical call to discuss indicative financial modelling and 'no worse off' funding support with Hutt City Council	DIA/LGNZ	Online
12 August	Technical call to discuss indicative financial modelling and 'no worse off' funding support with Dunedin City Council	DIA/LGNZ	Online
12 August	Technical call to discuss indicative financial modelling and 'no worse off' funding support with Wellington City Council	DIA/LGNZ	Online
12 August	Technical call to discuss indicative financial modelling and 'no worse off' funding support with Whangarei District Council	DIA/LGNZ	Online

Date (2021)	Engagement	Engagement with	Where
12 August	Technical call to discuss indicative financial modelling and 'no worse off' funding support with Christchurch City Council	DIA/LGNZ	Online
12 August	Discussion with Amalgamated Workers Union NZ	DIA	Auckland
12 August	Discussion with Aviation and Marine Engineer Association	DIA	Auckland
13 August	Overview of reform proposals and question and answer webinar hosted by IPWEA for their members	DIA	Online
13 August	Deloitte – extending Wellington Water study to meet objectives of Waikato District Council/ Transitional Industry Training Organisation three Waters Workforce Strategy project	DIA	Online
13 August	LGNZ metro sector meeting	LGNZ and DIA	Wellington
14 August	Meeting with Waitomo District Council Mayor John Robertson	MoLG	Te Kuiti
16 August	Meeting with Forest and Bird Chief Executive Karen Hague	MoLG	Online
16 August	Central Hawkes Bay Regional Collaboration forum	LGNZ and DIA	Hawkes Bay
16 August	Technical briefing with Whangarei CEO and water general manager	LGNZ	Whangarei
16 August	Meeting with Local Government Funding Agency Executive	DIA	Online
16 August	Discussion with Amalgamated Workers Union NZ	DIA	Auckland
17 August	Speech at Bay of Plenty Regional Council Komiti Māori meeting	MoLG	Rotorua
17 August	Meeting with Bay of Plenty Regional Council Chief Executive and Chair	MoLG	Rotorua
17 August	Technical briefing with Otorohanga District Council	LGNZ	Online
18 August	Technical briefing with Wellington City Council	LGNZ	Wellington
18 August	Technical Briefing with Manawatu District Council	LGNZ	Online
16 August	Technical briefing with Matamata-Piako District Council	LGNZ	Online
18 August	Hui with Ngāti Whātua representatives	DIA	Auckland
19 August	Local Government Funding Agency investors meeting	DIA	Online /Auckland
19 August	Question and answer webinar with Mayors and Chief Executives	LGNZ	Online
19 August	Technical workshop with Manawatu Council	LGNZ	Online

Date (2021)	Engagement	Engagement with	Where
19 August	Question and answer webinar for council Chief Financial Officers	Taituarā and DIA	Online
20 August	Technical workshop with Central Otago councils	LGNZ	Online
20 August	Attended Entity A councils' people and workforce hui	DIA	Online
23 August	Wellington Councils working group	LGNZ	Online
24 August	Greater Wellington Region Wananga	LGNZ	Online
24 August	Hui of all iwi across Entity B	(no Government or LGNZ attendee, but content support provided in advance)	Online
24 August	Technical briefing with Christchurch City Council	LGNZ	Online
25 August	Meeting with New Zealand Utilities Advisory Group	DIA	Online
26 August	Meeting with Central Otago District Council	LGNZ and DIA	Online
26 August	Meeting with Minister and LGNZ leadership	MoLG and LGNZ	Online
26 August	Porirua workshop	LGNZ	Porirua
26 August	Hui with Te Uri o Hau representatives	DIA	Online
30 August	Hui with Whakatane District Council and Bay of Plenty iwi	DIA	Whakatane
30 August	Technical briefing with Waimakariri District Council	LGNZ	Online
30 August	Meeting with Christchurch City Council Chief Executive	DIA	Online
30 August	Webinar for council Chief Executives and nominated staff on transition planning	DIA	Online
31 August	Question and answer session with Ashburton District Council	DIA	Online
31 August	Detailed workshop on Governance proposals	LGNZ	Online
31 August	Meeting with Clutha District Council	DIA	Online
31 August	Meeting with Federated Farmers (primarily to discuss the drinking water regulatory environment)	MoLG and DIA	Online
31 August	Meeting with a variety of council Mayors and Chief Executives on the funding allocations	LGNZ and DIA	Online
31 August	Technical briefing with Selwyn District Council	LGNZ	Online
31 August	Technical briefing with Upper Hutt City Council	LGNZ	Online

Date (2021)	Engagement	Engagement with	Where
31 August	Technical briefing with Nelson City Council	LGNZ	Online
31 August	Technical briefing with Ashburton District Council	LGNZ	Online
31 August	Data and Digital hui with Watercare	DIA	Online
31 August	Attended Entity A councils people and workforce hui	DIA	Online
1 Sept	Technical briefing with Palmerston North City Council	LGNZ	Online
1 Sept	Technical briefing with South Taranaki District Council	LGNZ	Online
1 Sept	Technical briefing with Ruapehu District Council	LGNZ	Online
1 Sept	Technical briefing with Masterton District Council	LGNZ	Online
2 Sept	Workforce Development Strategy Project Working Group (includes members from Hamilton City Council, Connexis, Taituarā, Wellington Water, Citycare Water, Water NZ, and Taumata Arowai)	DIA and Taituarā	Online
2 Sept	Hui with Te Uri o Hau representatives	DIA	Online
2 Sept	Detailed workshop on maintaining community voice	LGNZ	Online
2 Sept	Webinar with Mayors and Chief Executives including guest speakers from TasWater and Tasmanian councils	LGNZ	Online
2 Sept	Technical briefing with Greater Wellington Regional Council	LGNZ	Online
3 Sept	Webinar will all council elected members on the reforms with guests from Victoria Water in Australia	LGNZ	Online
3 Sept	Discussion with Public Service Association	DIA	Online
6 Sept	Detailed workshop on integration with council planning	LGNZ	Online
6 Sept	Hui with Young Elected Members	LGNZ	Online
6 Sept	Technical briefing with Tararua District Council	LGNZ	Online
6 Sept	Technical briefing with Dunedin City Council	LGNZ	Online
6 Sept	Hui with Ngāti Kahungunu Representatives	MoLG and DIA	Online
6 Sept	Stormwater asset transfer implications discussion group establishment with Queenstown Lakes District Council, Waimakariri District Council, Dunedin City Council	DIA	Online

Date (2021)	Engagement	Engagement with	Where
6 Sept	Waikato District Council/ Transitional Industry Training Organisation Connexis Workforce Strategy project discovery Session 1	DIA	Online
7 Sept	Hui with all council's collectively from across Entity B	LGNZ and DIA	Online
7 Sept	Public Service Association discussion	DIA	Auckland
7 Sept	Discussion with Citycare Water	DIA	Online
7 Sept	Discussion with Energy Academy about their Training model for Orion Energy	DIA	Online
7 Sept	Te Ao Māori Technical Working Group	DIA	Online
8 Sept	Detailed workshop on Rural Schemes	LGNZ and Steering Committee Chair	Online
8 Sept	Technical briefing with South Wairarapa District Council	LGNZ	Online
8 Sept	Hui with New Plymouth District Council and Taranaki iwi	DIA and Taumata Arowai	Online
8 Sept	Pre meet Hui with Hauraki, Thames-Coromandel and Matamata-Piako District Councils and local iwi	DIA	Online
8 Sept	Question and answer session with Wellington City Council	DIA	Online
8 Sept	Systems of Record scoping meeting with Watercare	DIA	Online
9 Sept	Stormwater asset transfer implications discussion group with Queenstown Lakes District Council, Waimakariri District Council, Dunedin City Council	DIA	Online
9 Sept	Watercare hui about the Waikato District Council/ Transitional Industry Training Organisation 3Water Workforce Strategy project	DIA	Online
9 Sept	Waikato District Council/ Transitional Industry Training Organisation Connexis Workforce Strategy project discovery session 2	DIA	Online
9 Sept	Technical briefing with Tasman District Council	LGNZ	Online
9 Sept	Technical briefing with Central Hawke's Bay District Council	LGNZ	Online
10 Sept	Technical briefing with Auckland City Council	LGNZ	Online
10 Sept	Presentation from Waikato District Council on interface and transfer of stormwater assets	DIA	Zoom
10 Sept	Ngāi Tahu management hui	DIA	Online

Date (2021)	Engagement	Engagement with	Where
10 Sept	Discussion with Kaipara District Council General Manager People + Capability	DIA	Online
13 Sept	Webinar for council Chief Executives and nominated staff on transition planning	DIA	Online
13 Sept	Question and answer session with Selwyn District Council	DIA	Online
13 Sept	Technical briefing with Horowhenua District Council	LGNZ	Online
13 Sept	Meeting with Amalgamated Workers Union NZ about their training volumes in Three Waters workforce	DIA	Online
13 Sept	Meeting with Whakatane District Council and local iwi	DIA	Online
13 Sept	Hui with Hauraki, Thames- Coromandel and Matamata-Piako District Councils and local iwi	DIA	Online
14 Sept	Meeting with Queenstown Lakes District Council	DIA	Online
14 Sept	Technical briefing with Waimate District Council	LGNZ	Online
14 Sept	Waikato District Council/ Transitional Industry Training Organisation 3Water Workforce Strategy project proposal	DIA	Online
14 Sept	Refresher webinar and question and answer session for all iwi/Māori contacts	DIA	Online
15 Sept	Employers and Manufacturers Association Members Forum	MoLG and DIA	Online
15 Sept	Hui with representatives from ngā iwi o Te Tau Ihu	MoLG and DIA	Online
15 Sept	Hui with Ngāti Kahungunu representatives	DIA	Online
15 Sept	Technical briefing with Kaipara District Council	LGNZ	Online
15 Sept	Charging and pricing hui with Waikato District Council	DIA	Online
16 Sept	Hui with Ngāti Wai representatives	DIA	Online
16 Sept	Webinar for Mayors and Chief Executives to discuss key areas of feedback on reform proposals	LGNZ	Online
16 Sept	Technical briefing with South Waikato District Council	LGNZ	Online
16 Sept	Data and Digital hui with Wellington Water	DIA	Online
16 Sept	Discussion with Public Service Association	DIA	Online
16 Sept	Discussion with First Union	DIA	Online

Date (2021)	Engagement	Engagement with	Where
16 Sept	Meeting with Healthy Waters, Auckland Council – regarding the Waikato District Council/ Transitional Industry Training Organisation Three Waters Workforce Strategy project	DIA	Online
17 Sept	Hui with Rotorua Lakes Council and iwi representatives	MoLG and DIA	Online
17 Sept	Meeting of sub-group of Entity C Chief Executives (made up of 6 representative CEs)	LGNZ	Online
17 Sept	Meeting with Watercare – Chief Executive and General Manager Healthy Waters	DIA	Online
17 Sept	Wellington Water - seeking interest in participating in Waikato District Council/ Transitional Industry Training Organisation 3Water Workforce Strategy project	DIA	Online
20 Sept	Charging and pricing hui with Watercare	DIA	Online
20 Sept	Water Services Managers Group (Water NZ) Committee meeting	DIA	Online
20 Sept	Waikato District Council/ Transitional Industry Training Organisation 3Water Workforce Strategy project proposal	DIA	Online
20 Sept	Technical meeting with Wellington Councils	LGNZ	Online
20 Sept	Hui with Ōpōtiki District Council and iwi representatives	DIA	Online
21 Sept	Meeting of all Mayors and Chief Executives from across Entity C	LGNZ	Online
21 Sept	Attend New Plymouth District Council meeting as technical support	DIA	Online
22 Sept	Meeting with Waikato District Council Waters Governance Board	MoLG and DIA	Online
22 Sept	Meeting with Ruapehu District Council	DIA	Online
22 Sept	All of entity B councils collective meeting	LGNZ and DIA	Taupō
22 Sept	Discussion with E Tu Union	DIA	Online
22 September	Hui with Ngai Tahu and working party of South Island Mayors	MoLG and DIA	Online
23 Sept	Pre-meeting with Rangitāne Tū Mai Rā Trust	DIA	Online
23 Sept	Meeting with Gisborne District Council	MoLG and DIA	Online
23-24 Sept	Visit to Clutha District rural water scheme	DIA	Clutha
27 Sept	Discussion at Canterbury Mayoral Forum	MoLG, LGNZ and DIA	Online

Date (2021)	Engagement	Engagement with	Where
27 Sept	Virtual roadshow of Australian water services hosted by SPICAE	LGNZ, Taituarā and DIA	Online
27 Sept	Hui with Te Rūnanganui-o-Ngāti Hikairo	DIA	Online
30 Sept	Discussion at Zone Six (lower South Island councils) meeting	MoLG, LGNZ and DIA	Online
30 Sept	Webinar for Mayors and Chief Executives to discuss key areas of feedback on reform proposals	LGNZ	Online

Frequently asked questions

What happens next?

Date	Milestone
Late October	Representation and accountability working group established
Early December	Water Services Entities Bill introduced to Parliament
Mid-December	First reading of the Bill and referral to Select Committee: call for submissions
Early 2022	Public consultation on Water Services Entities Bill through Select Committee process; National Transition Unit engagement with local authorities begins
June 2022	Report back of Water Services Entities Bill
July 2022	\$500 million in 'better-off' funding available for councils
July 2024	Four new entities take responsibility for delivering water services; Up to \$2 billion additional funding available for councils

Why will these new water providers be better than the current system?

These new water providers will have the significant advantages of:

- superior long-term financing arrangements through balance-sheet separation from debt-constrained councils;
- spreading costs across larger areas over time;
- operational efficiencies;
- the ability to plan, fund and deliver more resilient and reliable water infrastructure across regions and communities;
- developing and maintaining workforce capability and capacity through more sustainable career pathways in the water industry into the future.

What will be the costs to households / ratepayers?

With reform, costs are projected to range between \$800 and \$1640, saving households thousands of dollars a year. This represents a much lower average cost per household. The savings for each household in individual councils can be found in Appendix A.

Is the government taking assets off of communities?

The Government is not confiscating, buying or selling assets. Councils will continue to collectively own the water services entities providing services for their district, on behalf of their communities.

Communities will retain an influence on three waters assets and services through their council and through other consumer and community interest forums.

The reforms are about shifting the day-to-day operation and management of the water services from councils to dedicated water entities, which will mean a better, safer, more cost-effective way of ensuring that our communities have good-quality water services for generations to come.

How can communities be sure these assets will not be privatised?

Continued public ownership of these water services is a bottom line for the Government. The safeguards against future privatisation the government is writing into legislation go above and beyond the current safeguards (or lack of).

These safeguards ensure communities will be the ultimate guardians of public ownership with any future proposal for privatisation requiring 75 per cent of votes in favour in a public referendum.

Additionally, any surpluses would have to be reinvested in water services to address significant infrastructure deficits, making the entities an unattractive proposition for investors. The involvement of iwi/Māori, with councils, in the strategic oversight and direction of the entities will enhance these protections.

The new water authorities will exist to ensure safe, affordable, resilient and environmentally responsible supplies of water services for their communities rather than to turn a profit.

What will it mean for council water workers?

Council employees that primarily work on water services will be guaranteed a role with the new water service entities that retain key features of their current role, salary, location, leave and hours/days of work.

When will public consultation on the reforms occur?

Public consultation on these reforms will occur at a national rather than local level.

There will be several opportunities for public consultation over the coming years including public submissions via the select committee process, and public participation with the Working Group.

Once set up the water entities will have to directly consult with their customers, businesses, and residents on their strategic direction, investment priorities, their prices and charges to a level that will likely exceed the current requirements on local government.

What alternative reform options has the Government considered?

The Government has been investigating a range of options for four years using the best of international and local expertise – and has robustly tested the options with oversight and guidance of the joint Central/Local Government steering committee.

This includes assessing options such as central government funding to the status quo, sector-led shared service delivery and regional models, introducing a national centralised fund similar to the NZTA-type model, and regulatory reform alone. The Water Industry Commission for Scotland also assessed 30 different aggregation scenarios ranging from two to 16 entities. Other alternatives considered were unsustainable and unaffordable for large parts the country.

What has changed as a result of council feedback?

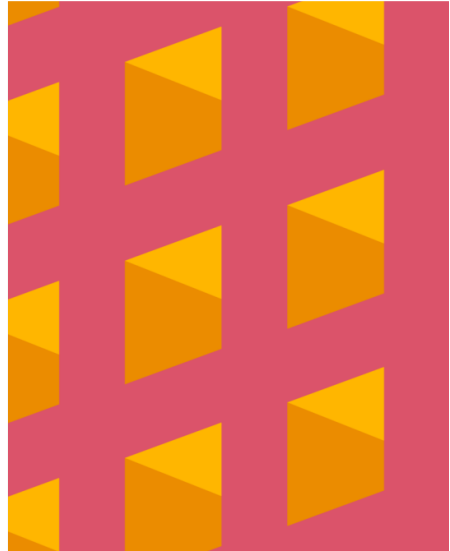
The feedback from councils through the 8-week engagement period helped identify areas for refinement of the new entities – such as in the area of representation and accountability.

The Government continues to work in good faith with local government to refine the outstanding details of the reforms design and will establish three technical reference groups, similar to the Stormwater Technical Working Group, that will include, iwi, industry and local government experts. These groups will help refine the reform proposals with regard to oversight and accountability; rural supplies; and the resource management interface.

This further work will be conducted within the government's reform bottom lines of good governance, partnership with mana whenua, public ownership and operational and financial autonomy.

Three Waters Reform

Hutt City Council
June 2021



Important notice

Important message to any person not authorised to have access to this report.

Any person who is not an addressee of this report or who has not signed and returned to PwC a Release Letter is not authorised to have access to this report.

Should any unauthorised person obtain access to and read this report, by reading this report such person accepts and agrees to the following terms:

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4. This report should also be read in conjunction with the important notice and restrictions set out in our Engagement Letter.

Hutt City Council
30 Laings Road
Lower Hutt 5040

Attention: Jenny Livschitz, Group Chief Financial Officer

17 June 2021

Three Waters Reform

We refer to our engagement letter dated 4 May 2021 (the Engagement Letter), and provide our final report to you.

In February 2021, we were engaged by Porirua City Council (PCC) to provide high level analysis on the potential impact on Hutt City Council (HCC) from the Three Waters Reform. The analysis in that report was based on the 2018-2028 Long Term Plans (2018 LTP) provided by councils throughout New Zealand.

With HCC's 2021-2031 Long Term Plan (2021 LTP) now available, HCC has engaged PwC to provide you with an updated analysis on the potential impact on HCC from the Three Waters Reform.

It is important to note that although HCC's calculations are based on the 2021 LTP, the councils included in the blended groupings used for comparative purposes are based off 2018 LTPs, which is likely to be materially different.

We draw your attention to the important notice and restrictions set out in our Engagement Letter.

Save as described in the agreement or as expressly agreed by us in writing, we accept no liability (including for negligence) to anyone else or for any other purpose in connection with this report, and it may not be provided to anyone else.

If you have any questions, please do not hesitate to contact either of us.

We look forward to discussing this report with you.

Ngā mihi nui



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Introduction

Background

The Government's Three Waters Reform Programme envisages the creation of multi-regional water service delivery entities. The scale of these entities and the scope of any asset and liability transfers is yet to be determined. It is likely that asset transfers will be in exchange for shareholding and/or governance in a new entity and that, along with assets, some adjustment to liabilities (i.e. debt) will be made.

The Department of Internal Affairs is currently undertaking significant commercial and policy work to consider a range of options and further outcomes and has previously requested information from HCC to help inform decision making. In order to ensure the enduring success of the reform, both new entities and the residual councils need to be sustainable in the long-term.

As previously mentioned, in February 2021 PwC provided high level analysis to a number of councils in the Wellington region to help them to understand the potential impacts of the proposed reforms. This earlier analysis was presented at a briefing to HCC's Council on 24 February 2021. This paper compares the previous analysis undertaken from the 2018 LTPs with HCC's 2021 LTP that is now available. Note, the updated blended groupings analysis uses 2018 LTPs. Further, it is our understanding that the likely year for establishment of the proposed water service delivery entities is 2024. Accordingly, our analysis focuses on that point in time (this reflects an additional change from our previous report).

Approach and scope

This paper summarises the following areas:

- The relative 'importance' of water for HCC from a revenue, asset and interest perspective, and how this compares to other council 'groupings';
- An indicative range of debt that could be transferred to the new water entity on day 1;
- The potential size and scale of the new water entity under different groupings (assets, revenue, debt); and
- The indicative debt to revenue profile and debt capacity of the new entity.

In performing this analysis we have considered the following blended groupings:

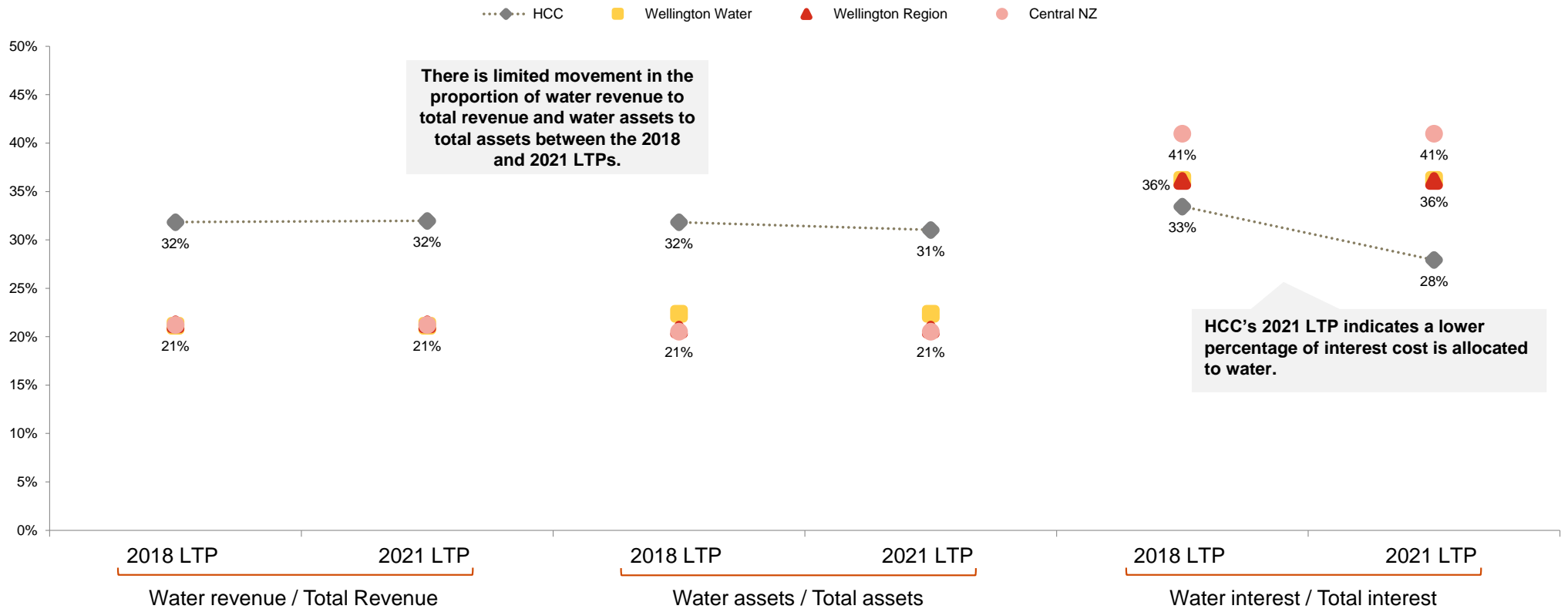
Groups	Councils Included in Group
Wellington Water	Wellington Water Limited councils (Porirua City Council, Wellington City Council, Hutt City Council, Upper Hutt City Council, South Wairarapa District Council and Greater Wellington Regional Council). This would largely simulate the existing arrangement noting that assets and debt would be transferred to the entity which would act as the revenue collector.
Wellington Region	Wellington Water councils (noted above) and other councils within the Wellington region, specifically Carterton District, Kāpiti Coast District and Masterton District councils.
Central NZ	Wellington Region councils (noted above) as well as other councils located in the following regions: Hawke's Bay, Gisborne, Manawatu-Wanganui, Taranaki, Nelson, Tasman and Marlborough.

The blended groupings have been provided for illustrative purposes to compare how the water entity might look under different scenarios, they are not an indication of likely groupings.

Forecast of relative "importance" of water

HCC has a greater proportion of its revenue and assets allocated to three waters than councils in the groupings considered. However, HCC's level of water related interest is disproportionately lower than the relative value attributed to water assets or water revenue. This may impact on debt apportionment and / or shareholding. The relative position of each measure has not changed significantly between 2018 LTP and 2021 LTP compared to council groupings.

Relative value of water to total council revenues, assets, interest (FY24)



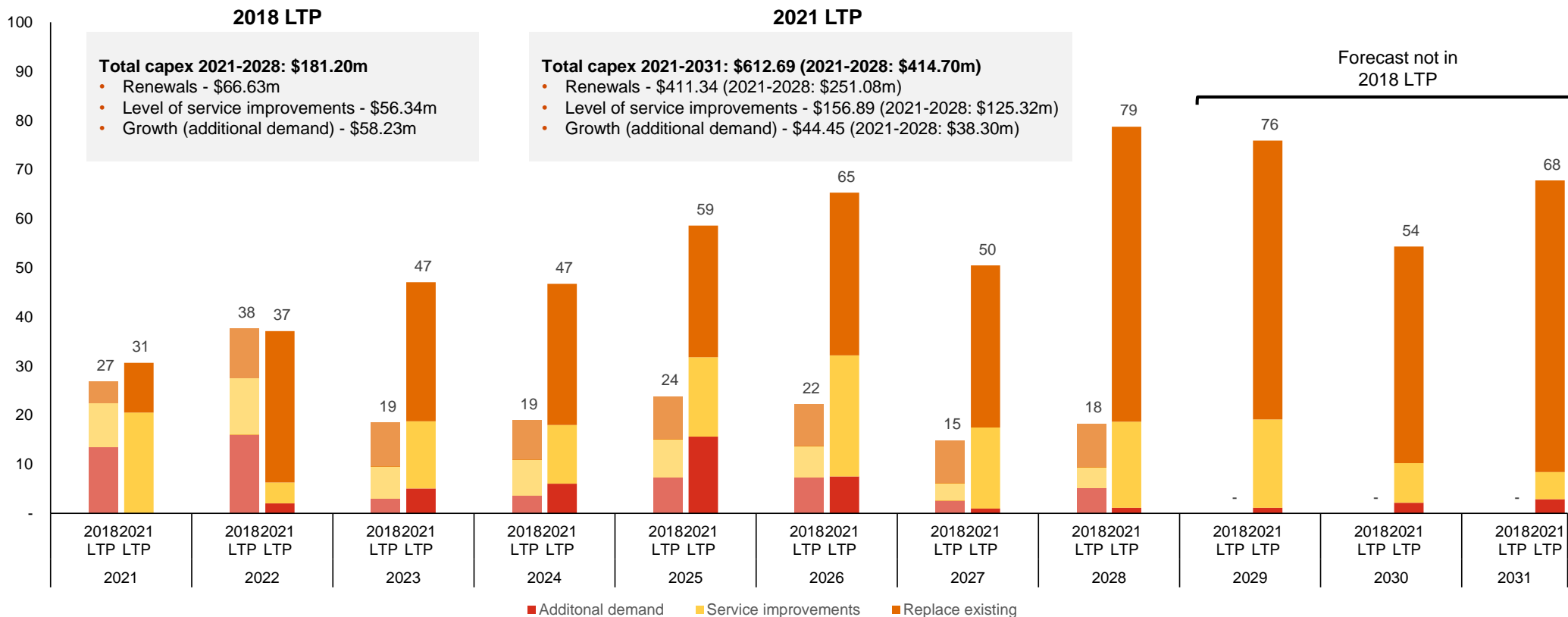
There is limited movement in the proportion of water revenue to total revenue and water assets to total assets between the 2018 and 2021 LTPs.

HCC's 2021 LTP indicates a lower percentage of interest cost is allocated to water.

Forecast "cost" of water

HCC's forecast capital expenditure for three waters is significantly higher in its 2021 LTP compared to the 2018 LTP. Notably, capital expenditure to replace existing assets has increased nearly four-fold in the 2021 to 2028 period.

Forecast Capital Expenditure for Three Waters 2021 – 2031

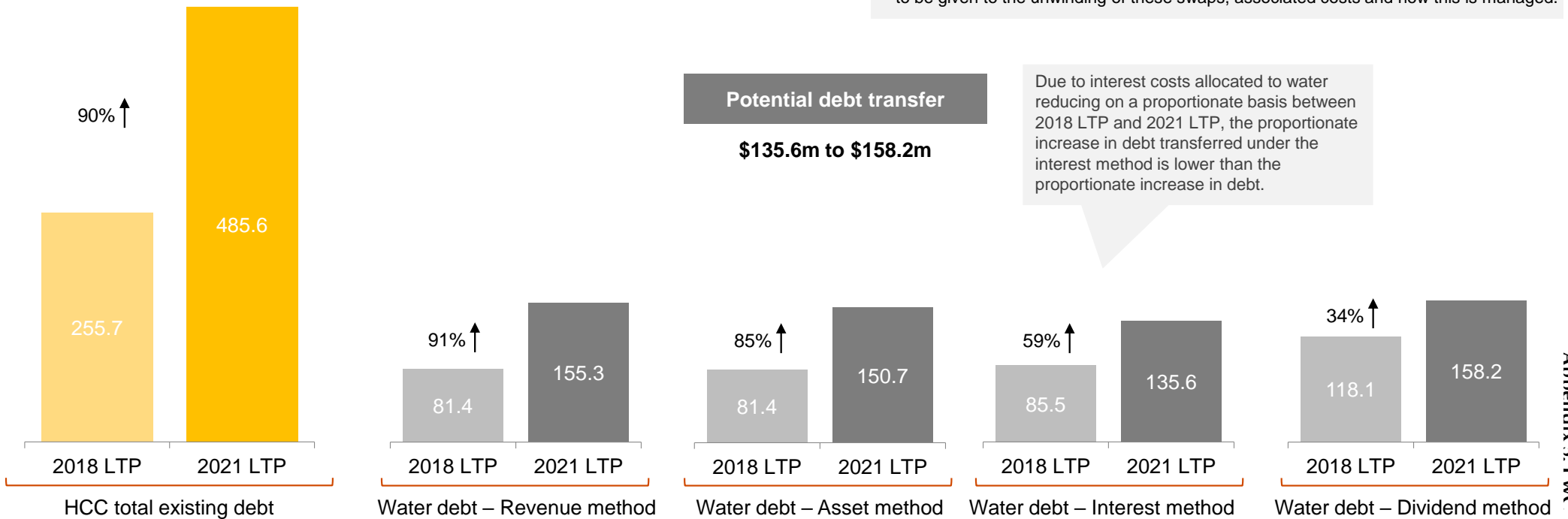


Indicative Impact: HCC debt transfer to the new water entity

As part of the Three Waters reform, it is likely that a portion of HCC's debt will be transferred to the new water entity. Due to the significant increase in debt levels the amount of debt transferred under the different methods illustrated is also higher, however, some methods do not increase at the same rate as total debt.

Potential debt transfer amounts in \$m (FY24)

Note, debt does not include financial derivatives liabilities and swaps. Consideration needs to be given to the unwinding of these swaps, associated costs and how this is managed.



- **Revenue method** = (revenue attributed to 3 waters activity / total revenue) x total council debt
- **Asset method** = (assets attributed to 3 waters activity / total assets) x total council debt
- **Interest method** = (finance charges attributed to 3 waters activity / total finance charges) x total council debt
- **Dividend method** = (water assets / total water assets) x new entity debt (assuming 200% debt to revenue on day 1)

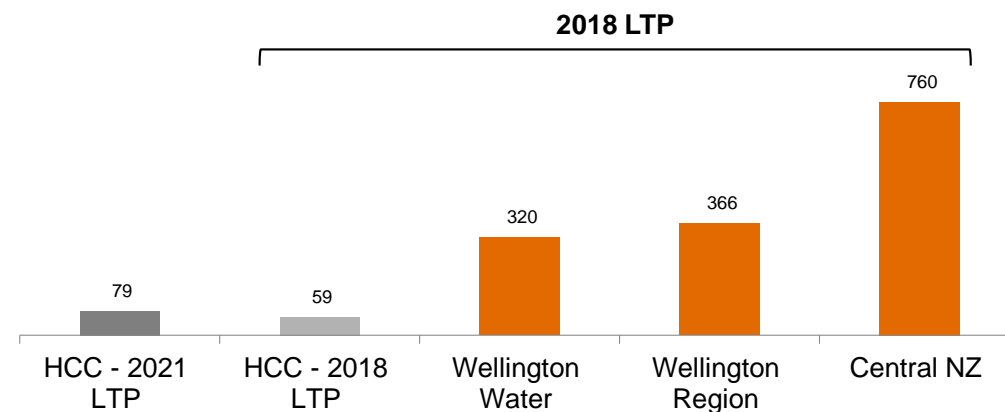
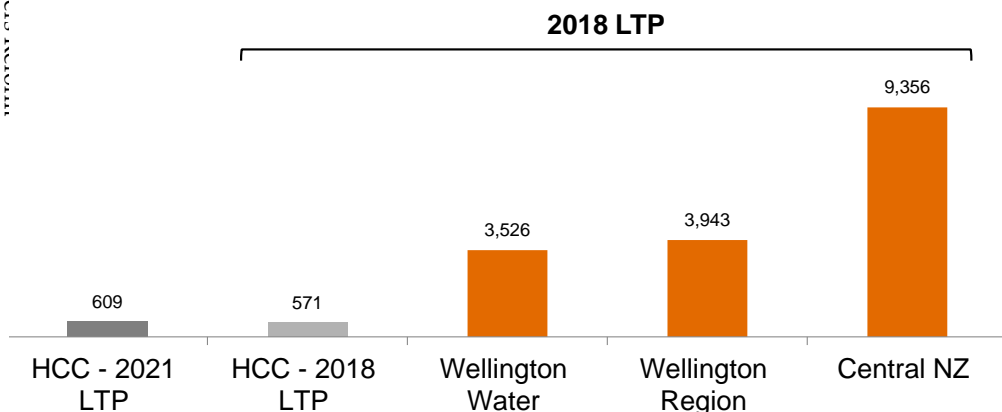
Note the above method depends on the combined assets in the groupings and relative proportion of these held by each council. The above simplistically assumes 200% of HCC's debt to revenue transfers to the water entity.

Indicative Impact: Key metrics of the **new water entity**

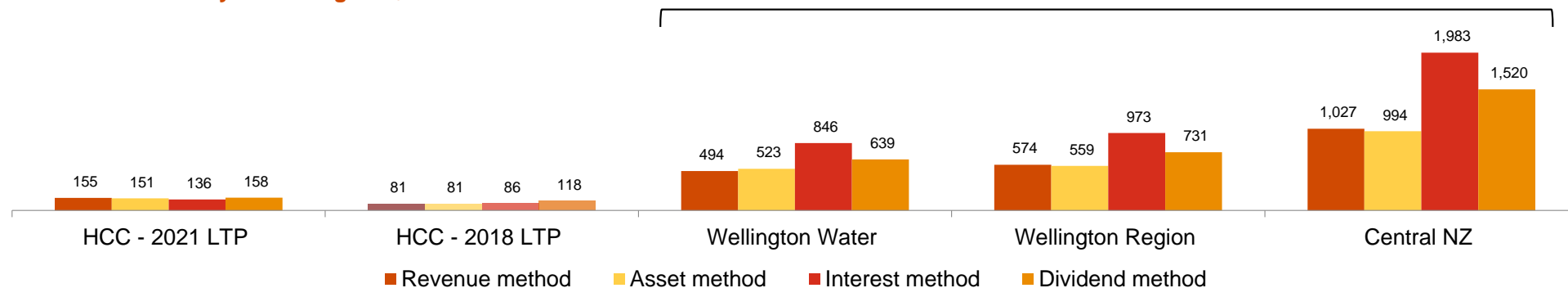
The scale of the water entities under different groupings is summarised below. Under the Central NZ scenario, the amount of debt transferred to the entity varies significantly. This will need to be considered in light of the sustainability of the new entity, as well as the proportion of debt remaining in the councils relative to revenue, assets and other council operations.

Combined water entity assets in \$m – FY24

Combined water entity revenue in \$m – FY24



Combined water entity borrowings in \$m – FY24



Indicative Impact: Revenue and debt in HCC

In HCC's 2021 LTP, forecast total FY24 council debt has increased significantly. However, there is likely to be increased headroom between current borrowing and covenant limits post-seperation due to a corresponding increase in forecast revenue growth.

In HCC's 2018 LTP, forecast water revenue growth was below the groupings at 3.2% CAGR between 2020 and 2028. In the 2021 LTP water revenue growth is forecast at a greatly increased rate of 8.4% Compound Annual Growth Rate (CAGR) between 2021 and 2031. This increase reflects higher forecast rates increases. It is likely that the blended groupings would also have a higher forecast CAGR if 2021 LTPs were used.

Grouping	Implied water revenue (2020)	Implied water revenue (2028)	CAGR
Wellington Water	260	357	4.0%
Wellington Region	300	411	4.0%
Central NZ	630	867	4.0%

HCC's Revenue CAGR

	Water Revenue	Total Revenue
2018 LTP (2020 – 2028)	3.2%	2.9%
2021 LTP (2021 – 2031)	7.25%	7.12%

In the 2021 LTP, the difference between HCC's water revenue growth rate and overall revenue is the same. However, it still suggests that the removal of water will result in a reduced pace of rate increases.

HCC's 2018 LTP, forecast debt to revenue of 139% in FY24 (prior to water separation). In the 2021 LTP, the forecast debt to revenue ratio increases to 196% due to a forecast 90% increase in total council debt, somewhat offset by a 33% increase in forecast revenue.

Following water separation, HCC's debt to revenue ratio would likely be in a similar range, between 195% and 208% depending on the water debt allocation method adopted.

Although the range of possible debt to revenue ratios is reduced using the 2021 LTP data, there remains uncertainty in this ratio post-seperation depending on the approach the Crown ultimately takes (which may differ significantly from our illustrative examples).

HCC's debt to revenue ratios in FY24

	Including Water FY2024	Excluding water FY2024	Excluding water FY2031
2018 LTP	139%	109% – 138%	NA
2021 LTP	196%	195% – 208%	148% – 171%

At the 280% LGFA covenant, an additional c.\$121m - \$144m could be available in FY24 post-seperation. However, by FY31 the headroom increases to c.\$291m - \$353m driven by increased rate revenue over the period.





Thank you

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Appendix A) Water debt methods

Summarised below are four methods to allocate council debt as water debt to be transferred to the new water entity, noting that the methods are purely illustrative

<p>Method 1) Revenue apportionment</p> <p>= water revenue / total revenue x council debt</p> <p>A percentage of existing council debt apportioned, based on water revenue. Debt to revenue ratio is maintained.</p>	<p>Method 2) Asset apportionment</p> <p>= water assets / total assets x council debt</p> <p>A percentage of existing council debt apportioned, based on water assets.</p>	<p>Method 3) Finance cost apportionment</p> <p>= water finance cost / total finance cost x council debt</p> <p>A percentage of existing council debt apportioned, based on water finance costs.</p>	<p>Method 4) Dividend method</p> <p>= water assets / total water assets x new entity debt</p> <p>New entity debt assumed to be 200% of revenue. Entity debt apportioned to council based on water assets.</p>
<p> Rationale: Equitable approach: this method looks to maintain each council's current debt to revenue ratio post separation.</p>	<p> Rationale: Combined approach: this method considers the relationship between investment in assets and debt.</p>	<p> Rationale: Council allocation: this method uses finance costs to estimate the allocation of its total debt portfolio each council makes to water activities.</p>	<p> Rationale: Equal approach: this method applies the same treatment to each council, based on asset value and is independent of actual borrowings.</p>