



Three Waters Guidance for councils over the next eight weeks

Local Government New Zealand, Taituarā, and Te Tari Taiwhenua Internal Affairs

30 July 2021

Context

The Government has recently announced an integrated and extensive package of reform proposals together with a comprehensive financial support package. These announcements build on an intensive 12-month period of policy, commercial, legal and analytical work that has been progressed through a constructive partnership-based approach with the local government sector, under the oversight of a joint central-local government steering committee. Throughout this period the government has also undertaken multiple periods of engagement with local government and iwi/Māori.

The sector, through LGNZ's National Council, Taituarā and the Joint Steering Committee, have been working with the Government on their preferred model to ensure the Government's policy proposal worked within the broader local government "operating" system. We have shared the sector's concerns with DIA and challenged and tested policy as it's been developed. This has significantly influenced the shape of the reform. We are confident that there is a sufficient and evidence-based national case for change, including 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.

What's the Government's proposing?

The Government is proposing four new, large water service delivery entities. Their scale and balance sheet separation from councils means they will be able to borrow enough to fund the investment needed, a position that has been thoroughly tested with ratings agency Standard & Poors. The scale is also important to build and develop capability and capacity in the water services industry, as well as creating operating efficiencies and for effective quality and economic regulation. Without the new WSEs, councils will be directly responsible for all quality and economic regulatory obligations.

To support the sector through this massive change, LGNZ and the Crown (through DIA) jointly developed a [national-level package](#) to wrap around the reform proposals that addresses the sector's concerns and supports our communities now and into the future. The package is detailed in a [Heads of Agreement](#), signed in July, between LGNZ and the Government.

A summary of the proposed reform and support package can be found in [Appendix 1](#). [Appendix 2](#) provides an overview of the resources available to local authorities seeking further detail around the case for change and the decisions taken to date.

The Government and LGNZ have recommitted to working in partnership with the local government sector not just on these reforms, but on other challenges and opportunities. This is reflected in a [joint central/local government statement](#) released by the Government and LGNZ and underpinned by the Heads of Agreement.

Through the Heads of Agreement, the Government and LGNZ have agreed that local authorities will be provided a reasonable period from the end of the LGNZ conference through to 1 October to consider the impact of the reforms (including the financial support package) on them and their communities and an opportunity to provide feedback. The agreement and support package signal the Government's confidence in local government as a critical partner, both in this reform and in the future. We have heard strongly that Ministers want to work in partnership with our sector.

They have committed to doing so and LGNZ has made the same commitments. That is how we can be most effective and influential going forward.

No formal decisions are required between now and 1 October, but we are seeking feedback on the potential impacts of the proposed reform and how it could be improved.

The purpose of the next eight weeks

The purpose of this period is to provide time for all local authorities to:

- engage with and understand the large amount of information that has been released on the nature of the challenges facing the sector, the case for change, and the proposed package of reforms, including the recently announced support package;
- take advantage of the range of engagement opportunities to fully understand the proposal and how it affects your local authority and your community; and
- identify issues of local concern and provide feedback to LGNZ on what these are and suggestions for how the proposal could be strengthened.

You are not expected to make any formal decisions regarding the reform through this period. This is an opportunity for the sector to engage with – and provide feedback on – local impacts and possible variations to the proposed reform package outlined by the Government.

This engagement period does not trigger the need for formal consultation.

We would encourage local authorities to share your feedback with us as it arises over this period – that way we can share insights and ideas on common issues across the sector and help each other benefit from each other's work.

Who's doing what over the next eight weeks

Over the next eight weeks:

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

Engagement with iwi/Māori

Over the next eight weeks, the Government will continue to lead engagement with iwi/Māori over the reform programme. You should be aware of this occurring but not let it stop you from maintaining your own constructive relationships. You should also be aware that as part of the [Heads of Agreement](#) and the funding allocation attached, it is proposed that to recognise the role that iwi/Māori will play in the new delivery system as partners, local authorities will be expected to engage with iwi/Māori in determining how it will use its funding allocation.

What happens next - decision making and consultation

Following the engagement period, the Government will consider the feedback and suggestions provided by local authorities, in partnership with the joint steering committee. It will also consider the next steps, including the transition and implementation pathway, and revised timing for decision-making, which could accommodate the time required for any community or public consultation.

The Government will not be taking further decisions until after this engagement period.

Engagement on boundaries

The Government is keen to engage with those most affected by boundary issues, with discussions already underway. This engagement will be ongoing and is not limited to the eight week period.

What councils need to do over the next eight weeks

This is an opportunity for the sector to engage with the model and the proposal, at the national level and very specifically as it relates to your district/city. In this period Chief Executives should provide advice, for noting, to their council on the implications for the district/city. (Taituarā will develop a report format for chief executives to use). A decision on the advice, apart from noting, is not required, but the advice could form the basis of consultation with the community at a later date if required.

We would encourage councils to share your feedback with us as it arises over this period – that way we can share insights and ideas on common issues across the sector and help each other to benefit from each other's work.

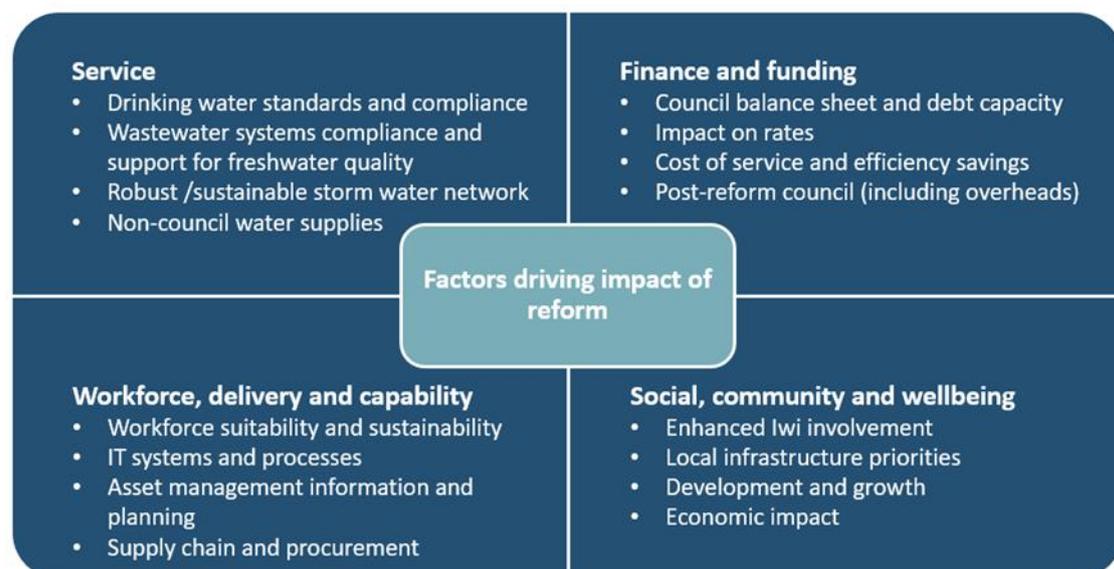
Local authorities are encouraged to review and consider the reform package and its implications for the communities they serve.

From now till 1 October, councils should carry out analysis to understand the potential impact of the reform by taking these steps:

1. Understand the key features of the proposed model and how it is intended to work (LGNZ will provide resources to help with this – see below).
2. Apply the proposed model to your circumstances (consider impacts on your community) for today and for the future (we would propose a 30 year horizon).

3. Consider the model holistically – in terms of service, finance and funding, workforce, delivery and capability and social, cultural, environmental and economic well-being. LGNZ can help with this analysis.
4. Using the Taituarā pro forma report framework, chief executives should report the outcome of this analysis as advice to their councils, for noting. The pro forma report will specify all the parameters to be covered. Please provide a copy of the advice to LGNZ.

Local authorities are encouraged to consider the impacts of the proposed reform holistically, in terms of service outcomes, economic development and growth, finance and funding, workforce capability and social, community and economic well-being. The diagram below provides a helpful framework for thinking through these impacts. LGNZ can help with this analysis.



Local authorities are also encouraged to provide feedback or participate in targeted workshops to develop solutions on outstanding issues identified by LGNZ and the Government.

As part of the agreement between LGNZ and the Government, we are also looking for feedback on and solution refinements for issues that councils have raised that aren't fully resolved and on which the Government has said there is room for flexibility to come up with solutions that meet local needs:

1. Ensuring all communities have both a voice in the system and influence over local decisions. This includes assurance that water service entities will understand and respond appropriately to communities' needs and wants, including responding to localised concerns.
2. Effective representation on the new water service entities' oversight boards so that there is strong strategic guidance from, and accountability to, the communities they serve, including iwi/mana whenua participation. This also covers effective assurance that entities, which will remain in public ownership, cannot be privatised in future.

3. Making sure councils' plans for growth, as reflected in spatial plans, district plans or LTPs, are appropriately integrated with water services planning. This includes that planning and delivery of water infrastructure investment is integrated with transport and other related infrastructure.

You can either provide potential solutions and refinement ideas in writing to us or participate in targeted workshops. If you would like to be part of a workshop, please email feedback@lgnz.co.nz.

Appendix 1: Summary of reform proposal and support package

Government reform package

The Government has decided, based on the substantial work undertaken over the past year in partnership with the sector, to pursue an integrated and extensive package of reform to the current system for delivering three waters services and infrastructure. The package comprises the following core components:

- establish four statutory, publicly-owned water services entities to provide safe, reliable and efficient water services;
- enable the water services entities to own and operate three waters infrastructure on behalf of local authorities, including transferring ownership of three waters assets and access to cost-effective borrowing from capital markets to make the required investments;
- establish independent, competency-based boards to govern each water services entity;
- introduce mechanisms that protect and promote the rights and interests of iwi/Māori in the new three waters service delivery system;
- introduce a series of safeguards against future privatisation of the water services entities;
- set a clear national policy direction for the three waters sector, including expectations relating to the contribution by water services entities to any new spatial / resource management planning processes;
- establish an economic regulation regime, to ensure efficient service delivery and to drive the achievement of efficiency gains, and consumer protection mechanisms; and
- develop an industry transformation strategy to support and enable the wider three waters industry to gear up for the new water services delivery system.

Financial support package

The Government has developed, in close partnership with Local Government New Zealand, a package of \$2.5 billion to support the sector through the transition to the new water services delivery system, and to position the sector for the future. There are two broad components to this support package:

- \$2 billion of funding to invest in the future of local government and community well-being, while also meeting priorities for government investment (the “better off” component).
- \$500 million to ensure that no local authority is financially worse off as a direct result of the reform (the “no worse off” component).

The better off component of the support package, which comprises \$1 billion Crown funding and \$1 billion from the new water services entities, is allocated to territorial authorities on the basis of a nationally consistent formula that takes into account population, relative deprivation and land area. This formula recognises the relative needs of local communities, the unique challenges facing local authorities in meeting those needs, and differences across the country in the ability to pay for those needs.

Territorial authorities will be required to demonstrate that the use of this funding supports the three waters service delivery reform objectives and other local well-being outcomes and aligns with the priorities of central and local government, through meeting some or all of the following criteria:

- supporting communities to transition to a sustainable and low-emissions economy, including by building resilience to climate change and natural hazards; and
- 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; and
 - support local place-making and improvements in community well-being.

The no worse off component of the support package is intended to address the costs and financial impacts on territorial authorities directly as a result of the three waters reform programme and associated transfer of assets, liabilities and revenues to new water services entities. It includes an up to \$250 million allocation to support councils to meet unavoidable costs of stranded overheads, based on:

- \$150 million allocated to councils (excluding Auckland, Christchurch and councils involved in Wellington Water) based on a per capita rate that is adjusted recognising that smaller councils face disproportionately greater potential stranded costs than larger councils;
- Up to \$50 million allocated to the Auckland, Christchurch and Wellington Water councils excluded above based on a detailed assessment of two years of reasonable and unavoidable stranded costs directly resulting from the Water Transfer, as the nationally-consistent formula is likely to overstate the stranded costs for these councils due to their significantly greater scale and population. Stranded costs should be lower with respect to Watercare and Wellington Water as these Council Controlled Organisations have already undertaken a transfer of water services responsibilities, albeit to varying degrees; and
- 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 process for determining this will be developed by the Department of Internal Affairs working closely with Local Government New Zealand).

The remainder of the no worse off component will be used to address adverse impacts on the financial sustainability of territorial authorities. This will require a due diligence process that will need to be worked through in the coming months.

In addition to the support package, the Government expects to meet the reasonable costs associated with the transfer of assets, liabilities and revenue to new water services entities, including staff involvement in working with the establishment entities and transition unit, and

provision for reasonable legal, accounting and audit costs. There is an allocation for these costs within the \$296 million tagged contingency announced as part of the 2021 Budget Package for transition and implementation activities. This allocation is additional to the \$2.5 billion support package.

The Department of Internal Affairs is continuing to work with Local Government New Zealand and Taituarā, including through the joint Steering Committee process, to develop the process for accessing the various components of the support package outlined above, including conditions that would be attached to any funding. More information and guidance will be made available in the coming months.

Better off funding allocation

Council	Allocation
Auckland	\$ 508,567,550
Ashburton	\$ 16,759,091
Buller	\$ 14,009,497
Carterton	\$ 6,797,415
Central Hawke's Bay	\$ 11,339,488
Central Otago	\$ 12,835,059
Chatham Islands	\$ 8,821,612
Christchurch	\$ 122,422,394
Clutha	\$ 13,091,148
Dunedin	\$ 46,171,585
Far North	\$ 35,175,304
Gisborne	\$ 28,829,538
Gore	\$ 9,153,141
Grey	\$ 11,939,228
Hamilton	\$ 58,605,366
Hastings	\$ 34,885,508
Hauraki	\$ 15,124,992
Horowhenua	\$ 19,945,132
Hurunui	\$ 10,682,254
Invercargill	\$ 23,112,322

Kaikoura	\$ 6,210,668
Kaipara	\$ 16,141,395
Kapiti Coast	\$ 21,051,824
Kawerau	\$ 17,270,505
Lower Hutt	\$ 38,718,543
Mackenzie	\$ 6,195,404
Manawatu	\$ 15,054,610
Marlborough	\$ 23,038,482
Masterton	\$ 15,528,465
Matamata-Piako	\$ 17,271,819
Napier	\$ 25,823,785
Nelson	\$ 20,715,034
New Plymouth	\$ 31,586,541
Opotiki	\$ 18,715,493
Otorohanga	\$ 10,647,671
Palmerston North	\$ 32,630,589
Porirua	\$ 25,048,405
Queenstown Lakes	\$ 16,125,708
Rangitikei	\$ 13,317,834
Rotorua Lakes	\$ 32,193,519
Ruapehu	\$ 16,463,190
Selwyn	\$ 22,353,728
South Taranaki	\$ 18,196,605
South Waikato	\$ 18,564,602
South Wairarapa	\$ 7,501,228
Southland	\$ 19,212,526
Stratford	\$ 10,269,524
Tararua	\$ 15,185,454

Tasman	\$ 22,542,967
Taupo	\$ 19,736,070
Tauranga	\$ 48,405,014
Thames-Coromandel	\$ 16,196,086
Timaru	\$ 19,899,379
Upper Hutt	\$ 18,054,621
Waikato	\$ 31,531,126
Waimakariri	\$ 22,178,799
Waimate	\$ 9,680,575
Waipa	\$ 20,975,278
Wairoa	\$ 18,624,910
Waitaki	\$ 14,837,062
Waitomo	\$ 14,181,798
Wellington	\$ 66,820,722
Western Bay of Plenty	\$ 21,377,135
Westland	\$ 11,150,183
Whakatane	\$ 22,657,555
Whanganui	\$ 23,921,616
Whangarei	\$ 37,928,327

Appendix 2: Three Waters Reform Programme key resources

The table below summarises the key resources that have been published in relation to the Government’s recent announcements around the proposed three waters service delivery reform and financial support package.

Further information is available at the three waters reform programme webpage at:

<https://www.dia.govt.nz/Three-Waters-Reform-Programme>

Title	Description
Cabinet papers and decisions	
Cabinet paper one and minute – A new system for three waters service delivery	Paper summarising the case for change and seeking Cabinet agreement to the overall reform package.
Cabinet paper two and minute – Designing the new three waters service delivery entities	Paper seeking Cabinet agreement to the proposed structure of water services entities, associated oversight, governance and ownership arrangements and mechanisms that provide for communities and consumers to have a voice within the new structure.
Cabinet paper three and minute – Protecting and promoting iwi/Māori rights and interests	Paper summarising iwi/Māori rights and interests in the three waters service delivery reforms, and seeking agreement to a number of specific mechanisms for protecting and promoting rights and interests in the new service delivery model.
Summary of case for change and reform proposal	
Transforming the system for delivering three waters services - the case for change and summary of proposals	An overview of the case for change and the Government’s proposed package of reform.
A3 Overview of the Three Waters Reform Programme	A3 summarising the case for change, proposed new delivery system.
Financial support package information and FAQs	Overview of the financial support package, allocations and responses to frequently asked questions.

Title	Description
Models, tools and dashboards	
Local Dashboard	Dashboard of the potential impacts on local authorities with and without reform.
Simplified financial models	Simplified versions of the financial models the Water Industry Commission for Scotland used in its analysis of the potential economic benefits of three waters reform. These models demonstrate the approach taken to calculate average household costs for each council and amalgamated entity. There are also slide packs setting out sensitivity analysis for each council and amalgamated entity to test the sensitivity of the modelling to key assumptions, including assumptions around levels of efficiency and future investment need.
Water Service Entities overview	A short overview of the estimated position of the Water Service Entities following reform.
Evidence base	
Regulatory Impact Assessment – Decision on the reform of three waters service delivery arrangements	Regulatory Impact Assessment (RIA) developed by the Department of Internal Affairs to inform the decision on whether and how to improve the system for delivering three waters services. Developed in two parts: <ul style="list-style-type: none"> • a strategic RIA assessing the rationale for reform; and • six detailed RIA chapters assessing each of the core design choices that make up the package of policy proposals.
Industry Development Study and Economic Impact Assessment (Deloitte) Summary A3 Full report	Analysis of the potential economic impact of the proposed reform package, and the opportunities and risks for industries affected by reform.

Title	Description
<p>Economic analysis of water services aggregation (Water Industry Commission for Scotland):</p> <p>Final report</p> <p>Supporting material part 1 - required investment</p> <p>Supporting material part 2 – scope for efficiency</p> <p>Supporting material part 3 – costs and benefits of reform</p> <p>Supporting material part 4 – modelling the effect of ranges for key parameters for Auckland Council</p> <p>Supporting material part 5 – Council outcomes under amalgamation</p>	<p>Second phase of analysis that builds on earlier work by making use of more up-to-date information collected through the Request for Information process and by making allowance for population growth and council-reported rates of connection. The analysis is done in three parts:</p> <ul style="list-style-type: none"> • Estimated investment requirement for New Zealand’s three waters infrastructure to meet quality standards; • Scope for efficiency gains from transformation of the three waters service delivery system, including those associated with scale; and • The potential economic (efficiency) impacts of various aggregation scenarios.
<p>Review of methodology and assumptions underpinning economic analysis of aggregation (Farrierswier)</p>	<p>Farrierswier, a regulatory economics consultancy in Victoria, Australia with deep understanding of the water services industry, reviewed the methodology and underpinning assumptions applied by the Water Industry Commission for Scotland in its analysis of the potential benefits of reform and the extent to which this is reasonable to inform policy advice.</p>
<p>Review of assumptions between Scotland and New Zealand Three Waters Systems (Beca)</p>	<p>Beca reviewed the standards and practices in the United Kingdom three waters industry and the relevance to New Zealand given WICS has used United Kingdom data and benchmarks as part of its analysis.</p>