

Three Waters Reform

Briefing 18 August 2021



Purpose of briefing

Provide an overview of the current state of the Government's proposed Three Waters Reforms programme

- Background

- *Note also: Policy, Finance and Strategy Committee report "Three waters Reform" dated 13 July 2021*

- Case for change

- Proposed model

- Package for local government

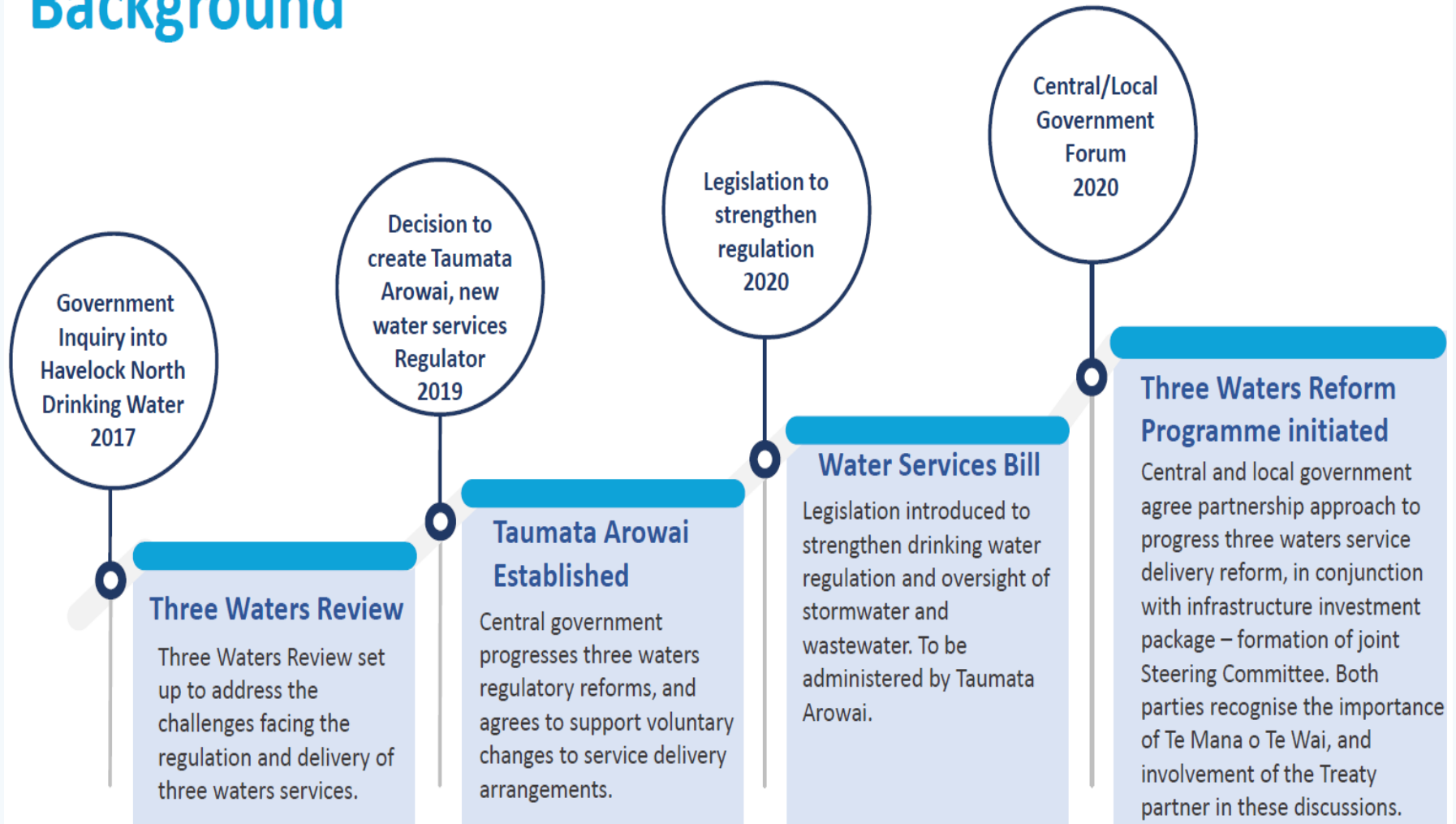
- 8 week process

Test key issues

Outline next steps

Background to the Three Waters Reform

Background



A new system for water – change is coming

3 pillars of the Government reforms

- Regulation:
 - drinking water standards
 - environmental regulation
 - economic regulation
- Taumata Arowai
- Service delivery reform (Water Service Entities) – the focus of today

Government case for change

Scale of the challenges require comprehensive change

67 councils owning and operating majority of drinking water, wastewater and stormwater

75,000 to 100,000 private drinking water providers

Current state of assets and failures – quality and infrastructure challenges

Affordability: investment requirement for New Zealand's three waters services over the next 30+ years of between \$120bn - \$185bn without reform

Regulation: complying with safety standards and environmental expectations

Resilience: to natural hazards and climate change into three waters networks

Supporting growth

Scale, capability and capacity

Challenges for Lower Hutt



Looming challenges for Lower Hutt

Community expectations for improved fresh water quality

Whaitua process and recommendations

Regulation (NPS and RPS)

Global consent process

Number and frequency of overflows

Water Quality Regulation

Increased requirements and costs

Water usage/conservation – water meters and new storage






Ageing networks and Growth

Affordability and Do-ability

Impetus for reform

Reviews into the delivery of three waters services in New Zealand have identified significant ongoing challenges and a considerable level of underinvestment in three waters infrastructure

Why is reform needed?

-  **Risk of failure to meet safe drinking water standards**
with potentially serious consequences for public health, the environment and the economy
-  **A constrained ability to plan, fund and finance resilient systems**
that can cope with climate change, emergencies and natural hazards
-  **Ability to meet national and local environmental objectives**
for freshwater and the marine environment
-  **Housing infrastructure supply unable to keep pace with strong demand**
in high-growth areas
-  **Limits on regional development and wellbeing**
particularly for areas with declining rating bases

Government's evidence base and announcements

Government's evidence built upon WICS analysis based on council data

- 2 June: Release of WICS and peer review reports – case for change
- 30 June first Government announcements
 - Water Service Entities – number and boundaries
 - Governance, community input, role of Iwi / Māori
 - Release of WICS data for each council
- 15 July: further Government announcements
 - 'Package for local government'
 - \$2.5 billion investment
 - Funding support for transition
 - DIA / LGNZ agreement and 8 week process
- 30 July: 8 week process guidance

Proposed reform model

High level design as agreed by Cabinet

- 4 new water service entities (WSE)
- Responsible for three waters = drinking water, wastewater, stormwater
- Own and operate three waters infrastructure
 - Transfer of ownership and debt
 - Assets remain in public ownership
 - Balance sheet separation to enable borrowings
 - Councils have no 'shareholding' interest and no financial recognition

Proposed reform model

- Independent, competency based governance model
- Suite of mechanisms to protect and promote iwi/Māori rights and interests and protect from privatisation
- Economic regulatory regime to protect consumer interests and provide strong incentives for performance
- Stewardship arrangements for the new system to ensure it adapts to shifts in national objectives and priorities and remains fit for purpose

Purpose of the entities

- The *purpose* of the entities would be to **provide safe, reliable and efficient water services**. With high-level *objectives* relating to:
 - delivering water services and infrastructure, in an **efficient and financially sustainable** manner
 - protecting and **promoting public health** and the **environment**
 - supporting and **enabling housing and urban development**
 - operating in accordance with best commercial and business practices
 - acting in the **best interests of consumers and communities** now, and into the **future**
 - **giving effect to Te Mana o te Wai**
 - delivering and managing water services in a **sustainable and resilient** manner
- The entities will need to have the legislative powers, functions, and responsibilities required to fulfil their purpose and objectives

Step change for Iwi/Māori rights and interests

- **Intent to provide step change in the way Iwi / Māori rights and interests are recognised**
- Recognition of Treaty of Waitangi and Te Mana o te Wai
- Mana whenua representation on governance
- Te Mana o te Wai statements
- Entity boards required to have:
 - Treaty of Waitangi, mātauranga Māori, tikanga Māori, and Te Ao Māori competencies
 - specific expertise in kaitiakitanga, tikanga and mātauranga Māori in delivering water services
- Entities will fund and support capability and capacity of mana whenua to participate in its activities

Key benefits anticipated

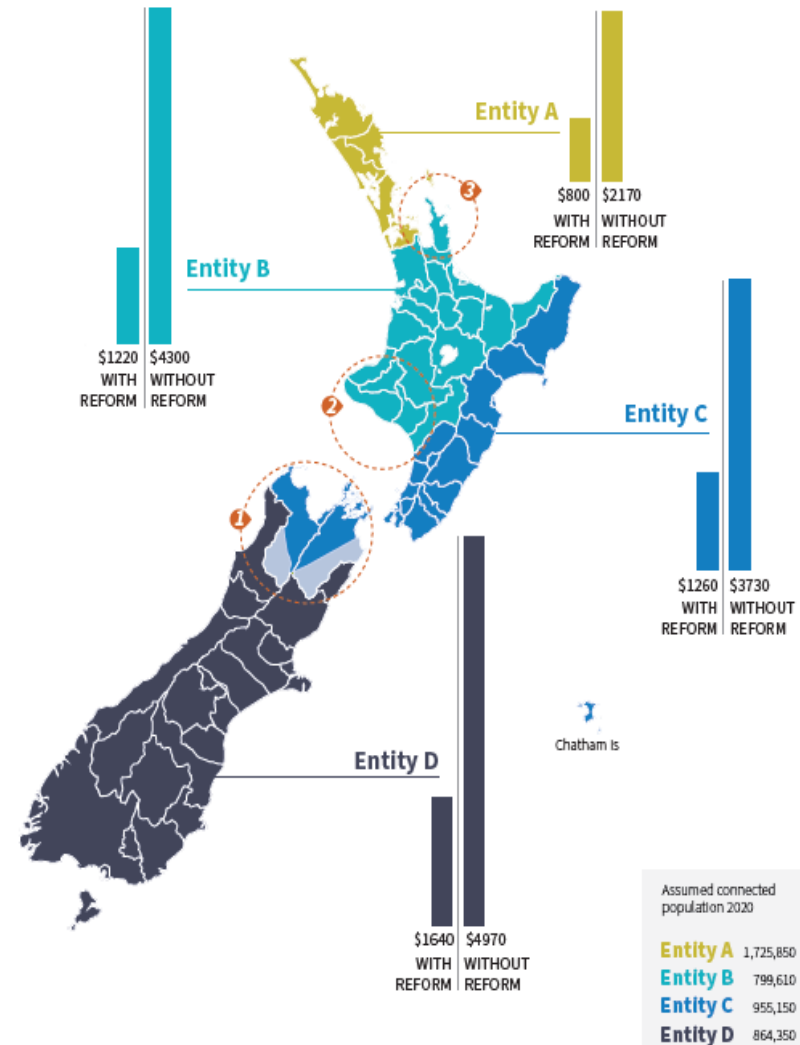
Affordability: balance sheets separate from councils enables borrowing

Efficiencies: in the range of 45% over a 30 year period could be achieved (WICS)

- = Roughly 2% / year efficiency gain
- Capability
- Procurement
- Governance
- Scale
- Economic regulation

= **Lower costs** for communities

4. PROJECTED HOUSEHOLD COSTS 2051



Confidence in the Government evidence base

Reasonable confidence that the Government's evidence base is directionally correct

- Government's evidence built upon high level WICS analysis based on council data
- Peer review – FarrierSwier and Beca
- Inherent challenges in data quality, forecasting and modelling over 30 years
- Massive investment required
- Unaffordable for councils under current funding settings
- Efficiency gains may be overstated but broadly reasonable

Confidence in the benefits

Benefits will depend on a range of factors and whole of system reforms

- Councils opting in
- Effective governance
- Increased sector capability and capacity
- Regulatory compliance and enforcement for water quality
- Effective economic regulation
- Borrowing and funding

What this means for the Wellington region - entity

It is proposed that Wellington is part of “Entity C”

- Entity C - boundaries based on scale, water catchments, rohe/takiwā, communities and workforce
- The boundaries will be subject to further engagement
- Potentially 22+ councils
- Mana whenua will have a joint oversight role
- Councils and iwi/Māori would appoint a regional representative group which oversees the Board of the entity

Checking in

Any questions or comments so far?



Package for local government

Two parts of investment plus financial support for transition

‘Better off’

- \$2 billion total. \$1 billion Crown funding and \$1 billion from the new water services entities
- For supporting communities to transition to a sustainable and low-emissions economy, including by building resilience to climate change and natural hazards; and / or
- Delivery of infrastructure and/or services that:
 - enable housing development and growth, with a focus on brownfield and infill development opportunities where those are available,
 - support local place-making and improvements in community well-being.

Lower Hutt allocated \$38,718,543 “Better off” funding

Package for local government

‘No worse off’

- \$500 million estimated. From new water service entities
- Ensure that no local authority is in a materially worse position financially to continue to provide services to its community as a direct result of the reform
- Up to \$250 million provision to support councils to meet the unavoidable costs of stranded overheads associated with the transfer of water assets, liabilities and revenues
 - \$50 million of this for Auckland, Christchurch and [Wellington Water](#) councils based on 2 years of stranded costs
- Remainder to address adverse effects of impacts on the financial sustainability of territorial authorities

Transition support

\$296 million to support transition process

Transition

Water reforms are a very significant and will require an ongoing process which will last for several years

- Eight week process
- Government decisions
- Select Committee and Legislative processes
- Transitional establishment of the WSE and hand over of assets and functions from Councils (and WWL)
- Councils remain accountable for delivery until 1 July 2024
- Staff focus and retention for WWL a key consideration through this time
- Alignment with wider Government reforms

Eight week process

Purpose of the 8 weeks – enable councils to

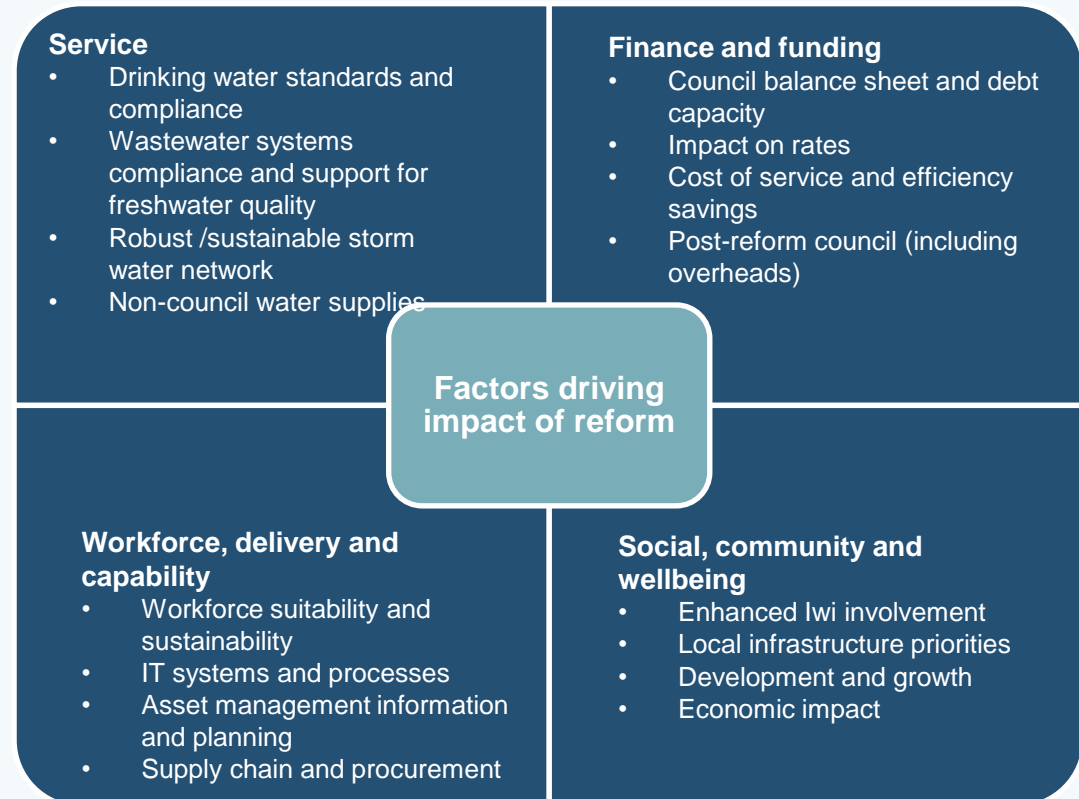
- Understand the information on case for change and proposed reform model
- Understand local impacts
- Identify issues and provide feedback – how to improve the proposals
- Not expected to undertake formal consultation
- Not expected to make formal decisions
- Too early to make a decision on opting-in or out

Government will not make further decisions during this engagement period

What councils should do over 8 weeks

Engage with and understand the reforms

- Understand the proposed model
- How will this impact locally
- Holistic understanding: service, finance and funding, workforce, delivery, capability, social, cultural and economic impacts
- Local Iwi / Māori views
- Provide feedback



Transition timeline

Transition timeline

8 week process – August / September

Further Government announcements by September: process, boundaries, financial transfer

Water Services Bill – late 2021. To take effect from around April 2022 (regulatory requirements)

Opt out consultation process ?? – late 2021

Legislation / establishment of entities from 2022

Councils to remain accountable for three water delivery to 2024

Wider Government reforms programme – RMA, Future of Local Government, Health

Key issues and questions being raised

Key areas of concerns being raised with proposed model

- Governance and representation
 - Local voice
 - Protections from privatisation
- Prioritisation of investment
 - Alignment with growth
 - Wider community outcomes
 - Local issues
- Financial impacts and asset transfer
 - Package for local government
- Impacts on local government from wider sector reforms
- Transition including workforce and capability

Alternatives

Feasible alternatives for Lower Hutt

- Our options are limited due to transfer of functions and capability to WWL
- Most realistic alternative to the reforms would be an enhanced model building on Wellington Water Limited
 - Transfer of assets to WWL
 - Potentially add more councils
- Key issues with alternative:
 - Ability to raise debt
 - The need for a new funding model
 - May still require legislative change
 - Political complexity
 - Time and cost to agree and establish

Responding to the reforms – Lower Hutt

The status quo is unsustainable and unaffordable

Regulatory compliance – environmental and economic

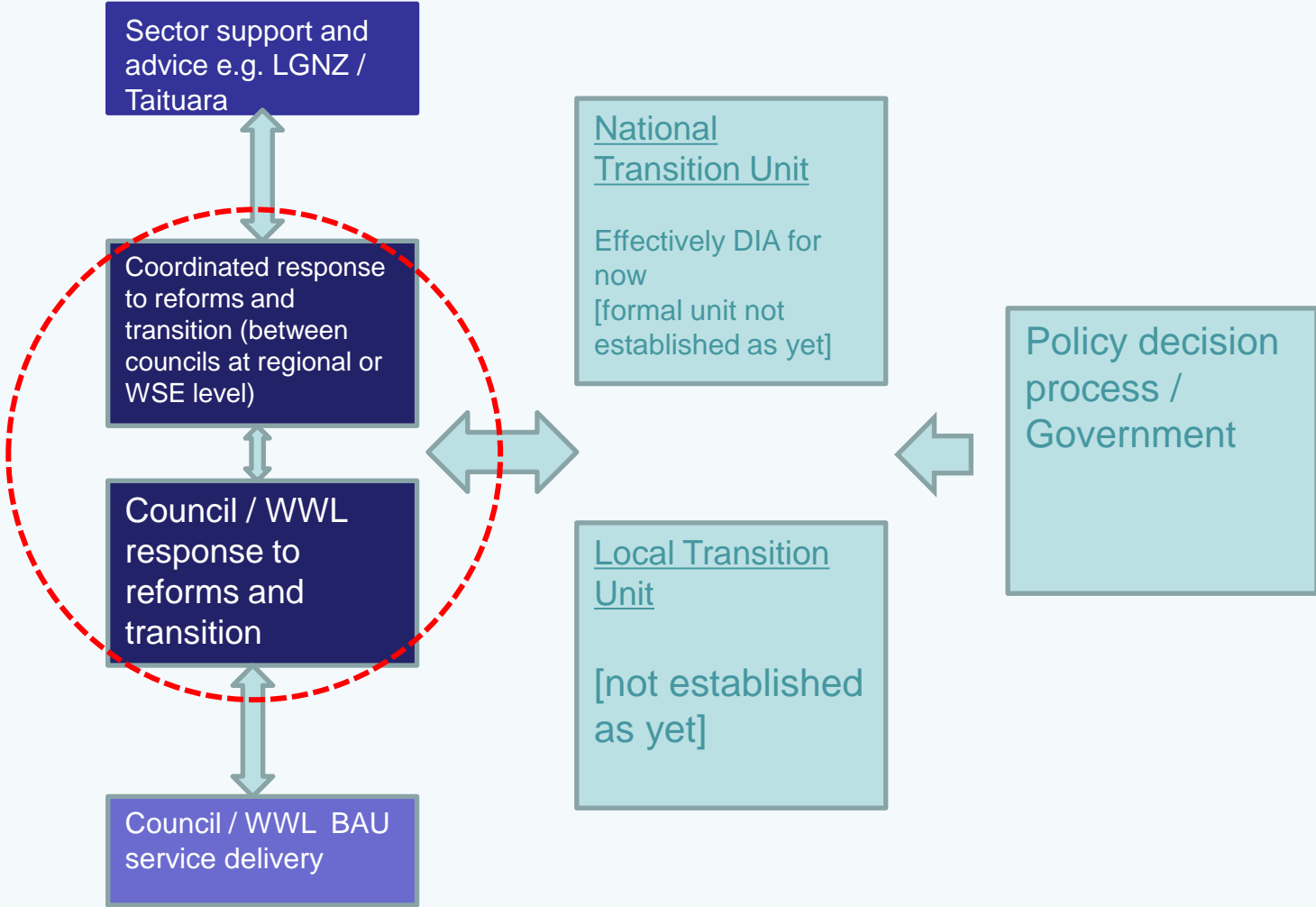
- What issues or concerns do we have with the proposed reforms model?
- Potential changes to improve the proposed reform model?
- Plan B: Potential alternative model should the reforms not proceed?

Next Steps

- **8 week process key to understanding and responding to the reforms**
- Work across WWL councils and Entity C to
 - Continue to engage directly with DIA on the issues identified
 - Share information and insights / advice to elected members
- **Report to Council 8 September 2021**
- **Respond to Government**

Appendices

Roles in Three Waters transition



Key units delivering transition

We see the need for both a **central transition unit** and **local establishment entities** to undertake different transition activities throughout the process

National “transition unit”

- A central government unit undertaking activities which should be nationally consistent
- Ensure reform objectives are delivered efficiently and are paramount in key decisions
- So we can start key activities promptly
- It will monitor establishment entities
- Ensure continuity with reform understanding and work undertaken to date for an efficient transition
- Structured as a DIA business unit with the option of moving to another formal structure over time, if needed

Local “establishment entities”

- Each entity will have an establishment entity undertaking transition activities which require local understanding
- This is likely to involve the practical implementation of nationally agreed principles
- They will ensure key decisions are determined by the future water service entity (providing clear accountability for operations)
- The establishment entities would ultimately become the future water service entities
- Some of the long-term water entity design features will be tailored during the transition phase on a ‘best for transition’ basis (subject to future cabinet decisions)

Transition activities

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

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

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

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

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

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

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