Three Waters Reform

Elected Member Briefing - Part 1 of 3

01 September 2021

Craig Stevenson to Present

Introduction and 8 week feedback period

Craig Stevenson to Present

- The purpose for this period is to provide time for councils to understand how the reform proposals affect their individual councils and community
- To identify issues of local concern and suggest possible ways of addressing these and to provide feedback to Government
- Council's are not expected to make any formal decisions regarding the reform through this period
- This period does not trigger the need for consultation
- Once government has gathered feedback from this period they will make decisions on the next steps in the reform process, including the mechanism for community consultation.

Agenda

Part 1 – Officer Led Briefing:

1. Introduction and overview of the 8 Week feedback period
2. The Government's Case for Change
3. The Government's Proposal

Part 2 – DIA Led Briefing to Elected Members and Iwi Representatives:

1. DIA Briefing on the reforms proposal and their Iwi engagement programme

Part 3 – Elected Member Feedback:

1. Officer's Assessment of the impacts of reform
2. Collection of feedback points
3. Next steps

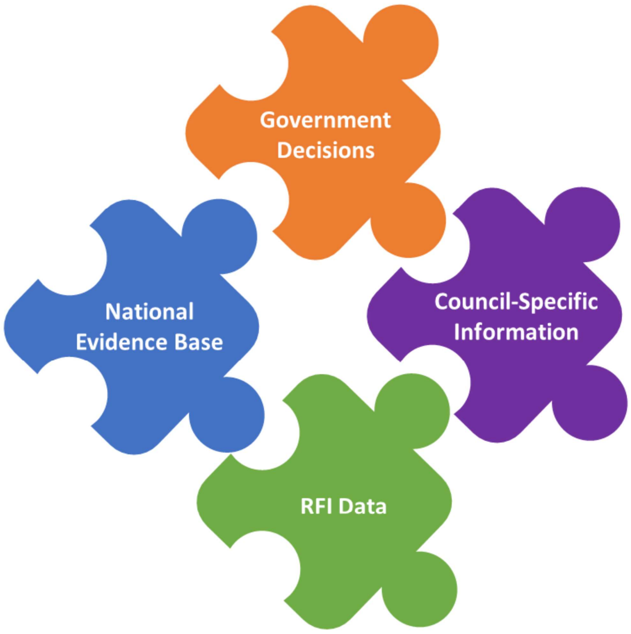
Craig Stevenson to Present

The Case for Change

NOTE: This is for Elected Members information only. It is a restatement of the case made by Department for Internal Affairs. It is not advice or a recommendation from Council Officers.

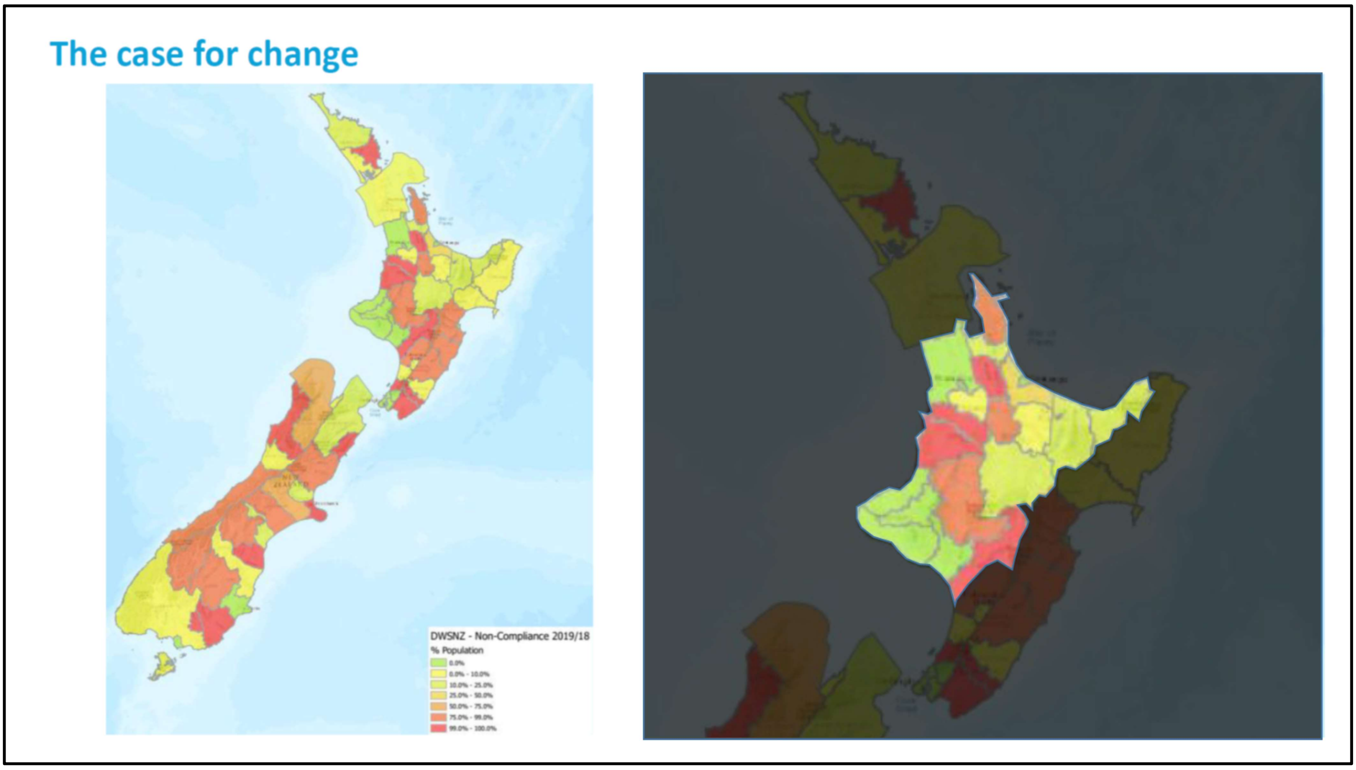
David Langford to Present

How the information fits together



David Langford to Present

The DIA have been clear that there is no single source of information/data that makes the case for change.
Instead it is a consolodation of assorted data sources and combine to provide a clear picture of the necessary direction of travel.



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Historically, there has been a poor information base about New Zealand's three waters infrastructure, assets and operations.

In recent years a substantial body of analysis and evidence on the sector has been developing

On 2 June 2021 DIA released information to advance our understanding of these essential services at a national levels. Key findings include:

- An investment requirement for New Zealand's three waters services over the next 30 years of between $120bn and $185bn without reform
- Efficiencies in the order of 45% over the 30 years period could be achieved through the reform process
- The reforms could result in an additional 5,800 to 9,300 jobs and increase in GDP of between $14bn to $23bn (NPV over 30 years)
- Evidence suggests between one and four entities would provide the most efficiencies

Diagram shows the national compliance with the Drinking Water Standards in 2018/19

Note- the performance of councils highlighted that are going to form entity B.

Taranaki has a high level of compliance compared to most others.

Freshwater NPS

- Sets national bottom lines for rivers and lakes including the following:
  - Nitrate (limit = 6.9 milligrams per litre median and 9.8 max)
  - Ammonia (limit = 1.3 milligrams per litre median and 2.2 max)
  - Dissolved Oxygen (limit = 5.0 milligrams per litre median and 4.0 minimum)
  - E.Coli (B Grade limit = 130cfu per 100millilitres and 1000cfu per 100millilitres max)
- Effectively makes pond based treatment plants obsolete
- Cost of upgrades to nutrient removal treatment plants is estimated to be between $1.5bn and $2.2bn
- For Taranaki this cost is estimated between $80m and $120m.

Talk about the cost drivers associated with: national freshwater quality bottom lines and the impact on wastewater treatment plants that discharge to freshwater
Abstraction limits being lowered etc.

Taumata Arowai & Better Water Services Bill

"The Status Quo doesn't exist anymore"

David Langford to Present

- The DIA is highlighting that the status quo is not an option, because the status quo no longer exists
- Taumata Arowai the new regulator will enforce current drinking water standards and provide national oversight of environmental performance of wastewater and storm water networks.
- The Water Services Bill (currently in its second reading) provides Taumata Arowai with regulatory tools such as compliance orders to enforce standards – cost will no longer be an acceptable reason for not upgrading water supplies.
- Covers the provision of safe drinking water and specifies the following duties for a water supplier (all of which will be reflected in higher costs to comply):
- Duty to supply safe drinking water
- Duty to comply with drinking water standards
- Duty of owner of drinking water supply to register supply
- Duty to take reasonable steps to supply aesthetically acceptable drinking water (this could be expensive we fixed ours but still get complaints – look at what we have spent at both NP and Inglewood)
- Duty to provide sufficient quantity of drinking water (this include firefighting – we have issues regarding this in some parts of our network).
- Duties where sufficient quantity of drinking water at imminent risk

- Duty to protect against risk of backflow (expensive on going)
- Suppliers must be “Authorised”
- It requires suppliers and those working on water supply (and taking samples) must have prescribed skills, qualifications or experience”. The cost of training, maintaining competence and recruiting and retaining staff will increase. This applies to both water and wastewater operations.

Taumata Arowai & Better Water Services Bill

Part 5
Amendments to Local Government Act 2002

125 Requirement to assess drinking water services

(1) A territorial authority must inform itself about the access that each community in its district has to drinking water services by undertaking an assessment of drinking water services in accordance with this section.

127 Duty to ensure communities have access to drinking water if existing suppliers facing significant problems

(1) **Subsection (2)** applies if—

(a) a territorial authority's or Taumata Arowai's assessment of a drinking water supply is that the supplier (not being the territorial authority) is facing a significant problem or potential problem with any of its drinking water services, and the territorial authority has notified Taumata Arowai of those concerns and discussed them with Taumata Arowai; or

(b) Taumata Arowai requires the territorial authority to take action under **subsection (2)**.

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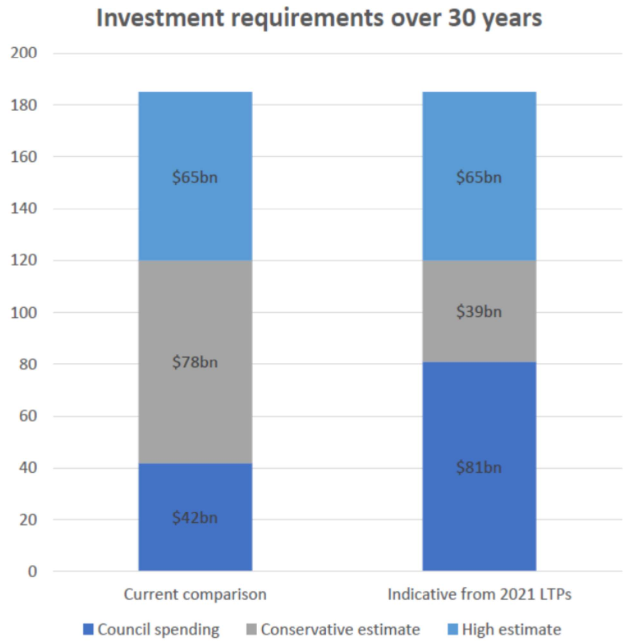
Last man standing clause – NPDC could end up taking over private supplies.

Potential investment in context



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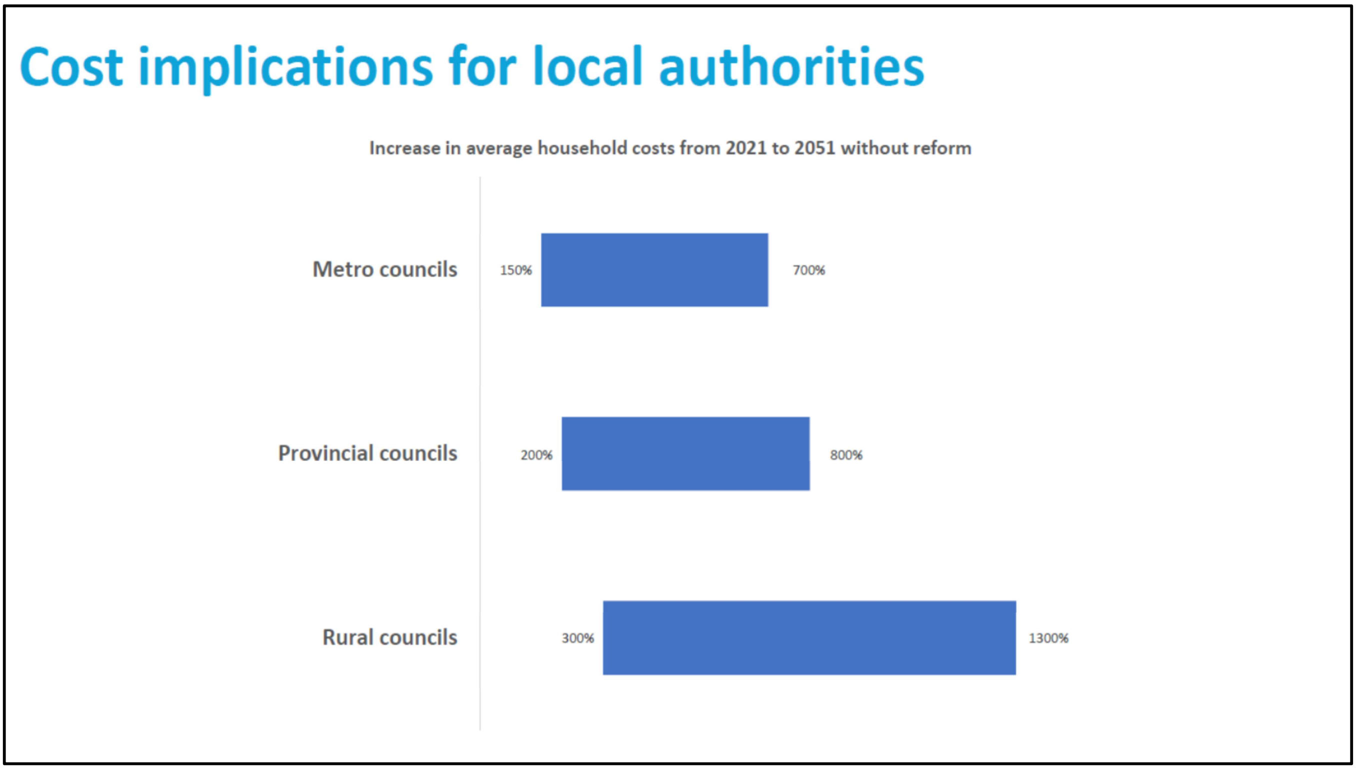
Based on the RIF (data supplied by council's) the funding gap was between $78bn and 143bn over the next 30 years

Coucnils have upped their game and based on the 2021 LTPs the gap was reduced to $39b to $104b

Based on the 2021 Long Term Plans councils are now spending around $2.7bn per year on three waters.

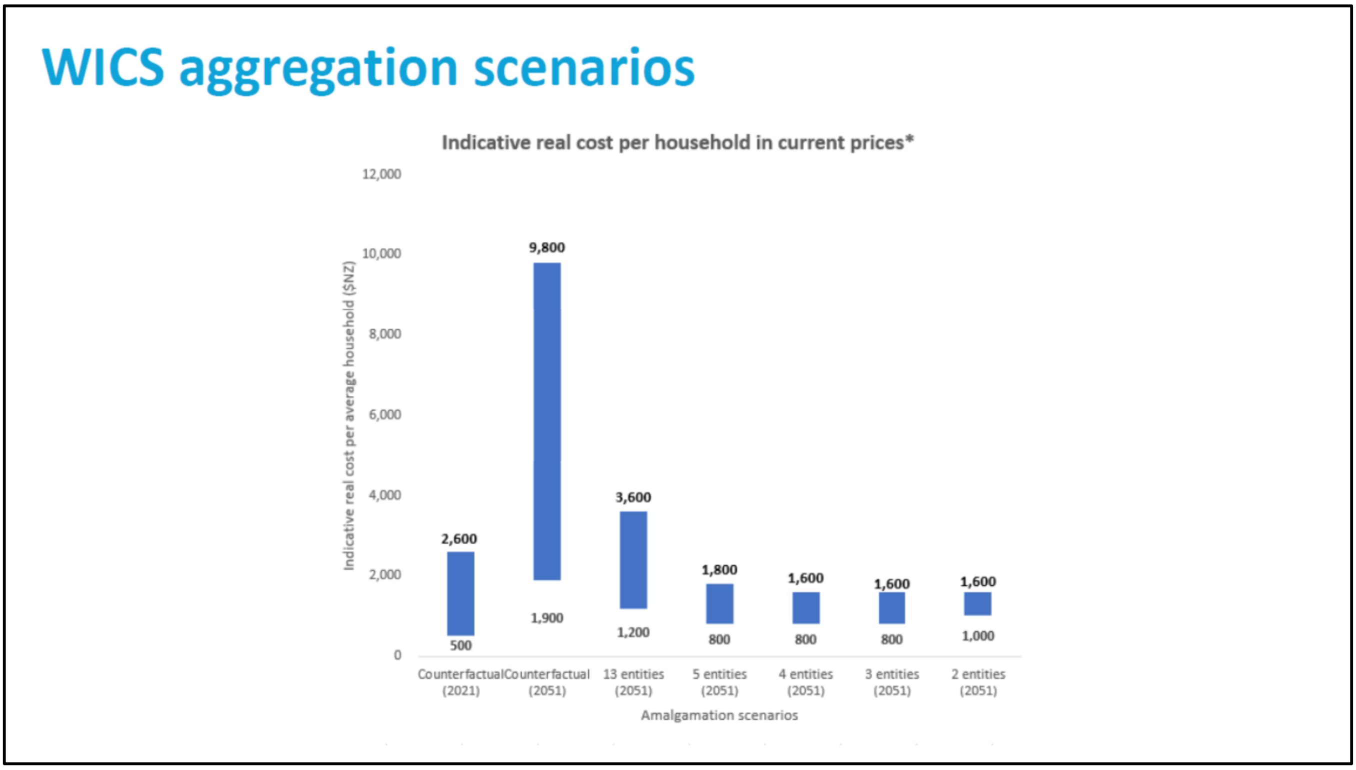
DIA's assessment is that this needs to increase to between $4bn and $6bn pear year



David Langford to Present

Catching up on this investment will have significant implications for local authority finances and present affordability issues, particular for smaller communities

The chart shows the range of increases required split by the different classes of councils.



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The Water Industry Commission for Scotland (WICS) have assessed a range of scenarios of between 1 and 13 water supply entities

Smaller number of entities result in larger efficiency savings.

About efficiencies

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

David Langford to Present

The Reform Proposal

NOTE: This is for Elected Members information only. It is a restatement of the proposal put forward by Central Government. It is not advice or a recommendation from Council Officers.

David Langford to Present

The Government has made policy decisions on an integrated and extensive package of reform. The package proposes the following core components:

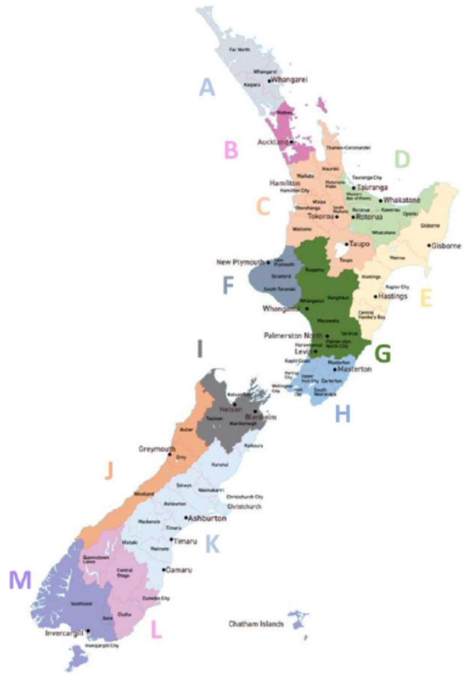
- Establish four, publically owned water services entities to provide safe, reliable and efficient three waters services – with protections against future privatisation
- The entities will own and operate three waters infrastructure on behalf of territorial authorities, including transferring ownership of three waters assets
- Independent, competency-based boards to govern each entity
- A suite of mechanisms to protect and promote iwi/Maori rights and interests
- An economic regulatory regime to protect consumer interest 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.

Hand Over to Mark Hall

The New Entities

What is being proposed?

Mark Hall to Present



Entity*	Population served	NPC per connected citizen per year	Estimated Average Household Bill: Current	Projected Average Household Bill: 2051**	Price change in real terms	Average bill as a percentage of the lowest bill in the scenario	Councils with a higher NPC through amalgamation***	Comparison of average household bills in 2051****
A	96,853	$2,110	$1,700	$3,760	121%	495%	Whangarei	Whangarei: 6% lower under amalgamation
B	1,629,000	$540	$1,060	**$760**	-28%	**100%**	None	Not applicable
C	364,799	$1,060	$1,410	$1,660	18%	218%	None	Not applicable
D	276,769	$990	$1,320	$1,610	22%	212%	Kawerau	Kawerau: 34% lower under amalgamation
E	173,606	$1,510	$830	$2,870	246%	378%	Napier	Napier: 14% higher under amalgamation
F	90,140	$1,630	$1,160	$3,030	161%	399%	New Plymouth	New Plymouth: 12% lower under amalgamation
G	216,782	$1,250	$860	$2,090	143%	275%	None	Not applicable
H	516,518	$750	$930	$1,190	28%	157%	None	Not applicable
I	116,148	$1,730	$1,480	$2,790	89%	367%	Nelson	Nelson: 19% higher under amalgamation
J	22,612	$3,750	$1,540	**$7,890**	412%	**1038%**	None	Not applicable
K	584,922	$900	$990	$1,430	44%	188%	None	Not applicable
L	188,209	$2,010	$1,260	$3,340	165%	439%	None	Not applicable
M	68,608	$2,150	$1,010	$4,440	340%	584%	Invercargill	Invercargill: 16% lower under amalgamation

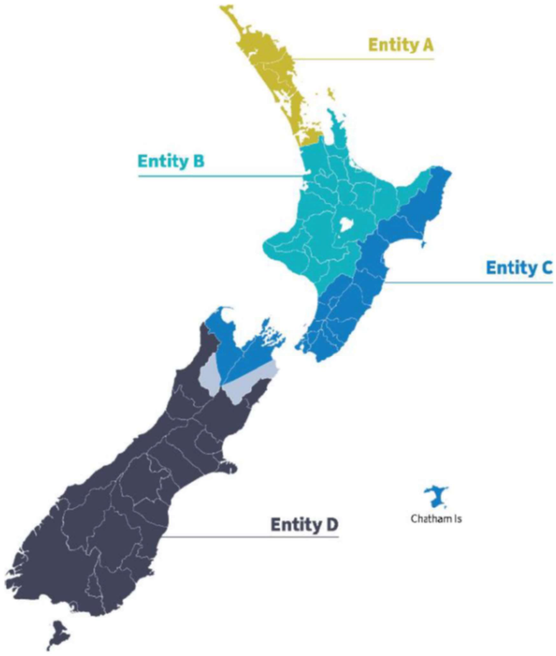
Mark Hall to Present

Regional Aggregation was one scenario WICS assessed

For Taranaki this would result in an average household bill in the year of 2051 of $3,030 per year. compared to a forecast $5,090 without any reform.

It should be noted that under this scenario, New Plymouth is forecast to be worse off as its average household costs would increase by 12% compared to the no reform scenario.

Boundaries of entities



	Entity A	Entity B	Entity C	Entity D
Connected population (2020)	1.7m	0.8m	1.0m	0.9m
Average household cost (2051, real)[1]				
With reform	$800	$1,220	$1,260	$1,640
Without reform	$2,170	$4,300	$3,730	$4,970

Mark Hall to Present

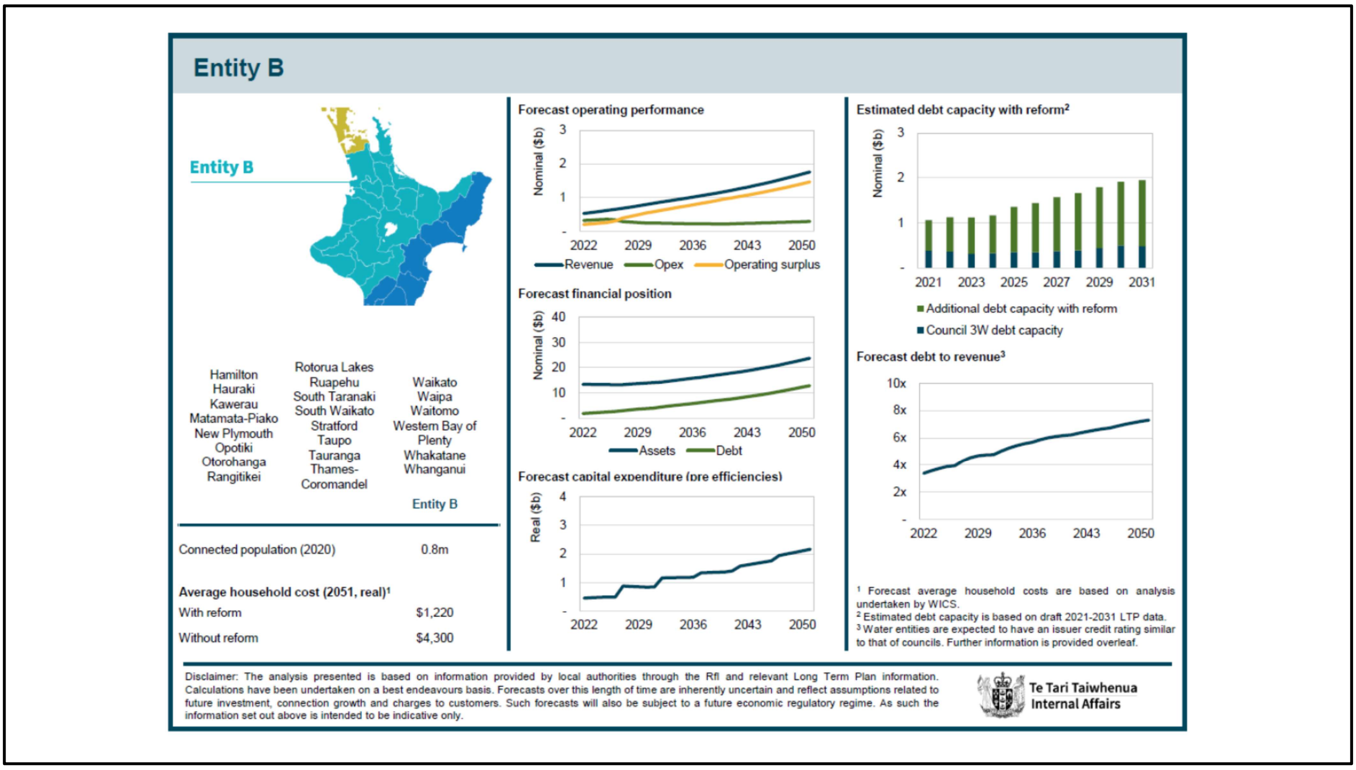
The Government has agreed to a “preferred Option” for the boundaries of the 4 entities

Key considerations on the size and shape of the entities were that they:

- Have sufficient asset and customer base to be financial sustainable, have economically efficient scale, and deliver services at an affordable price
- Operate effectively in relation to water catchments and achieve environmental outcomes
- Engage meaningfully with iwi/Maori, which requires decision on boundaries to be informed by an understanding of rohe/takiwa boundaries and a ki uta, ki tai approach
- Understand and reflect relevant community interests, particularly existing relationships or a shared identifies between neighbouring communities
- Have access to a skilled local workforce

However, the government remains interested in continuing discussions with local government and iwi/Maori most affected by the proposed boundaries for feedback before confirming them in legislation.

Taranaki has been identified as one region that could change and be moved to Entity C.



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Purpose and objectives of the entities

- The Government has agreed the new entities will provide services and infrastructure relating to drinking water, wastewater **and stormwater**

- 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

Mark Hall to Present

Operating principles of the entities

The Government has also agreed operating principles to be set out in the legislation, to guide and inform how the entities deliver their objectives and functions.

These would broadly relate to:

- developing and **sharing capability and technical expertise** – internally and across the industry
- **innovation** in the design and delivery of water services and infrastructure
- being **open and transparent** – including pricing, levels of service, and reporting performance
- **partnering and engaging early and meaningfully** with Māori, local government, and communities
- **cooperating with, and supporting,** other water providers, local authorities, and the transport sector –in infrastructure and land-use planning, and development
- understanding, supporting, and **enabling mātauranga Māori, tikanga Māori and kaitiakitanga** to be exercised

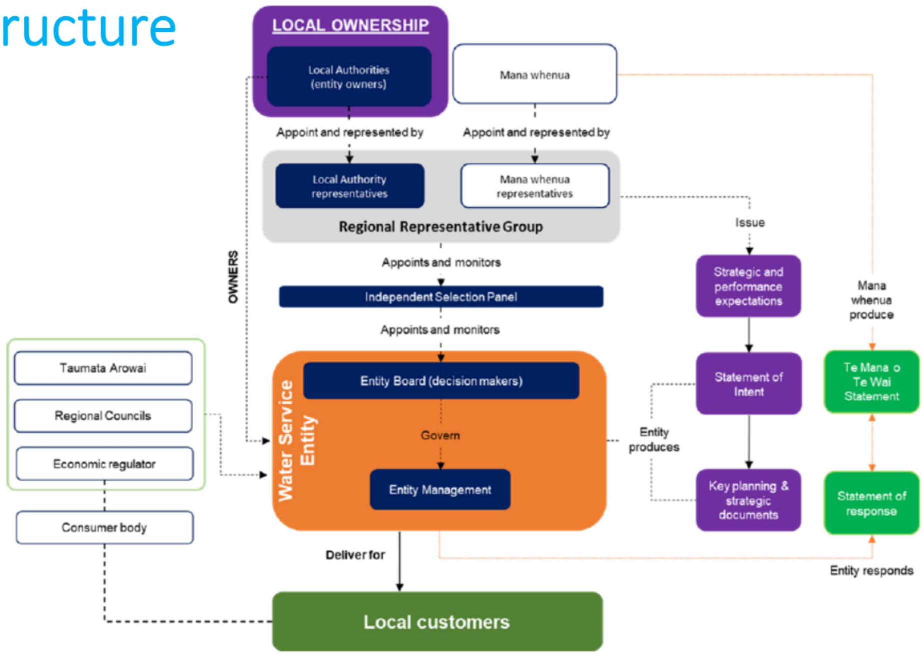
Mark Hall to Present

Entity Goverance

How will the New Entities Be Governed?

David Langford to Present

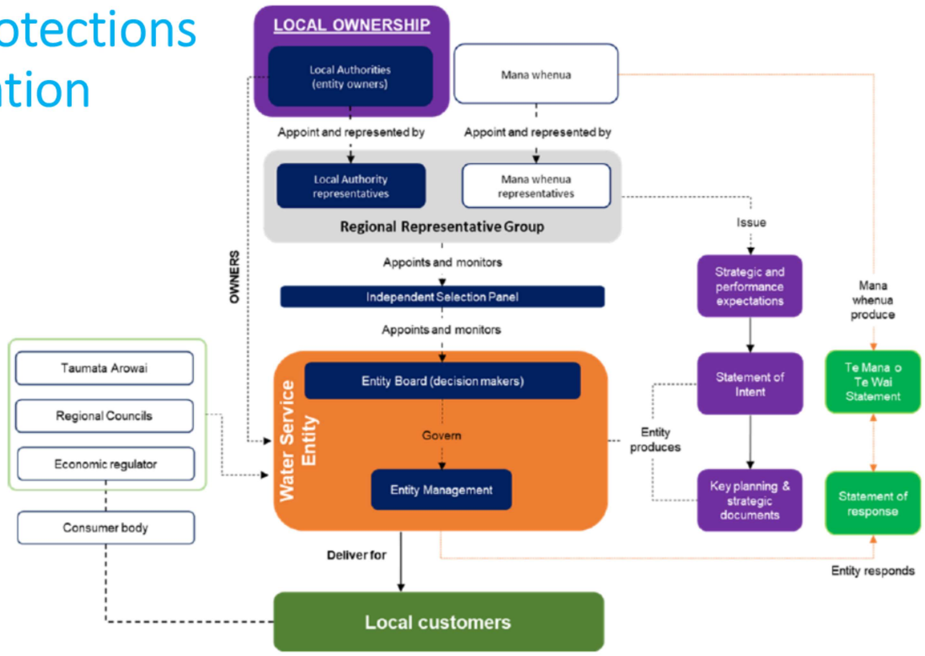
Governance Structure Overview



David Langford to Present

- Each entity will have a regional representative group that provide for proportional respresentation of the local government and mana whenua
- The representative group will issue a statement of strategic and performance expectations to inform the entity's planning and monitoring performance against these documents
- Entities will be required to produce a statement of intent in response to the strategic and performance expectations
- The representative group will also establish and monitor the independent selection panel that appoints and removes members of the entities board
- The independent board, appointed by the independent selection panel, will govern the new entities and will require relevant competencies – which will be set out in legislation
- A government policy statement will provide direction to entities on national policy priorities

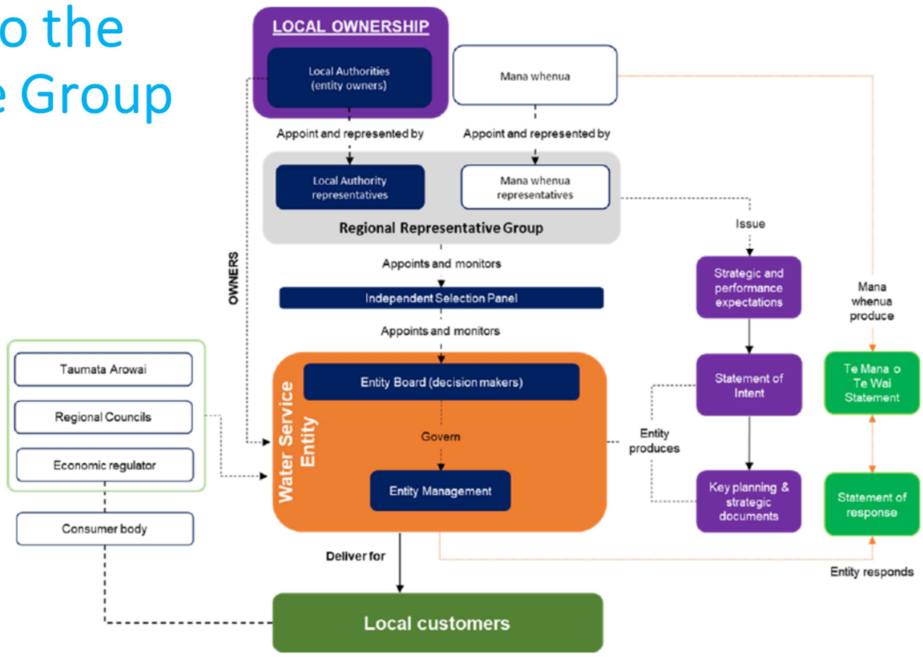
Ownership & Protections Against privatisation



David Langford to Present

- Local authorities are the “owner” of the entity, on behalf of their communities
- This is a no shareholding ownership with no financial recognition of ownership
- Continued public ownership of three waters services and infrastructure is a bottom line for the Government
- They are developing safeguards against future privatisation, making it more difficult to privatise than under the current legislation
- This includes specifying in legislation that local Authorities are the owners and that future privatisation proposals be put to a referendum.
- The entities will also be established in a way that prevents them from paying dividends or offering other financial reward to their owners, making them unattractive to potential alternative owners.

Appointment to the Representative Group



David Langford to Present

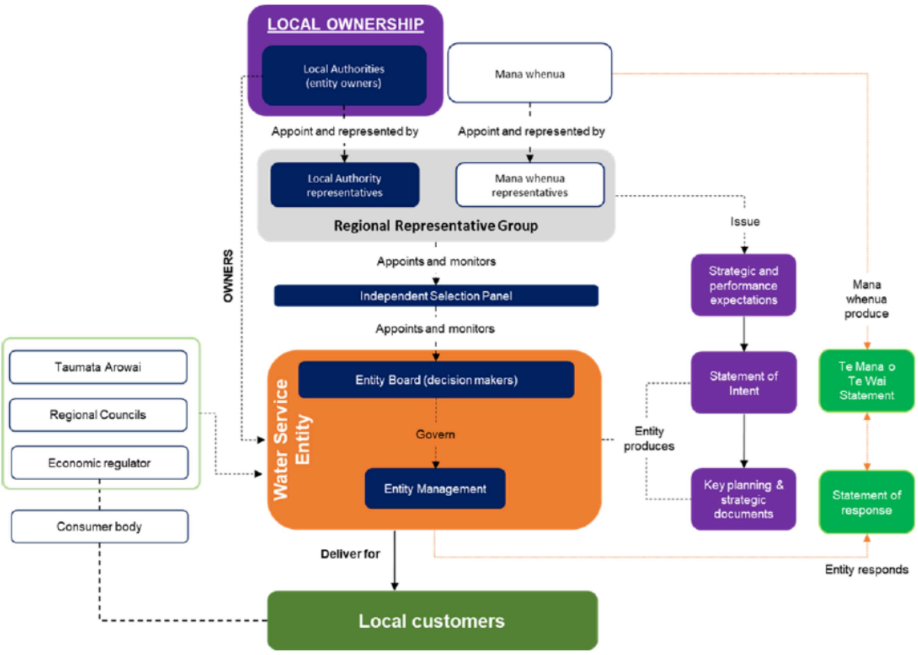
- Local Authorities and mana whenua will appoint representatives to their Regional Representative Group via a nomination and voting process
- Representatives would be elected members (or a relevant and appropriately qualified senior council officer) and iwi/Maori representatives
- The will preferably be 10 or fewer representatives per entity – but no more than 12 – noting that entity B is made up of 22 councils
- Appointments of Iwi/Maori representatives will be guided by a kaupapa Maori approach
- Representatives must comprise a distribution of metro, provincial and rural authorities with a 50:50 representation between local government and mana whenua and;
- Represent a geographical spread across the jurisdiction of the entity

Step change for iwi/Māori rights and interests

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

David Langford to Present

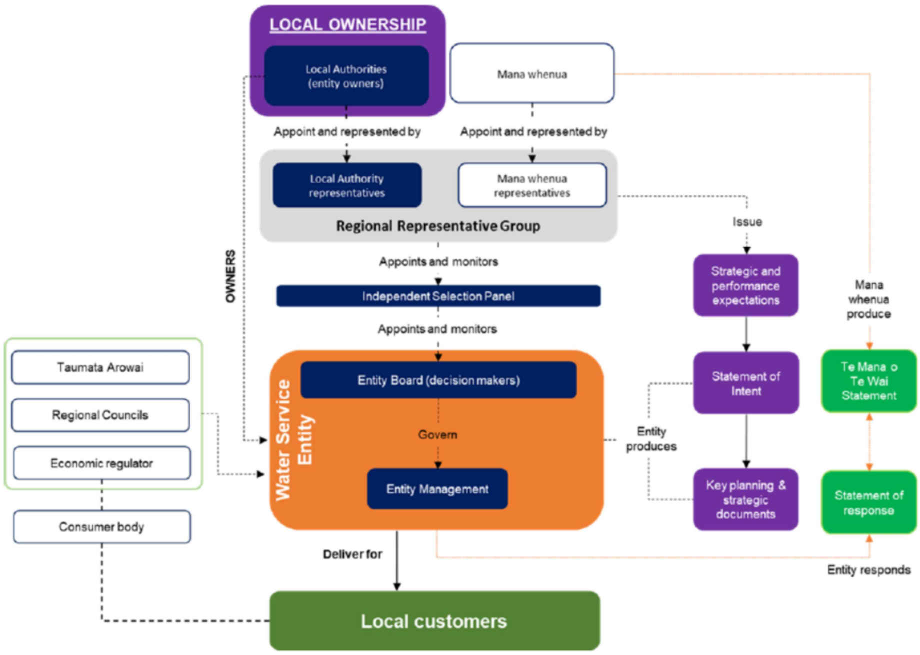
Entity Board



David Langford to Present

- An independent board, appointed by the independent selection panel will govern the entities
- Boards will be accountable to representatives, local authorities, mana whenua and the wider public and will be subject to:
    - A requirement to formally report to Representatives annually on the performance of the entity against the statement of strategic and performance expectations and other strategic documents
    - A process for the independent selection panel to conduct an annual performance review of the board
    - Reporting to representatives on carrying our the boards functions
- Boards will be made up of no more than 10 members, with the chairperson holding the casting vote
- Representatives can request a board member be removed and or assessed by the independent selection panel with the panel having the discretion to remove a member.

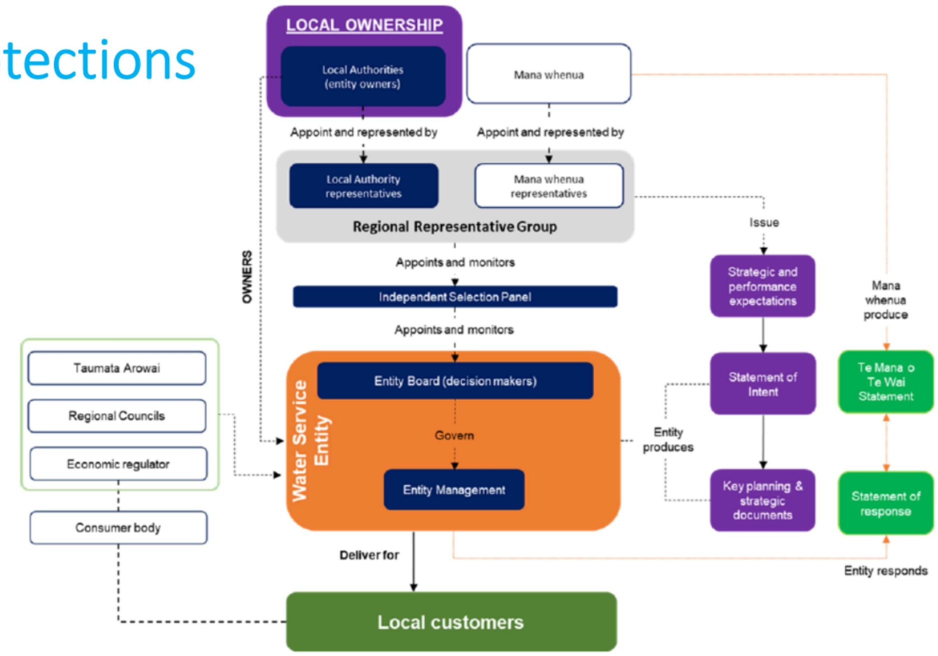
Oversight & Accountability



David Langford to Present

- The water service entities will be subject to:
  - Consultation requirements on their strategic direction, investment plans and prices/charges
  - Mechanisms that enable communities and consumers to participate in entities' decision-making processes
  - Economic regulation, to protect consumer interests and drive efficiencies
  - Charging and pricing frameworks to protect consumers
- MBIE are developing advice on the new economic regulation regime and consumer protection mechanisms and will consult local government on this
- As a "Last Resort" a Crown intervention framework with a risk-based approach, will be introduced.

Consumer Protections



David Langford to Present

- While MBIE are refining the consumer protections
- In addition to the representative group which will act on behalf of their communities, each entity will be required to engage in a meaningful and effective manner on key documents including:
    - Investment prioritisation methodology
    - Asset management plan
    - Funding and pricing plan
- The entities will also be required to publish these, and to report on how consumer and community feedback was incorporated into decision making
- Each entity will be required to establish a consumer forum to assist with effective and meaningful engagement
- A new set of charging and pricing arrangements are also being established to improve pricing transparency and affordability of water services.

Will reforms recognise good stewardship?

- We appreciate that many have asked for their good stewardship of their water infrastructure to be recognised through the reforms
- 'Good stewardship' is challenging to quantify, as there are many differing measures and uneven understanding across the country of the current state of three waters infrastructure
  - The condition of many parts of our networks remain unassessed
  - Councils are at different points in their asset cycles for key infrastructure
- It is important to note this infrastructure would remain owned by the entities on behalf of the communities that currently own these – as such there is no proposal to 'buy' the existing infrastructure
  - ***Debt*** associated with this infrastructure ***will effectively transfer*** to the new entities
  - The process to determine assets, debt and revenue will be subject to ***due diligence***
  - The no worse off package to ensure councils are not materially disadvantaged by reforms

David Langford to Present

Asset & Debt Transfer

How will Council's revenue, debt and assets be handled?

Paul Lamb to Present

What is the due diligence process?

- We have had questions about the due diligence process and how we will consider assets, debt, and water related revenue through the reforms.

Paul Lamb to Present

A due diligence process is required to confirm the current level of three waters debt and revenue for each council. this is intended to be undertaken as soon as possible after decisions are made regarding the reform next steps to give councils certainty

The due diligence process will be required to be transparent and robust to ensure equitable treatment of local authorities and protect community/water services entity interests. The process will be developed by a suitably qualified and independent auditor and managed by the DIA.

Currently it is proposed the new entities would deliver services from 1 July 2024 and this is also expected to be the date of transfer.

The government is expected to make decisions on the reform pathway following the Aug-Sept period with local government.

How will assets transfer?

- Questions relating to asset transfer include:
  - Will the new entities 'buy' the assets off councils
  - What will happen to cash reserves associated with three waters
  - What assets will transfer – particularly noting some three waters assets are natural environment assets

Paul Lamb to Present

- The proposed entities would continue to be owned collectively on behalf of their communities
- Therefore there is no proposal to buy these assets
- DIA need to undertake a discovery process with councils to accurately understand the three waters assets that will need to transfer to the new entities over the coming years on a nationally consistent basis
- Currently it is proposed that only assets critical to the delivery of the services will be transferred to the entity – e.g. where an asset has a different primary use, such as sports field but also acts as a storm water asset in times of flood, would remain with councils with appropriate mechanisms to ensure the ability to deliver water services is protected
- It is proposed that cash reserves for three waters assets would transfer to the new entities, but be ring-fenced for the communities or delivery of the specific three waters assets that the reserves were collected for.

How will debt transfer?

- Questions about the process to transfer debt to the entities include:
  - How will councils three waters related dept be treated after the assets are transferred
  - What will happen for councils that run their balance sheet as a whole – like an internal 'bank'
  - What is the process council's three waters related debt to be 'payed off' and how will you identify how much

Paul Lamb to Present

- A financial due diligence process will need to be undertaken to accurately determine the value of three waters debt on a robust and national consistent basis.
- This process will provide further insights into the financial arrangements that have been entered into at the three water and council level
- Currently it is proposed that debt and interest rate derivatives (swaps) will not be transferred/novated to the proposed entities.
- Instead, when the assets transfer takes place DIA are proposing cash payments are made to councils for three waters debt
- DIA will work with councils to ensure that interest rate derivatives are appropriately managed to protect community interests (including avoiding any material break costs).

How will revenue transfer?

- Questions water related revenue include:
  - What water revenue (e.g. from Development Contributions) will be transferred
  - Will councils end up collecting revenue for the entities

Paul Lamb to Present

- It is proposed that only revenue related to three waters will be transferred to the new entities
- The value of revenue related to three waters will be identified as part of the financial due diligence process
- Revenue related to other council activities will remain with the council
- In situations where three waters is subsidised by other revenue sources (e.g. profits from commercial activity/CCO Dividends) these revenue streams will not be transferred to the entities
- It is proposed that development contributions related to three waters would be transferred to the new entities
- It is expected that the entities will ultimately charge consumers directly and will have a broad range of charging mechanisms and powers at its disposal including all mechanisms currently used by local authorities.
- If it is necessary for councils to collect revenue on behalf of the entities over the short-term through a transition period, council's will be reimbursed for this service.

Financial Support Packages

David Langford to Present

Financial support package

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

NPDC share:
Stimulus
+$5m Oct 2020
+$5m to follow

Transition costs
$N/A not yet available

Better off
+$32m after 2024

No worse off
$5m after 2024

David Langford to Present

The 'better off' package

- The **better off package** is an investment into the future for local government and community wellbeing
- It will be allocated to councils based on a nationally-consistent formula agreed to by the Government and LGNZ based on:
  - a 75% allocation based on population size
  - a 20% allocation based on the New Zealand deprivation index
  - a 5% allocation based on land area (excluding national parks)

David Langford to Present

Territorial authorities will be able to use this funding to support the delivery of local wellbeing outcomes through meeting some or all of the following criteria:

- Support communities to transition to a sustainable and low emissions economy, including by building resilience to climate change and natural hazards
- Delivery of infrastructure and/or services that enable housing development and growth, with a focus on brownfield and infill development opportunities where available
- Support local place-making and improvements in community wellbeing.
- These represent good timing with the development of:
    - The climate action emissions reduction plan
    - The CBD strategy which has a strong housing and place making component

The ‘no council worse off’ package

- The **no council worse off** component of the package is intended to address the financial impacts on territorial authorities directly as a result of the reform programme and associated transfer of assets, liabilities and revenues to the proposed entities. It includes:
  - up to **$250 million** to support councils to meet unavoidable costs of stranded overheads, based on:
    - $150 million allocated on a per capita rate recognising that smaller councils face disproportionately greater potential stranded costs than larger councils
    - Up to $50 million allocated to the larger councils (Auckland, Christchurch and councils involved in Wellington Water) based on a detailed assessment of reasonable and unavoidable stranded costs
    - Up to $50 million able to be allocated to councils that have demonstrable, unavoidable and materially greater stranded costs than provided for by the per capita rate
  - The remainder will be used to address adverse impacts on the financial sustainability of councils
- This will require a nationally consistent due diligence process with councils through the transition period

David Langford to Present

David Langford to Present

- AM Wednesday 8th Sept – DIA will be presenting to council and Iwi Representatives
- PM Wednesday 8th Sept – Elected Member Briefing where officers step through an assessment of the impacts of reform and highlight areas NPDC may wish to provide the DIA with feedback.
- 28th Sept – report to council meeting will summarise the reforms proposals and provide a draft feedback letter to the DIA for elected member sign-off.

Hand over to Craig for summary and close.