

Public Excluded – Released to Public 28/9/2021

To	Mayor and Councillors
From	Gavin Ion Chief Executive
Date	22 September 2021
Prepared by	Keith Martin Water Manager
Chief Executive Approved	Y
Reference #	*
Report Title	Water Reform Model Report

The general subject of the matter to be considered while the public is excluded, the reason, and the specific grounds under section 48(1) of the Local Government Official Information and Meetings Act 1987 are as follows:

Good reason to withhold exists under section 7(2):	Ground(s) under section 48(1) for the passing of this resolution
(h) enable any local authority holding the information to carry out, without prejudice or disadvantage, commercial activities; or	(a) that the public conduct of the whole or the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding would exist

I. EXECUTIVE SUMMARY

This report recommends that the Waikato District Council provides feedback on the Government's 30 June 2021 and 15 July 2021 Three Waters Reform announcements, which change the reform process previously outlined in 2020.

The Government has concluded that the case for change to the three waters service delivery system has been made and during June and July 2021 it released information and made announcements on the direction and form of Three Waters Reform, including proposed new Water Service Entities (four and their indicative boundaries), their governance arrangements and public ownership. The Government has requested that Council provide feedback by the way of a letter to the Department of Internal Affairs (DIA) on the proposed Water Reform Model on a non binding and no commitment basis.

2. RECOMMENDATION

THAT the Water Reform Model Report from the Chief Executive be received;

AND THAT the contents of the draft feedback letter to the DIA on water reform be accepted and approved for distribution to DIA.

AND FURTHER THAT the Council:

- 1) **notes** the Government's 30 June and 15 July 2021 Three Waters Reform announcements
- 2) **notes** officers' analysis of the impacts of the Government's proposed three water service delivery model on the Waikato community and its wellbeing, including the impacts on the delivery of water services and water related outcomes, capability and capacity, on Waikato District Council's sustainability (including rating impact, debt impact, and efficiency) and based on the benefits already gained by WDC entering into a water services delivery contract with Watercare, WDC understand the benefits and risk mitigation that three waters reform potentially provides.
- 3) **notes** the analysis of three waters service delivery options available to Council at this time provided in various workshops overviewing the water reform proposal and impact assessment on Waikato District Council
- 4) **notes** that a decision to support the Government's preferred three waters service delivery option is not lawful (would be ultra vires) at present due to section 130 of the Local Government Act 2002 (LGA), which prohibits Council from divesting its ownership or interest in a water service except to another local government organisation, and what we currently know (and don't know) about the Government's preferred option
- 5) **notes** that Council cannot make a formal decision on a regional option for three waters service delivery without doing a Long Term Plan (LTP) amendment and ensuring it meets section 130 of the LGA
- 6) **notes** that the Council will be providing feedback by the way of a letter to the DIA on the proposed Water Reform Model on a non binding and no commitment basis
- 7) **notes** that the Government intends to make further decisions about the three waters service delivery model after 30 September 2021
- 8) **notes** As we have not yet engaged or consulted with our community and stakeholders, it would be desirable to gain an understanding of the community's views once Council has further information from the Government on the next steps in the reform process
- 9) **requests** the Chief Executive to give feedback to the Government on the following areas of the Government's proposal that Council needs more information on
 - a) People
 - b) Local Focus
 - c) Affordability and sustainability
 - d) Safe water services
 - e) Customer focus
 - f) IWI co management
 - g) Governance

- h) Transfer of assets and ownership of Entity B
- 10) **notes** that the Chief Executive will report back further once they have received further information and guidance from Government including DIA, LGNZ and Taituarā on what the next steps look like and how these should be managed
- 11) **in noting the above, agrees** it has given consideration to sections 76, 77, 78, and 79 of the Local Government Act 2002 and in its judgment considers it has complied with the decision making process that those sections require (including, but not limited to, having sufficient information and analysis that is proportionate to the decisions being made).

AND FURTHER THAT the resolution be released into open meeting but the report remain confidential and unavailable to the public.

3. BACKGROUND

Following the serious campylobacter outbreak in 2016 and the Government's Inquiry into Havelock North Drinking Water, central and local government have been considering the issues and opportunities facing the system for regulating and managing the three waters (drinking water, wastewater, and stormwater).

The focus has been on how to ensure safe drinking water, improve the environmental performance and transparency of wastewater and stormwater network and deal with funding and affordability challenges, particularly for communities with small rating bases or high-growth areas that have reached their prudential borrowing limits.

The Government's stated direction of travel has been for publicly-owned multi-regional models for (with a preference for local authority ownership). The Department of Internal Affairs (DIA), in partnership with the Three Waters Steering Committee (which includes elected members and staff from local government commissioned specialist economic, financial, regulatory and technical expertise to support the Three Waters Reform Programme and inform policy advice to ministers).

The initial stage (Tranche 1 - MOU, Funding Agreement, Delivery Plan and RFI process) was an opt in, non-binding approach. It did not require councils to commit to future phases of the reform programme, to transfer their assets and/or liabilities, or establish new water entities. The 2020 indicative reform programme and then anticipated next steps can be found in Attachment I.

Council completed the RFI process over Christmas and New Year 2020/21 and the Government has used this information, evidence, and modelling to make preliminary decisions on the next stages of reform. Over the past four years the central and local government have been considering the issues and opportunities facing the system for regulating and managing the three waters (drinking water, wastewater, and stormwater) – Three Water Reform. The background is provided in Attachment I including information on Taumata Arowai (which became a new Crown entity in March 2021 and will become the dedicated water services regulator later this year).

The Government has concluded that the case for change to the three waters service delivery system has been made [please see Attachment 2 for further information] and during June and July 2021 it released information and made announcements on:

- the direction and form of Three Waters Reform, including proposed new Water Service Entities (four and their indicative boundaries), their governance arrangements and public ownership
- individual (WICS) Council data based on the information supplied under the RFI process
- a package of investment (\$2.5b) for councils to invest in the future for local government, urban development, and the wellbeing of communities, ensuring no council is worse off as a result of the reforms, and funding support for transition
- an eight-week process for councils to understand the implications of the reform announcements, ask questions and propose solutions and for Government to work with councils and mana whenua on key aspects of the reform (including governance, integrated planning and community voice).
- During this eight week process, WDC has undertaken workshops with senior staff, the Water Governance Board, Mayor and Councillors to understand their perspectives, concerns and recommendations to develop WDC's proposed feedback by the way of a letter to DIA (attachment 7)

In June 2021 a suite of information was released by Government that covered estimated potential investment requirements for New Zealand, scope for efficiency gains from transformation of the three waters service and the potential economic (efficiency) impacts of various aggregation scenarios.¹

In summary, the modelling indicated a likely range for future investment requirements at a national level in the order of \$120 billion to \$185 billion, an average household cost for most councils on a standalone basis to be between \$1,910 and \$8,690 by 2051. It also estimated these average household costs could be reduced to between \$800 and \$1,640 per household and efficiencies in the range of 45% over 15-30 years if the reform process went ahead. An additional 5,800 to 9,300 jobs and an increase in GDP of between \$14b to \$23b in (Nett Present Value, NPV terms over 30 years were also forecast.

As a result of this modelling, the Government has proposed to:

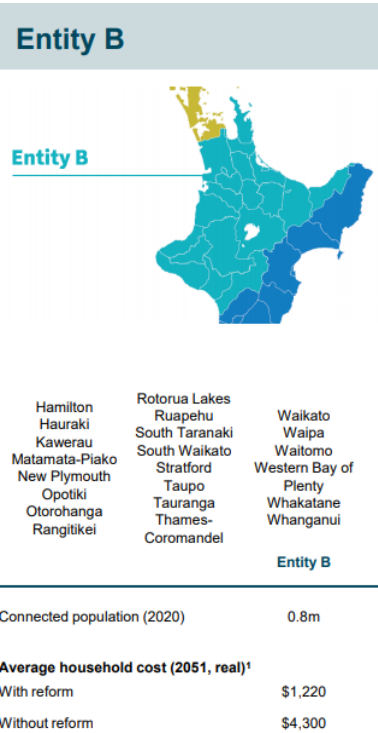
- **establish four statutory, publicly-owned water services entities that own and operate three waters infrastructure on behalf of local authorities**
- **establish independent, competency-based boards to govern**
- set a clear national policy direction for the three waters sector, including integration with any new spatial / resource management planning processes
- establish **an economic regulation regime**
- develop an industry transformation strategy.

¹ This information, including peer reviews and the Minister's briefing can be accessed at: <https://www.dia.govt.nz/Three-Waters-Reform-Programme> and [release-of-second-stage-evidence-base-released-june-2021](#).

The proposed safeguards against privatisation can be found on page 26 of the DIA’s [summary of the case for change](#).

Both DIA and LGNZ have produced two page national overviews, available on the DIA [website](#)² and [LGNZ websites](#)³ respectively. Attachment 2 contains more detail on the national context and Attachment 3 provides the DIA/LGNZ overviews.

We have been placed in Water Services Entity B, although the precise boundaries are still up for discussion.



On 15 July, in partnership with LGNZ under a [Heads of Agreement](#)⁴, the Government announced a package of \$2.5 billion to support councils to transition to the new water entities and to invest in community wellbeing. This funding is made up of a **‘better off’ element** (\$500 million will be available from 1 July 2022 with the investment funded \$1 billion from the Crown and \$1 billion from the new Water Services Entities) and **‘no council worse off’ element** (available from July 2024 and funded by the Water Services Entities). The **“better off”** funding can be used to support the delivery of local wellbeing outcomes associated with climate change and resilience, housing and local placemaking, and there is an expectation that councils will engage with iwi/Māori in determining how to use that funding allocation

² [2872-DIA-A3-A New Water with-without reform Map 20210526 v2.7](#)
³ [Three-Waters-101-Infographic.pdf \(lgnz.co.nz\)](#)
⁴ [https://www.dia.govt.nz/diawebsite.nsf/Files/Three-waters-reform-programme/\\$file/heads-of-agreement-partnering-commitment-to-support-three-waters-service-delivery-reform.pdf](https://www.dia.govt.nz/diawebsite.nsf/Files/Three-waters-reform-programme/$file/heads-of-agreement-partnering-commitment-to-support-three-waters-service-delivery-reform.pdf)

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Council's funding allocation is \$36.5 Million. This is made up of \$31.5 Million in the **no worse off** element plus a notional \$5 million in the **better off** element. A further sum is being sought to cover costs incurred in transitioning to the Watercare contract. The detail of the funding (including expectations around the use of reserves) and the full list of allocations can be found in Attachment 4. Conditions associated with the package of funding have yet to be worked through.

In addition to the funding announcements, the Government has committed to further discussions with local government and iwi/Māori over the next eight weeks on:

- the boundaries of the Water Service Entities
- how local authorities can continue to have influence on service outcomes and other issues of importance to their communities (eg chlorine-free water)
- ensuring appropriate integration between the needs, planning and priorities of local authorities and those of the Water Service Entities
- strengthening the accountability of the Water Service Entities to the communities that they serve, for example through a water ombudsman.

As a result, the original timetable for implementing the reform (outlined in Attachment 1) and for councils to consult on a decision to opt-in (or not), no longer applies.

Next steps are expected to be announced after 30 September 2021, which would include the timeframes and responsibilities for any community or public consultation.

It is also important to note that the Government has not ruled out legislating for an “all-in” approach to reform to realise the national interest benefits of the reform.

In the interim the DIA continues to engage with council staff on transition matters on a ‘no regrets’ should the reform proceed. These discussions do not pre-empt any decisions about whether to progress the reforms or whether any individual council will transition.

If the reform goes ahead, it is anticipated that councils will continue to deliver water services until at least early 2024, and council involvement in transition will be required throughout.

4. DISCUSSION AND ANALYSIS OF OPTIONS

4.1 DISCUSSION

Senior Management, the WGB and the Mayor and Councillors have been involved in workshops and presentations over the past two months. The analysis of three waters service delivery options available to Council at this time have been held in various workshops overviewing the water reform proposal and impact assessment on Waikato District Council.

The Water Governance Board (WGB) met on 21 September to review the attached draft feedback letter to Central Government (Letter).

The WGB noted the purpose of the Letter is to provide feedback to Central Government on the proposed water reforms, it is not to make a decision as to whether WDC adopt an opt-in or opt-out position in respect to joining Entity B as part of water reform.

The following was endorsed by the WGB board at the meeting of 21 September 2021:

“Having considered the Letter the WGB recommends to WDC that the Letter be approved. In addition, the WGB notes its support for the aggregation of water services to Entity B on the proviso that the reform (without limitation):

- must recognise and enhance Te Tiriti partnerships and include appropriate recognition and fortification of existing treaty settlement mechanisms including Te Ture Whaimana and joint management provisions;*
- must not disenfranchise the local region.*

WGBs support for the water reform is borne from our own experiences with transitioning services from WDC to Watercare Services Limited. This transition has seen benefit and improvement to the levels of service delivery to the communities that WDC serve.

We would welcome the opportunity to invite Central Government to meet with WGB for the purposes of highlighting the benefits that we have experienced with contracting services to Watercare.”

4.2 OPTIONS

Council has been placed in Entity B and our better off funding allocation is \$31.5 Million.

While the Government and LGNZ consider that national case for change has been made, each council will ultimately need to make a decision based on its local context if the process to join one of the proposed entities remains voluntary.

This report provides Council with the staff analysis of the information provided and assesses the Government’s proposal and currently available service delivery options. In preparing this report, staff have used the Local Government New Zealand, Taituarā, and Te Tari Taiwhenua Internal Affairs [guidance](#)⁵ and various internal workshops with senior staff, Water Governance Board and Councillors to assist Council to understand the information that has been provided to date and enable Council to prepare for future decisions, consultation and engagement with communities. Key risks considered are documented in the report and attachments five and seven.

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

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

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

⁵ <https://www.lgnz.co.nz/assets/Three-Waters-Guidance-for-councils-over-the-next-eight-weeks-FINAL.pdf>

- **Option B - Delivery of three water services by Council:** The potential benefits of this option include greater Council control and more certainty over local infrastructure integration (planning and delivery) with land use plans and council objectives. Realistically this would be reverting back to the past and would be difficult to resource given staff shortages in the water industry. Good progress has been made in the partnership with Watercare, so it would seem a backward step to turn back at this point. Circumstances may dictate a review of this model in the future but not now.
- **Option C – Continuation of Service with Watercare:** Whilst council have seen the benefits of transitioning the water services delivery to Watercare, Council still faces risks over the medium term, including potentially high costs, in meeting the new water standards, environmental requirements and achieving compliance. The ability of non-Council owned water supplies to meet standards and requirements also poses a high risk to Council and the community.

The causes of most of these risks are not within Council’s control. This makes mitigation difficult, and many potential mitigation options (such as greater investment, larger costs than currently planned, lower levels of service, compliance risk) may not be palatable to Council or the community.
- **Option D - Delivery of three water services by Watercare at a higher level of service level and investment:** This option was considered through the LTP process, but deemed to be unaffordable for the community. The issues and opportunities associated with this option address compliance and statutory issues sooner than outlined in the LTP. This option, deemed “aspirational” is more aligned to best practice. There is likely better integration with Council outcomes, objectives and plans, but the costs of service provision and levels of service may change significantly over the next 30 years, causing ongoing affordability issues for households, lower levels of service and compliance risks for Council.
- **Option E - Regional aggregation of three waters services in a Council Controlled Organisation [asset owning]:** While councils would still need to be satisfied that the changing regulatory environment was adequately provided for, including ensuring there was sufficient funding to meet legal and regulatory obligations due to scale, this option (better) addresses the risk that the size of investment required to meet new standards and community expectations is greater than forecast by individual councils
 - it enables an organisation to focus on the group’s three water challenges and prioritise investment decisions across the region, which should lead to better environmental and community outcomes
 - it provides for greater strategic, management and operational capacity and capability, workforce development and planning
 - it enables efficiencies (in planning, programming, procurement and delivery) and should as a result reduce household costs and increase affordability. There are however integration risks with spatial, growth and local planning and uncertainties around the future costs to households.

Whilst the principle is good, we have been unable to secure support from other Waikato councils for this option.

Under all options except the Government proposal, Council bears the risk of meeting the new water standards, environmental requirements and achieving compliance. There are also implications and challenges for non-Council supplies to meet water quality requirements, with the risk that these supplies might default to Council in the future.

Other Government reforms (Resource Management Act, Future of Local Government) pose opportunities and challenges for each option.

This section provides an overview of the options available to Council and is followed by an analysis of the Council's reasonably practicable options.

This analysis will provide some of the required information to enable Council to make a decision and consult on opting in or out of the reform process at the end of the eight week period (but not all as there is further information to be developed and decisions to be made), Whether this is ultimately required will be dependent on where the Government gets to with the reform process and the decisions it makes after 30 September 2021.

Staff have used the Local Government New Zealand, Taituarā, and Te Tari Taiwhenua Internal Affairs [guidance](#)⁶ to understand the potential impact of reform and other practicable options (both today and in the future) in terms of service, finance and funding, economic development and growth, workforce, delivery and capability and social, cultural and environmental wellbeing.

Option A - Government Proposal

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

Option B - Council as a standalone deliverer of three waters: As noted above this is not a viable option at present. It is time consuming and unwieldy to unpick the transition work to Watercare that has been achieved over the past two years.

- The use of Watercare asset management systems makes this more difficult to revert to a council delivered service.
- Staffing, resourcing and space in council facilities would be difficult to secure without significant cost.

Option C – Continuation of Watercare contract and partnership ie. continuing business as usual (BAU):

⁶ <https://www.lgnz.co.nz/assets/Three-Waters-Guidance-for-councils-over-the-next-eight-weeks-FINAL.pdf>

- Council [currently] delivers three waters services through a contracted model with Watercare Service Limited
- While the RFI information, dashboard and supporting information provided to Council suggests that this might not be a sustainable future model for the country, we have used the information in section 4 to analyse whether this is a viable option for Council and our communities.
- The affordability challenge is related to the lack of economies of scale, poor asset condition and underinvestment in the past. It is not being driven by the selection of this model.

Option D - Council continues to deliver three waters through Watercare but at a higher level of service and investment [aspirational option]

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

and would ideally include implementing the aspirational model considered by council through the LTP process. It relies on the production of robust business cases for investment and enhanced activity and asset management planning to be reasonably accurate.

- Council staff have assessed our ability to do this work in the current operating environment (delivering business as usual, stimulus projects, other Government reform workloads, consultant availability etc) and concluded that only a very high level of analysis of this option could be done in the available timeframe.
- Please note that any changes to levels of service or material changes to the cost of service would require consultation and an LTP amendment (or consultation on those changes as part of the next LTP 2024-34 and potentially later ones). The work has been done on the aspirational model but circumstances have not changed since it was deemed unaffordable.

Option E – Asset owning CCO

- WDC has previously investigated this option as part of a group delivering three water services which included Waikato, Waipa and Hamilton councils and were unsuccessful in progressing.
- While it is possible that a group could be set up as a shared service, at scale this is likely to be suboptimal to the CCO option.⁷

⁷ [HB-3-Waters-Delivery-Detailed-Analysis-29.07.20-Full-Report.pdf \(hb3waters.nz\)](#)

- This option has therefore been developed as council-controlled organisations (CCOs) as provided for in the LGA with governance, management and operational oversight.
- This option enables assets to be transferred.
- Although both a management CCO and an asset owning CCO have benefits, the detailed analysis in the [Hawkes Bay report](#) and in reports prepared for the Waikato by Peter Winefield and leCranleigh, demonstrates that a regional or sub-regional asset owning CCO is a more effective service delivery model than the management CCO, and best met the investment objectives and principles set by the participants in that review.
- This option has therefore been developed assuming that assets are owned by a CCO.
- There are existing examples of CCOs [WaterCare](#) (water and wastewater services) and [Wellington Water](#) (who don't own but do manage all three waters on behalf of their owners) and studies such as [the Hawkes Bay study] that have been considered in developing and analysing this option.
- A full analysis of the benefits of a sub-regional CCO were undertaken by Cranleigh on behalf of Waikato District, Waipa District and Hamilton City councils.
- Please note that both the Auckland Council and the owners of Wellington Water are affected by the Government's proposal and are assessing their options, e.g. for Wellington Water to become an asset owning company.

Do-nothing

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

Options analysis

Option	Water objectives and service levels met	Financial capacity and funding	Legal / compliance risk (assuming higher stds in future)	Workforce Capability and Capacity	Achievement of Wellbeings and integration with Council wellbeing outcomes	Key Threats (Risk) mitigations e.g. Affordability	Key Opportunities (Risk) mitigations e.g.	Other e.g. Te Tiriti Mana whenua; R and D
A - Govt proposal	Very Confident	Very Confident	Very Confident	Available	Confident	Governance Competing priorities – Growth Affordability	Supercharge our current water business project delivery Reducing risk profile	Incorporating our responsibilities under Te Ture Whaimana Iwi Engagement
B - Council delivery	Very Confident	Confident	Not Confident	Not available – would require recruiting an entire workforce	Confident	Ability to recruit suitable staff Underinvestment Asset underperformance	Alignment of priorities	Active focus on our responsibilities under Te Ture Whaimana Iwi Engagement
C – Watercare delivery (BAU)	Very Confident	Confident	Confident over the longer term	Available	Confident	Watercare future under Entity A Infrastructure and growth – shared services Auckland and Hamilton non-Council water supplies	Alignment of priorities	Active focus on our responsibilities under Te Ture Whaimana Iwi Engagement
D -Modified for new standards (aspirational model)	Confident	Deemed unaffordable	Stretched	Available	Stretched	Affordability non-Council water supplies	Alignment of priorities	Active focus on our responsibilities under Te Ture Whaimana

E - CCO (Asset own)	Confident	Stretched	Stretched	Available	Confident	Affordability Access to qualified staff non-Council water supplies	Regional perspective Shared Services	Incorporating our responsibilities under Te Ture Whaimana Iwi Engagement
Other	NA	NA	NA	NA	NA	NA	NA	NA

4.3 RISKS (OPPORTUNITIES AND THREATS) CONSIDERED FOR THE VARIOUS OPTIONS INCLUDED

- Financial sustainability
- Underestimating the investment Required
- Compliance failure
- Cost of Works
- Workforce, skills, Technical Capability
- Economies of Scale
- Council Plan Implementation and Integration
- Council Risk (and capacity for it)
- Household Ability to Pay
- Long Term Outcomes and wider wellbeing outcomes
- Gaps in Service Delivery and Funding Responsibilities
- R&D Funding Opportunities
- Increased Incident Response Time
- Additional Water Capacity (water source)
- (Reduction in the) Local Contractor Capacity
- Partnerships (ineffective)
- Compliance Monitoring
- Industry support
- Impact on business
- Value of Council Services
- Community perception; Loss of interest in Council – effect on candidacy
- Regional investment(lack of additional in the district due to current asset condition)
- More efficient water use
- Reduced ability to Promote Sustainable Resource Use
- Failure to Recognise Cultural Knowledge in Design
- Business Priorities Differ to Council Goals
- Loss of Community Engagement
- Lack of service integration
- Lack of Understanding of Growth Constraints
- Unclear responsibility for environmental impacts
- Gaps in infrastructure data
- Procurement outcomes
- Litigation
- Reduced levels of service / optional service level increases
- Underinvestment in infrastructure

Option A - Government Proposal

In summary, the greater financial capability, efficiency, affordability and community/water benefits (published by Government) of delivering three waters to the community are likely to be of significant value if they can be realised.

The key opportunities our own analysis identifies include reducing the Council's current risk profile (when considered against the status quo) including compliance risk and the risk of not meeting standards.

Our analysis suggests that key risk themes are:

- Governance and structure
- Alignment between communities and their aspirations for future growth and where growth happens and when

- Unknown outcomes from a customer-centric perspective for the remaining council functions.

Risks that need to be mitigated include integration with spatial, growth and local planning and transparent prioritisation, households' ability to pay, and Council's financial sustainability.

The full analysis can be found in Attachment 5.

Transition risks are dealt with in attachment 6.

Option B - Council as a standalone deliverer of three waters

In summary, the potential benefits of this option include greater Council control and more certainty over local infrastructure integration (planning and delivery) with land use plans and council objectives.

However, Council faces increased risks over the medium term, including potentially high costs, in meeting the new water standards, environmental requirements and achieving compliance. In addition, sub-contractor availability is limited, the construction pipeline is already substantial and inflationary pressures are growing, meaning costs are rising.

The ability of non-Council water supplies to meet standards and requirements also poses a high risk to Council and the community.

These present affordability challenges for households in the future, exacerbating our current affordability challenges around rates and charges.

When Council ran these services in-house, there was underinvestment in infrastructure due to affordability constraints.

As noted above, this would require unpicking the existing Watercare contract, resourcing up and potentially sourcing a new asset management system. These are all important issues that need to be considered and come at a cost. The tight employment market and lack of qualified waters staff makes this an unviable option.

Given the Government has rejected this as a sustainable solution for three waters service delivery there should not be an expectation that the Government would be willing to financially support councils to meet the new regulations beyond existing Tranche 1 stimulus funding.

There may also be broader implications for our relationship with Government, iwi/Māori and key stakeholders.

Given the analysis to date, Council continuing to deliver the three waters as a standalone entity is unlikely to be sustainable in the medium to long term.

The full analysis can be found in Attachment 5.

Option C – Continuation of Watercare contract and partnership

In summary, the potential benefits of this option include greater Council control and more certainty over local infrastructure integration (planning and delivery) with land use plans and council objectives.

Watercare procure the contractors noting that things are tight - sub-contractor availability is limited, the construction pipeline is already substantial and inflationary pressures are growing, meaning costs are rising.

Council faces increased risks over the medium term, including potentially high costs, in meeting the new water standards, environmental requirements and achieving compliance. In addition, The ability of non-Council water supplies to meet standards and requirements also poses a high risk to Council and the community.

These present affordability challenges for households in the future, exacerbating the current affordability challenges around rates and charges..

Notwithstanding Council's contract Watercare is also experiencing workforce challenges to meet the current requirements of three waters service delivery, Government reforms and an enlarged investment programme created by stimulus funding. The challenges exist in technical skill gaps, including any risk mitigation Watercare have in place such as resource sharing, training / cadet / graduate programmes.

This option may become less sustainable if those around us move to some form of aggregated model (which could adversely affect Council's ability to deliver services should Watercare's structure change under Entity A delivery) impacting on our potential to retain and attract workers, access technical, financial or construction support, and procure cost effective contracts to deliver services and capital works.

The causes of most of these risks are not within Council's control. This makes mitigation difficult, and many potential mitigation options (such as greater investment, larger costs than currently planned, lower levels of service, compliance risk) may not be palatable to Council or the community.

Given the Government has rejected this as a sustainable solution for three waters service delivery, there should not be an expectation that the Government would be willing to financially support councils to meet the new regulations beyond existing Tranche 1 stimulus funding.

There may also be broader implications for our relationship with Government, iwi/Māori and key stakeholders.

The full analysis can be found in Attachment 5.

Option D - Council continues to deliver three waters through Watercare but at a higher level of service and investment [aspirational model]

The issues and opportunities associated with this option are broadly the same as for Watercare delivering three waters at the service levels forecast in the LTP 2021-31. This is an option that was considered through the LTP process but deemed to be unaffordable for the community.

The issues and opportunities associated with this option address compliance and statutory issues sooner than outlined in the LTP. This option, deemed “aspirational” is more aligned to best practice. There is likely better integration with Council outcomes, objectives and plans, but the costs of service provision and levels of service may change significantly over the next 30 years, causing ongoing affordability issues for households, lower levels of service and compliance risks for Council.

As in the case of the status quo (BAU):

- should one or more non-Council water supplies default to Council this would exacerbate Council’s risk profile and financial position
- if Council’s neighbours voluntarily joined a larger water services grouping or entity, we would likely experience negative impacts on Watercare’s workforce capability and capacity, on our pipeline of construction and ability to deliver cost effectively and on our ability to get professional services, advice and support.

Again, there should not be an expectation that the Government would be willing to financially support councils to meet the new regulations beyond existing Tranche 1 stimulus funding.

This presents affordability challenges for households in the future and there may also be broader implications for our relationship with Government, iwi/Māori and key stakeholders.

Option E – CCO asset owning

Under this option the entity and councils would still need to be satisfied that the changing regulatory environment was adequately provided for, including ensuring there was sufficient funding to meet legal and regulatory obligations.

However, due to scale, this option (better) addresses the risk that the size of investment required to meet new standards and community expectations is greater than forecast by individual councils;

- it enables an organisation to focus on the groups three water challenges and prioritise investment decisions across the region, which should lead to better environmental and community outcomes
- it provides for greater strategic, management and operational capacity and capability, workforce development and planning
- it enables efficiencies (in planning, programming, procurement and delivery) and should as a result reduce household costs and increase affordability.

As with the above options, should one or more non-Council water supplies default to the CCO then this would need to be funded from the group or consumers, however the risk is reduced.

There are some integration risks with spatial, growth and local planning and ensuring transparent prioritisation, the achievement of Council objectives and ensuring there is sufficient funding and that costs are affordable.

There is Council oversight and input. A statement of intent would be prepared by the CCO (and it would be best practice for the councils to prepare a letter of expectation to guide this) and half yearly and annual reports would be prepared. Councils would need to monitor the performance of the CCO. Consideration would need to be given to governance arrangements, including the involvement of iwi/Māori in both decision making and governance, and how council, community and mana whenua aspirations and needs will be met.

This option is still constrained in its ability to raise debt as the connection to council balance sheets remains under the available funding models.

There would also need to be agreement from all councils and each would need to undertake public consultation, which would take time and creates uncertainty about the outcome.

If a new CCO is to be set up this will require council(s) to use the Special Consultative Procedure (section 83 of the LGA) and arrangements (and a policy) for the appointment of directors or trustees will need to be made (as the councils appoint the “board”), as well as transition arrangements (including workforce transition), prioritisation of investment and integration with planning at the regional and local level.

Councils would need to adequately resource the establishment or transition process (if they are changing to an asset owning arrangement).

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

A key for this model would be to link the investment prioritisation with the connection to LTP, growth and development requirements. The bigger the entity, the more challenging this process becomes.

The Waikato context demonstrated a different outcome. Reports by Peter Winefield and by Cranleigh both demonstrated significant benefits from this model but ultimately it is unlikely that a Waikato CCO (incorporating all Waikato councils) is achievable based on previous experience.

4.4 TRANSITION

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

NOTE: Risks to consider could include:

- | | |
|-----------------------------------|-------------------------------|
| • Staff/Contractor Retention | • Stranded Overheads |
| • Transfer of Contracted Services | • Loss of Customer Experience |
| • Maintaining Good Quality Assets | • Resistance to Change |

- Speed of Change - an increase in mistakes
- Lack of Business Confidence
- Transition Team – would help but will require resourcing. Staff workloads
- Limited Transfer of Water Debt – reserve funds collected for water related services affecting Council's financial position.
- Development / Financial Contribution Refunds - may affect Council's charges linked to debt (including the possibility of refunds).
- Current System Unable to Cope
- Scope of Agency Service - continuing / picking up for e.g. stormwater [and / or wastewater]
- Different Local Approaches - to regional neighbours may reduce the economies of scale making regional water solutions more expensive.
- Unreasonable Economic Influence - from existing industry players
- Asset Valuation - returning a much different value than expected affecting Council's financial position
- Deferred Decision Making - development projects to stall.
- Community Uncertainty - owners continue to call Council delays in resolving faults.
- Poor Transition Management - cause delays and confusion over responsibility exposing Council to liabilities and affecting continuity of service delivery.
- Existing Contract Liabilities - Council may be liable for compensation if contractors take legal action.
- Liability for Environmental Damage - Lack of clarity for monitoring environmental impacts may expose Council to liabilities
- Loss of Asset Management Systems & Data - unclear responsibilities - loss of data or failure of systems affecting continuity of service delivery.
- Impact on Bylaws – Finding common ground across the 22 councils of Entity B is unlikely.
- Harmonisation and Price setting – This is a long-term and complex area to achieve agreement e.g. is water metering supported, is chlorinated water supported?

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

A high-level overview of what we know of the transition process is contained in Attachment 6.

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

The law currently prohibits Council's deciding to opt-in to the current proposal (given section 130 of the Local Government Act 2002 and what we know about this option at present). Current decision-making requirements, including the need to take account of community views and strategic nature of the assets involved, would also preclude Council deciding to opt-in at this time without consultation.

Similar requirements apply if the council wishes to consider alternative arrangements that involve asset transfers, divestment, change in ownership and or the setting up of a Council Controlled Organisation (CCO) to deliver water services in the future.

There are a number of issues, concerns and uncertainties for the Government and councils to work through before a robust Council decision (and decision-making process) can be produced, including whether legislative change will enable or require the Water Services Entity or CCO approach to be adopted. Therefore, there is no expectation that councils will make a decision to opt-in (or out) or commence community engagement or consultation over the eight-week period.

Councils have been specifically asked to provide solutions to three outstanding issues during the next eight weeks:

- ensuring all communities have both a voice in the system and influence over local decisions
- effective representation on the new water service entities' oversight boards, including preventing future privatisation
- ensuring integration between growth planning and water services planning.

Staff therefore request Elected Members consider the issues that arise from the Government's proposal and any potential solutions so these can be raised with Government and LGNZ before the end of September 2021.

Government decisions on entity boundaries, governance and transition and implementation arrangements will occur after the eight week-process ends (30 September 2021).

On the assumption that the reform goes ahead, it is anticipated that councils will continue to deliver water services until at least early 2024 and council involvement in transition will be required throughout.

5. CONSIDERATION

5.1 FINANCIAL

The high level financial cost implications have been considered as part of our feedback and contained within the impact assessment.

While the Government and LGNZ consider that national case for change has been made, each council will ultimately need to make a decision based on its local context.

Councils do not have a national interest test for their decision making. Councils are required to act in the interests of their communities and the community's wellbeing (now and into the future), provide opportunities for Māori to contribute to their decision-making processes, ensure prudent stewardship and the efficient and effective use of its resources in the interests of the district (including planning effectively for the future management of its assets) and take a sustainable development approach.

Council currently delivers three waters as a contracted out service with Watercare Services Limited.



Our dashboard generated by the DIA looks like this (note: it incorrectly states that our debt is zero. We have asked for this to be corrected). This dashboard and those of other councils, can be accessed on the DIA website.

The key aspects Council should note are detailed below.

Average cost per household -

- the DIA (based on several assumptions) states it is \$2,500; our council based on the 2021/22 Plan is \$2,500
- The DIA's projections with reform' in 2051 is \$1,220 and 'without reform' \$4,720 projected out to 2051 (again based on assumptions).

Council cannot replicate these inflation stripped out figures as the methodology we use relates to returning deficit reserves to zero rather than applying an inflationary factor. The long-term projection in 2031 for three waters services is approximately \$4,900 per connected property.

Debt –

- Council had difficulty remaining under our debt cap when generating the Long Term Plan 2021/31 and was unable to proceed with the aspirational option (for this and targeted rate affordability reasons).
- From the DIA modelling and analysis, it is unclear whether Councils deficit reserves (related to three waters) have been taken into account as debt.

Capital Expenditure Forecast –

- Our ten year 3 Water Capex program in our LTP is \$465 million. This represents a significant investment required over the next 10 years and out across 30 years in our infrastructure strategy, underpinned by assumptions that regulatory standards will tighten and that there will be more monitoring and enforcement in the future.
- The current LTP does not address any Capex required for meeting the proposed new drinking water standards as they were (and still are) unknown at the time of development.

Our asset maintenance budgets are adequate for today under the current drinking water standards. An increasing focus on the effects of Climate change may impact on our current budgeting assumptions.

PRIVATE/COMMUNITY/RURAL WATER SUPPLIERS - There is also the potential for Council to have to work with and potentially take over an unknown number of these water supplies if they are unable to meet quality standards and regulatory requirements.

Council has not budgeted to not comply with any change in law (and any applicable standards, rules or regulations or enforcement undertakings).

In general the Dashboard and underlying information for the next 30 years looks broadly accurate when compared with council's own information and LTP 2021-31. The DIA dashboard is representative of previous work and modelling undertaken by WDC as part of the CCO investigation between Waikato, Waipa and Hamilton Councils which were delivered in the Cranleigh Report.

While prepared at the national level, the government proposal has been peer reviewed by Farrierswier and Beca to ensure that both the modelling and underlying assumptions are reasonable in the New Zealand context. It therefore provides a reasonable indication of the “order of magnitude” of the gains that can be delivered through the new system and the level of future investment Council is likely to need to make over the next 30 years.

The outcomes are consistent with the Cranleigh report and demonstrate the benefits of aggregation.

At this stage it is not possible to fully test the projections as the standards for New Zealand out to 2051 are not known, although it is reasonable to assume that there will be greater

community and mana whenua expectations around environmental performance and quality, tougher standards to meet for water quality (drinking and receiving environment) and that monitoring, compliance and enforcement will be greater than it is now. This affects both operational and capital expenditure (costs will go up), including the number of staff (or contractors) that council will need to ensure Council outcomes for water and community and legal requirements are met.

There is always a level of uncertainty and therefore risk around assumptions and forecasts, whether prepared by us for our LTPs or by others such as Government to facilitate policy decisions, such as the current Three Waters Reform process. WDC consider that it would not be a good use of Council's limited resources to spend time and money on a detailed review of the assumptions and modelling.

Council staff have used the above dashboard and additional information, and Council plans and studies (as described above) to define the status quo option (Watercare - BAU).

To assess whether the proposed better off and no worse funding to Council (\$35.5 Million) is sufficient Council needs further information on the conditions that will be associated with that funding. For the purposes of the following analysis it is assumed that this funding would provide Council with an opportunity to address a range of issues and opportunities to improve community wellbeing in partnership with mana whenua and the communities Council serves.

As noted above, consideration is also being sought for reimbursement of the costs costs council has already invested in transitioning to the Watercare contract.

5.2 LEGAL

Part 6 of the LGA, sections 76 to 90, provide the requirements for decision making and consultation, including the principles of consultation and information that needs to be provided including the reasons for the proposal and the reasonably practicable options.

In particular, section 76 requires that in making a significant decision, which a decision on the future management and or ownership of three waters assets will be, councils must comply with the decision-making provisions. This is a 'higher bar' than the "promote compliance with" that applies for ordinary decisions.

Section 77 states that councils must seek to identify all reasonably practicable options and then assess the advantages and disadvantages of each option.

Section 78 requires that in the course of making a decision a Council must consider community views but section 78(3) explicitly says that consideration of community views does not require consultation, which is reinforced by case law.

Section 79 gives Council discretion to decide how the above Part 6 requirements are met including the extent of analysis done etc. Therefore, while a decision could be challenged, a judicial review is unlikely to be successful unless the decision made by council was manifestly unreasonable, the process was flawed or the decision was beyond its powers (as given in law, ie the council did not act within the law).

However, despite section 79 of the LGA, a decision to transfer the ownership or control of a strategic asset from the council (or to it) must explicitly be provided for in the council's Long Term Plan (and have been consulted on specifically in its consultation document).

Council's existing LTP and the consultation information and process used to develop it will not suffice to meet this test, as Council did not itself have adequate information on the options and the implications earlier this year when it consulted on the LTP. An LTP amendment and commensurate consultation process on the ownership and governance arrangements and asset transfers proposed would be necessary.

There are also provisions in the LGA that relate to unlawful decisions to sell or dispose of assets, which can be investigated by the Auditor-General.

A decision to opt-out would also be affected by the consultation and decision-making requirements set out in this report, including the need to follow a robust process that could survive a judicial review, as well as make a final decision that was not manifestly unreasonable in the circumstances.

Given the Government's

- 8 week period of engagement with mana whenua and councils
- commitment to explore issues such as council and community influence of service outcomes, integration with other reform proposals, spatial and local planning
- request for councils to give feedback on the proposal, identify issues and solutions
- and uncertainty around next steps, including whether the reform may become mandatory or legislative change will remove legal barriers to opting in it would be premature to make a decision to opt out of the reform process and may expose the Council to litigation risk.

A Government Bill to progress the reforms could address the issues raised above, for example removing the section 130 requirements has explicitly been raised.

At this stage no decision is required on future delivery arrangements. Based on the analysis in this report, Council should wait until it has further information before consulting on and/or making a decision on the Government's proposal.

It is recommended that the Council therefore notes the options canvassed in this report, the high-level analysis of them and the information and decisions that are yet to be made.

If reform is not made mandatory, to ensure sufficient information is available to meet the moral and legal requirements of Council decision-making, staff will further develop the analysis of options (based on further information from the Government, advice on next steps, and regional discussions) prior to Council decision making and consultation on future water services delivery. Whether this is ultimately required will be dependent on where the Government gets to with the reform process and the decisions it makes after 30 September 2021.

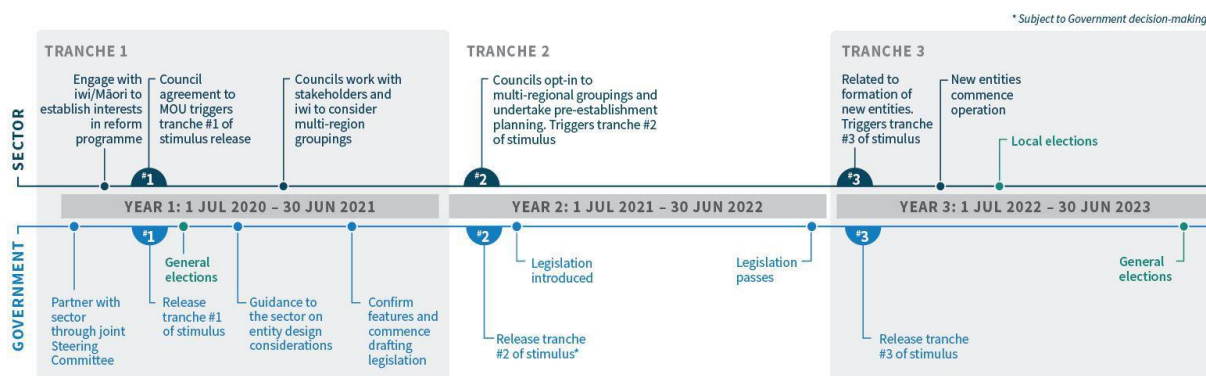
Significant risks, legal responsibility and financial implications have been identified in analysing the reform proposals and completing an analysis of options for this report. However, there is no decision required, other than to note those issues and to request further information from Government if Council needs this to reduce the risks and implications to Council and its communities. Attachment 5 considers risk further at a high level.

STRATEGY, PLANS, POLICY AND PARTNERSHIP ALIGNMENT

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

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

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



Also in July 2020 the Government announced an initial funding package of \$761 million to provide a post COVID-19 stimulus to maintain and improve water three waters infrastructure, support a three-year programme of reform of local government water service delivery arrangements (reform programme), and support the establishment of Taumata Arowai, the new Waters Services Regulator. Council was successful in securing \$11.34 million of this stimulus funding.

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

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

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

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

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

whenua and community aspirations (such as greater investment required than currently planned, risk of enforcement action).

The government has imposed the water reform requirements on local government. Our feedback to council continues to be based around the options and considerations of continuation of the Watercare contract (BAU), upgrading service levels through the Watercare contract, returning to a council run model, joining Entity B and forming a Council Controlled Organisation to deliver water services to the community.

Watercare are currently contracted to provide water services to WDC. The proposed water reform potentially impacts on Watercare's capability to provide future service to WDC under BAU. Watercare, as a CCO of Auckland City, may be required to transform into another entity dependant on Auckland Council's reform position or the requirement of Government should they mandate change and continue to put Auckland Council into Entity A.

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

5.3 ASSESSMENT OF SIGNIFICANCE AND ENGAGEMENT POLICY AND OF EXTERNAL STAKEHOLDERS

(Ascertain if the Significance & Engagement Policy is triggered or not and specify the level/s of engagement that will be required as per the table below (refer to the Policy for more detail and an explanation of each level of engagement):

Highest levels of engagement	Inform <input checked="" type="checkbox"/>	Consult <input checked="" type="checkbox"/>	Involve <input checked="" type="checkbox"/>	Collaborate <input checked="" type="checkbox"/>	Empower <input type="checkbox"/>
<i>Tick the appropriate box/boxes and specify what it involves by providing a brief explanation of the tools which will be used to engage (refer to the project engagement plan if applicable).</i>	Senior Staff, Water Governance Board and the Mayor and Councillors have all attended workshops where the Water Reform and options have been presented, LGNZ impact assessment was presented and the draft letter to DIA containing feedback has been developed.				

State below which external stakeholders have been or will be engaged with:

Planned	In Progress	Complete	
		Complete	Internal
			Community Boards/Community Committees
			Waikato-Tainui/Local iwi
			Households
			Business
		Complete	Water Governance Board

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

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

The issues covered in this paper are important for Māori. The Crown is currently leading the engagement with iwi/Māori, mana whenua. Council has not yet engaged with any of our stakeholders including Iwi on the basis that there is no clear picture about what the engagement would be about.

Council is not required to consult at this time. Further advice regarding any future consultation requirements will be provided after September 2021. In the interim Council has placed a high level overview of the government's intentions and programme on the Waikato District Council Website including links to the DIA for current and more detailed information. Attachment 1 – 2020 Background (including Taumata Arowai information and Indicative Reform Programme)

6. CONCLUSION

While there is uncertainty about the future steps in the Government's reform proposal, and current legislative impediments to it, the current eight-week period gives Council the opportunity to understand the information it has received (and will continue to receive) from the RFI and modelling processes.

It also provides an opportunity for Council to understand its potential options, including the financial, workforce and sustainability impacts for Council and the wider economic, social and cultural implications of each option, using the guidance that has been issued. It also provides and opportunity to engage in discussions with other councils in its entity grouping, share information and ask questions and propose solutions to issues it sees to Government and LGNZ.

There are still several issues that need to be resolved, including:

- the final boundaries
- protections from privatisation
- consultation with mana whenua and communities
- how will the community voice be heard and what influence will local authorities have (and what can the community realistically expect the council to influence particularly if it is not on the regional Representation Group)
- representation from and on behalf of mana whenua
- integration with other local government reform processes
- integration with spatial and local planning processes and growth
- prioritisation of investment
- workforce and capability – we don't have enough of the right people now to deliver three waters and we need to retain our people through the transition

- what will a Government Bill cover and whether the reform will be mandatory
- conditions associated with the Government's package of funding for local government
- transition arrangements, including our own workforce challenges (without transition challenges on top) and due diligence for asset transfers etc.

Council was invited to discuss whether there are specific information needs, issues or solutions that the Council would like staff to convey to the DIA or LGNZ. This is being conveyed through the Entity B Working Group of the which the Mayor is a participant and via WDC's feedback letter.

All of this information will be useful to inform future decision making by both council and Government and consultation and engagement with mana whenua and communities. Council has a good understanding of the implications involved under the various scenarios involved in the water reform proposal. The council feedback letter provides government with our concerns and areas in which we would like further information.

Our specific feedback centres on

- a) People
- b) Local Focus
- c) Affordability and sustainability
- d) Safe water services
- e) Customer focus
- f) Iwi co- governance
- g) Governance
- h) Transfer of assets and ownership of Entity B

The recommendations of the WGB are noted as are the requirements that under water reform, council must do all it can to enhance Te Tiriti partnerships including recognition and fortification of existing treaty settlement mechanisms. Specifically, Te Ture Whaimana and joint management provisions.

Any decision around three waters reform must not disenfranchise the local region.

7. ATTACHMENTS

Attachment 1 – 2020 Background (including Taumata Arowai information and Indicative Reform Programme) Draft Letter to DIA

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

Attachment 3 – DIA two-page summary

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

Attachment 5 – Options analysis

Attachment 6 – Transition

Attachment 7 – Feedback letter to DIA

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

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

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

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



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

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

In line with Government policy, Taumata Arowai became a new Crown entity in March 2021 and will become the dedicated water services regulator when the Water Services Bill passes,

expected to be in the second half of 2021 (the Select Committee is due to report back on 11 August 2021). They will oversee and administer, and enforce a new, expanded and strengthened drinking-water regulatory system, to ensure all New Zealand communities have access to safe drinking water. They will also provide oversight of the regulation, management, and environmental performance of wastewater and storm-water networks, including promoting public understanding of that performance.

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

Taumata Arowai will have the authority to prepare standards and rules that water suppliers (such as councils) must comply with. Their [initial working drafts](#) are available online⁸ and are currently being updated. Consultation will occur later this year. Guidance to support the operational compliance rules is also being developed and will be available when the rules are consulted on.

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

- Water Services Bill obligations of local authorities

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

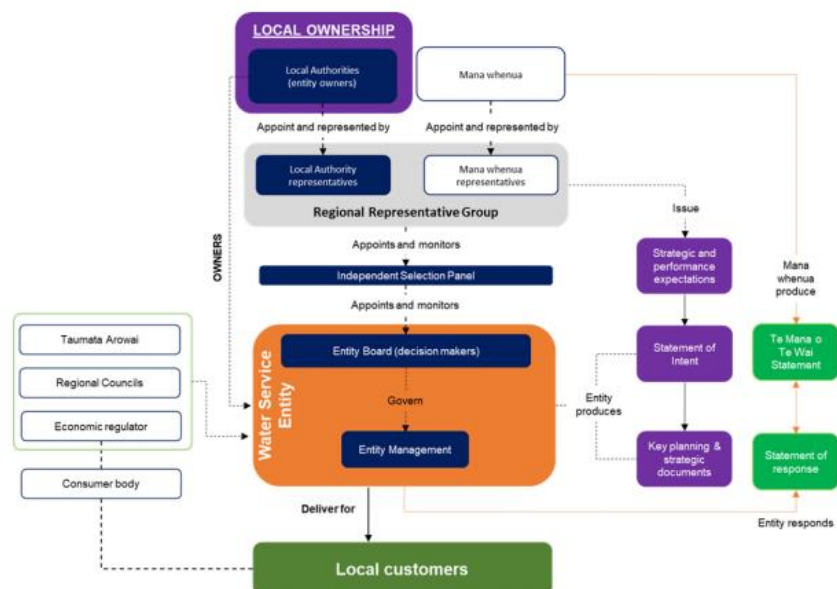
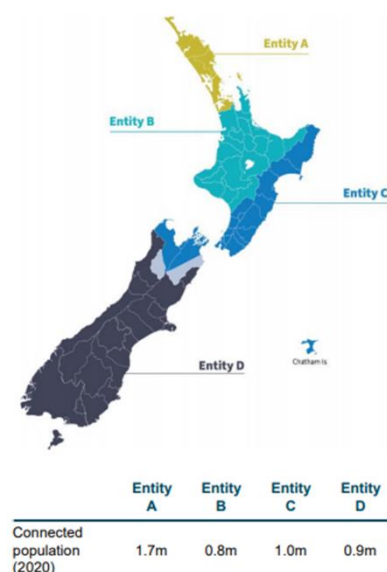
⁸ www.taumataarowai.govt.nz/for-water-suppliers/

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

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

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

10. The four entities and their proposed boundaries (which may yet change) and the proposed structure for the system are as follows:



Attachment 3 – DIA two-page summary

A new system for three waters service delivery

DIAGRAM 1

JUNE 2021

1. A CASE FOR CHANGE

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

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

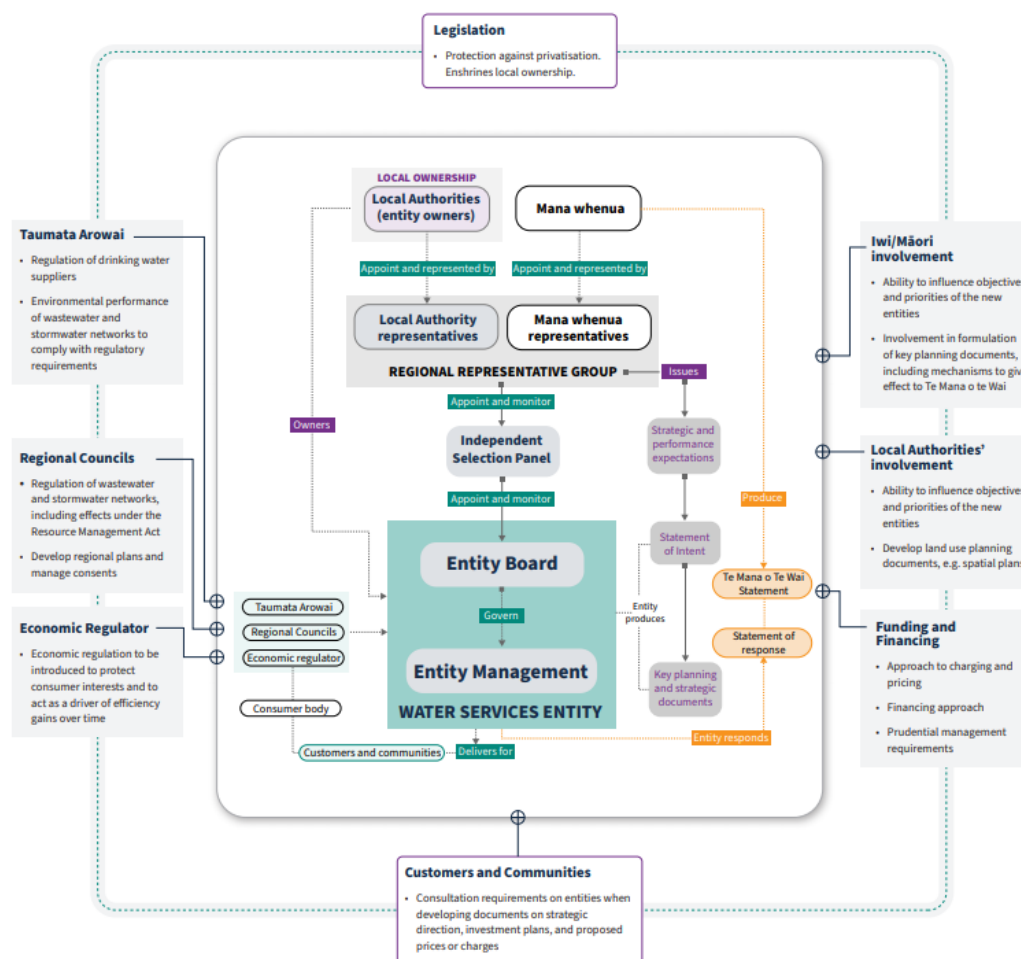
Government also wants to ensure it delivers on Treaty-related obligations, including by improving outcomes for iwi/Māori in relation to three waters service delivery.

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

2. KEY DESIGN FEATURES

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

3. A NEW WATER SERVICES SYSTEM



4. OBJECTIVES FOR THE CROWN/MĀORI RELATIONSHIP

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

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

5. A PARTNERSHIP-BASED REFORM

Government will continue to work in partnership with iwi/Māori and local authorities.

A large scale communication effort is required to ensure local government support reform.

Further decisions are yet to be taken by Cabinet on the arrangement for transition to, and implementing, the new system.

A new system for three waters service delivery

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

DIAGRAM 2

JUNE 2021

1. FACTORS CONSIDERED TO DETERMINE NUMBER AND BOUNDARIES

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

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

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

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

2. PROPOSED BOUNDARIES

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

1 South Island entity

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

2 Taranaki region

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

3 Hauraki Gulf

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

The map highlights the recommended boundaries.

3. OUR INTENTION IS THAT ALL COMMUNITIES BENEFIT FROM REFORM

Latest estimates indicate that the amount of investment required to:

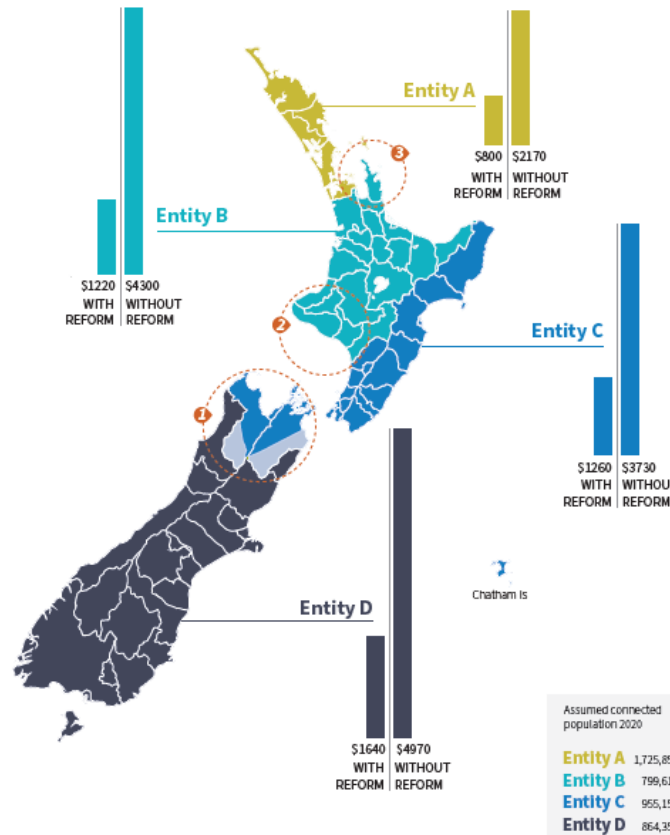
- provide for future population growth
- replace and refurbish existing infrastructure
- upgrade three waters assets to meet drinking water and environmental standards

is in the order of

\$120 billion to \$185 billion

over the next 30 to 40 years.

4. PROJECTED HOUSEHOLD COSTS 2051



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

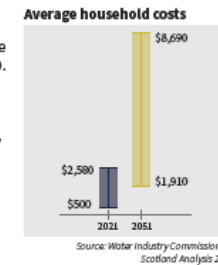
A weighted average figure is presented for household bill estimator without reform, to account for the wide variance between council pricing policies. This weighted average figure reflects the proportion of the connected population that resides in each council area relative to neighbouring councils within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

5. POTENTIAL IMPACTS

Difference in household costs

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

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



Current household costs

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

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

Source: Water Industry Commission for Scotland Analysis 2021

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

Potential economic impact of reform

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

Change relative to counter-factual, 2022-2051

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

Source: Deloitte Three Waters Reform Economic Impact Assessment 2021

- LGNZ two-page summary

THREE WATERS 101.

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

1. What's the problem?

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

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

- Significant investment needed in water infrastructure
- Councils can't carry future costs
- The current system lacks:
 - Economic regulation
 - Consistent data collection
 - Enforcement of standards

2. Government's proposed solution

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

It proposes changing the whole system:

- A new water regulator called Taumata Arowai
- A smaller number of large, specialist water service entities
- Water services are delivered on a significantly larger scale
- Water entities remain publicly owned
- Water services providers meet standards or face significant penalties for noncompliance
- Entities have strong strategic links to councils and mana whenua

3. Impact on councils

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

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

- Three waters kaitiakitanga focus
- Water-related debt removed from balance sheet
- Increased capacity to borrow to fund community services

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

We are. LGNZ.
Te Kāhui Kaunihera ō Aotearoa.

LOCAL GOVERNMENT CAN HELP SHAPE THREE WATERS REFORM.

**We are.
LGNZ.**
Te Kāhui Kāunihara & Aotearoa.

What's important to the sector in this reform?

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

LGNZ is working for councils

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

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

What the sector needs from central government

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

Find out more

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

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

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



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

1. On 15 July, in partnership with LGNZ under a [Heads of Agreement](#)⁹, the Government announced a package of \$2.5 billion to support councils to transition to the new water entities and to invest in community wellbeing.
2. The **‘better off’ element**: an investment of **\$2 billion** into the future for local government and community wellbeing.
 - The investment is funded \$1 billion from the Crown and \$1 billion from the new Water Services Entities. \$500 million will be available from 1 July 2022. The funding has been allocated to territorial authorities (which includes unitary authorities)¹⁰ on the basis of a nationally formula that takes into account population, relative deprivation and land area.
 - The funding can be used to support the delivery of local wellbeing outcomes associated with climate change and resilience, housing and local placemaking, and there is an expectation that councils will engage with iwi/Māori in determining how to use their funding allocation.
3. The **‘no council worse off’ element**: an allocation of up to around \$500 million to ensure that no local authority is in a materially worse position financially to continue to provide services to its community as a direct result of the reform.

- This element is intended to ensure the financial sustainability of councils and address reasonable costs and financial impacts associated with the transfer of assets, liabilities and revenues to new water services entities.
 - Up to \$250 million is available to meet the unavoidable costs of stranded overheads and the remainder for other adverse impacts on financial sustainability of territorial authorities (including future borrowing capacity).
 - Of this \$250 million, up to \$50 million is allocated to Auckland, Christchurch and Wellington Water councils, the remainder is available to other councils.¹¹ This funding is not available until July 2024 and is funded by the Water Services Entities.
4. Council’s funding allocation is \$36,531,126 made of \$31,531,126 as the allocated share for “better off” element and \$5,000,000 as the allocated share for “no council no worse off” element. WDC will also be seeking an additional payment to recover the costs incurred by being ahead of the reform process with water service delivery being transitioned to Watercare Services Limited.
 5. The package is in addition to the \$296 million announced in Budget 2021 to assist with the costs of transitioning to the new three waters arrangements. The Government will “meet the reasonable costs associated with the transfer of assets, liabilities and revenue to new water services entities, including

9

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

¹⁰ Please note that any allocation to Greater Wellington Regional Council (the only regional council affected by the proposed changes) is not clear at this stage.

¹¹ Due to their size and in the case of Wellington Water and Auckland’s WaterCare having already transferred water service responsibilities (to varying degrees)

staff involvement in working with the establishment entities and transition unit, and provision for reasonable legal, accounting and audit costs.”¹²

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

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

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

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

Attachment 5 – Options analysis

Option A - Government Proposal -Entity B

Key Threat Risks:

	Description	Inherent	Possible Mitigation	Target
1	Compromised Growth Plan Implementation	High	Regulation to give effect to Council land use planning.	Moderate
2	Household Ability to Pay	Moderate	Economic regulation	Low
3	Gaps in Service Delivery and Funding Responsibilities	Moderate	Agencies required to participate in development of regional spatial plans.	Moderate
4	Increased Cost of Works	High	Key supplier partnerships.	High
5	Increased Incident Response Time	High	CDEM Coordinated Incident Management System	Moderate
6	Vague Growth Objectives/Lack of strategic Direction	Extreme	Spatial plan	Moderate
7	Lack of Programme Coordination	High	Robust programme planning	Low
8	Limited Technical Capability	High	Professional development pathway	Moderate

Key Opportunity Risks:

	Description	Inherent
A2	Reduced Council Risk	Extreme
A4	Better Long Term Outcomes	High
A6	R&D Funding Opportunities	High
A19	More Efficient Water Use	Med

Ref	Type	Risk Description	Inherent Impact	Inherent Likelihood	Inherent Risk	Possible Mitigations	Target Impact	Target Likelihood	Target Risk
	Threat	Compromised Growth Plan Implementation Due to loss of control over Major strategic asset, communities may not be able to give effect to growth plans (eg Long Term Plan integration) or adapt timing of developments delaying economic growth opportunities.	Major	Likely	High	Regulation to give effect to Council land use planning.	Moderate	Likely	Low
	Opportunity	Council Risk Reduced Because Council is no longer responsible for water service deliver there may be risk capacity available to enable other activities to be performed.	Moderate	Possible	Low	Council risk appetite increases	Moderate	Unlikely	Low
	Threat	Household Ability to Pay Independent agencies (i.e. Water, Power, Council) passing on costs of higher compliance obligations (e.g. increase in water service standards or environment adaptation related costs such as carbon counting) based on lack of understanding of other cost overheads may result in total household costs that are beyond the householders ability to pay (including Council rates) adversely affecting community social and economic wellbeing.	Major	Likely	High	Economic regulation includes a level of inflationary control.	Moderate	Possible	Low
	Opportunity	Better Long Term Outcomes Due to the scale and mandate of water agencies they have the potential to delivery better long term outcomes (aka step change Asset Management Planning as seen in electricity sector).	Major	Likely	High	Greater access to resources and ability to deliver at speed	Moderate	Likely	Low

	Threat	Gaps in Service Delivery and Funding Responsibilities Due to multiple agencies involved in delivery of interrelated services there may be gaps between the responsibility of the various agencies (particularly storm water) resulting in lack of funding or ownership of the customer experience (customer ends up being passed around in circles).	Major (25% - 50% service level impact)	Likely	High	Agencies required to participate in development of regional spatial plans.	Major	Possible	Medium
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Continuation of Watercare Contract and Partnership

Ref	Type	Risk Description	Inherent Impact	Inherent Likelihood	Inherent Risk	Possible Mitigations	Target Impact	Target Likelihood	Target Risk
	Threat	Watercare Disestablished Watercare unable to continue to provide services to WDC due to change in their structure as part of their involvement in Entity A	Major	Likely	High	Find an alternative provider.	Major	Likely	High
	Threat	Financial Sustainability Increased cost operation (to meet best practice) or need to refund Government funds may require unacceptable rates increases affecting Council's financial sustainability and/or reducing the funding available for other Council services.	Major	Likely	High	Reduce spending in other areas.	Major	Likely	High
	Threat	Lack of Technical Skills Due to the relatively small scale of the water industry it may not be possible to attract or retain people with the required competency resulting in failure to achieve the required service standards.	Major	Likely	High	Watercare provides a professional development pathway	Major	Likely	High

Threat	Unable to Leverage Economies of Scale Not being part of the regional water agency may mean Council is unable to access the same level of funding or expertise resulting in substandard services.	Major	Likely	High	Strategic partnerships	Major	Possible	High
Threat	Lack of Water Sector Support Few Council's delivering water services - Council may become isolated and unable to access adequate support (technical, financial or construction) causing failure to deliver the required services.	Major	Likely	High	Stranded Island, spot light from regulator	Major	Likely	High
Threat	Excessive Development Contributions The higher cost of service delivery may cause Development /Financial Contributions to become very high restricting regional growth	Major	Likely	High	No mitigations identified.	Major	Likely	High
Threat	Inability to Attract Business Commercial operators may consider the water supply as less secure and decide not to locate industry here adversely affecting economic growth.	Major	Likely	High	Use Waikato 2070 and Future Proof as evidence of council commitment to growth and development.	Moderate	Likely	High
Threat	Compliance Failure Because of the significant increase in water standards Council may not be able to meet the new requirements resulting in liability/prosecution and/or loss of Governance control (Commissioner being installed).	Major	Likely	High	Reduce funding in other areas to reallocate to three waters.	Major	Likely	High

Attachment 6 - Transition

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

DRAFT TRANSITION RISK/PESTLE ASSESSMENT –

Our Goals is: our regional communities continue to receive water services without disruption during the transition, the risks (threats and opportunities) for moving Council services, assets and data to Entity B

The following benefits of reform are taken from information published by the Department of Internal Affairs:

- Greater financial capability
- More efficient providers
- Cost sharing across communities
- Improved outcomes for communities – affordable way to meet costs of water services now and into the future.

The following risks have been identified:

Threat Risks:

No	Description	Inherent	Possible Mitigation	Target
1	Staff/Contractor Retention	Medium	Attractive employment contracts	Medium
2	Stranded Overheads	High	Alternative funding or restructure overheads	Medium
3	Loss of Customer Voice	Medium	Advocating for community outcomes	Medium
4	Resistance to Change	Medium	Education programme	Low

5	Speed of Change	High	Change management programme.	Medium
6	Lack of Business Confidence	Medium	Public relations campaign	Low

Opportunity Risks:

	Description	Inherent
7	Maintaining Good Quality Assets	Medium
8	Transition Team	High

Risk [Appetite] Assessment:

The risk in transition is much greater than the risk profile for operation once entities are established and operating. Many of the causes for the transition risks are outside Council's control, so minimal mitigation is possible.

- Work proactively with the Government in the development of the framework
- Work collaboratively with other group members, Taituarā, LGNZ, iwi/Māori and partners
- Understand Impact on Watercare Service Limited in delivering service under their transition in Entity A
- Ensure forward planning caters for any possible delays in transition, and
- Adapt quickly and efficiently to handle new obligations that might arise.

Ref	Type	Risk Description	Inherent Impact	Inherent Likelihood	Inherent Risk	Possible Mitigations	Target Impact	Target Likelihood	Target Risk
T1	Threat	Staff/Contractor Retention Due to greater employment opportunities presented by water agencies there may be a loss of key Watercare or contractor staff, or an inability to recruit new technical staff reducing Council's ability to plan or deliver infrastructure projects.	Major (Partial failure)	Probable	Extreme (36)	Attractive employment contracts. Keeping staff informed.	Major	Likely	High
T2	Opportunity	Easy Transfer of Contracted Services Because Council outsources operational service delivery it may be easier to transition service delivery to an Agency without significant service disruption or staff impacts.	Major (benefit multiple communities)	Probable	Extreme	Continue BAU up to day of transition	Moderate	Likely	Low
T3	Opportunity	Maintaining Good Quality Assets By maintaining infrastructure investment it may be Possible to reduce the transition impacts on the community.	Major (benefit multiple communities)	Probable	Extreme	WDC continue to invest in infrastructure	Major	Likely	Low
T4	Threat	Stranded Overheads Because the WDC overheads will not change significantly after divestment of water services the cost of other services may be impacted by the redistribution of overhead costs	Major	Almost Certain	Extreme	Alternative funding through "no worse off" payment and/or restructure support overheads	Major	Likely	High
T5	Threat	Loss of Customer Experience Because of the scope of change community voice may be lost affecting customer experience and relevance of services delivered.	Major (Trust recovery requires sig investment)	Likely	High	Advocating for community outcomes	Major	Likely	High

T6	Threat	Resistance to Change Public or Council resistance to change may cause delays in transferring to Agency service delivery affecting Council's ability to maintain current service levels.	Major (Partial failure)	Likely	High	Education programme	Major	Likely	High
T7	Threat	Speed of Change Because of the speed of change an increase in mistakes may occur causing service interruptions or significant delays in achieve centralisation benefits.	Moderate (reduced LOS to part of community)	Probable	High	Change management programme.	Moderate	Possible	Medium

Ref	Type	Risk Description	Inherent Impact	Inherent Likelihood	Inherent Risk	Possible Mitigations	Target Impact	Target Likelihood	Target Risk
T8	Threat	Lack of Business Confidence Uncertainty within the business community over responsibility for water services may lead to a lack of confidence in regional water supply resulting in business relocating other regions.	Moderate	Probable	High	Appropriate governance and WDC representation within Entity B to enable local voice	Moderate	Probable	High
T9	Opportunity	Transition Team A dedicated transition team may be able to ensure a positive outcome for the region.	Major	Possible	Medium	NOTE: Mitigation for Independent Agency Service Model risks. may impact on existing staff	Moderate	Possible	Medium
T10	Threat	Asset Valuation Asset valuation process may return a much different value than expected affecting Council's financial position	Moderate	Likely	Medium				
T11	Threat	Deferred Decision Making Due to lack of clarity about the future significant infrastructure decisions may be deferred causing development projects to stall.	Moderate	Likely	Medium				
T12	Threat	Community Uncertainty Confusion within the community may mean property owners continue to call Council to resolve water related issues resulting in complaints and delays in resolving faults.	Moderate	Likely	Medium				

T13	Threat	Development Contribution Refunds The change in responsibility for construction of water assets may affect Council's development contribution charges linked to debt (including the Possibility of refunds) reducing funding available.	Moderate	Possible	Medium				
T14	Threat	Poor Transition Management A lack of investment or un-anticipated complexity in transitioning assets (i.e. transferring legal titles) to a Water Agency may cause delays and confusion over responsibility for service delivery exposing Council to liabilities and affecting continuity of service delivery.	Moderate (Adverse exposure for non-compliance)	Possible	Medium				
T15	Threat	Liability for Environmental Damage Lack of clarity for monitoring environmental impacts may expose Council to liabilities	Moderate (Medium term impact)	Possible	Medium (8)				
T16	Threat	Asset Valuation Asset valuation process may return a much different value than expected affecting Council's financial position	Moderate	Likely	Medium				
T17	Threat	Deferred Decision Making Due to lack of clarity about the future significant infrastructure decisions may be deferred causing development projects to stall.	Moderate	Likely	Medium				

T18	Threat	Community Uncertainty Confusion within the community may mean property owners continue to call Council to resolve water related issues resulting in complaints and delays in resolving faults.	Moderate	Likely	Medium				
T19	Threat	Development Contribution Refunds The change in responsibility for construction of water assets may affect Council's development contribution charges linked to debt (including the Possibility of refunds) reducing funding available.	Moderate	Possible	Medium				
T20	Threat	Poor Transition Management A lack of investment or un-anticipated complexity in transitioning assets (i.e. transferring legal titles) to a Water Agency may cause delays and confusion over responsibility for service delivery exposing Council to liabilities and affecting continuity of service delivery.	Moderate (Adverse exposure for non-compliance)	Possible	Medium				
T21	Threat	Liability for Environmental Damage Lack of clarity for monitoring environmental impacts may expose Council to liabilities	Moderate (Medium term impact)	Possible	Medium				
T22	Threat	Impact on Bylaws Water Agency powers may affect Council bylaws rendering them ineffective or creating conflicting obligations.	Min (Attend of local group)	Possible	Low				

T23	Threat	Limited Transfer of Water Debt The assessment of Council water service debt may include reserve funds collected for water related services affecting Council's financial position.	Major	Possible	Medium	Council ensures financial separation amongst council activities and budgets	Moderate	Possible	Medium
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Attachment 7 – Feedback Letter

30 September 2021

Allan Prangnell
Partnership Director, Three Waters Review
Department of Internal Affairs
PO Box 805
WELLINGTON 6140



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Dear Mr Prangnell

The following feedback from Waikato District Council (WDC) is based on workshops involving the Waters Governance Board, Mayor and Councillors, the Chief Executive and Senior Staff.

WDC provides this feedback on Water Reform on the basis that it does not commit WDC to any position. WDC's feedback is based on the information that we have. WDC requires additional material and information to enable a full assessment of the proposal. We are also conscious that our community needs to be consulted and that local engagement has yet to be completed.

That said, WDC is always looking forward and encouraging innovation. We foresaw that change in the delivery of water services was necessary and this was achieved through our partnership with Watercare. WDC recognise that rising standards and regulation, our responsibilities under the Treaty of Waitangi, Te Ture Whaimana (the vision and strategy for the Waikato River) and the desire to improve the quality of waterways requires further investment. The proposed Water Reform proposal supports the path that WDC started with Watercare, and that Entity B potentially builds from.

WDC recognises the benefits of aggregation through Entity B on the proviso that the reform (without limitation):

- must recognise and enhance Te Tiriti partnerships and include appropriate recognition and fortification of existing treaty settlement mechanisms including Te Ture Whaimana and joint management provisions.
- must not disenfranchise the local region.

WDC support for water reform is borne from our own experiences with transitioning services to Watercare Services Limited. This transition has seen benefit and improvement to the levels of service delivery to the communities that WDC serve.

We would welcome the opportunity for Central Government to meet with the Waters Governance Board for the purposes of highlighting the benefits that we have experienced with our relationship with Watercare.

Our specific feedback centres on:

- a) People
- b) Local Focus
- c) Affordability and sustainability
- d) Safe water services
- e) Customer focus
- f) Iwi co- governance
- g) Governance

h) Transfer of assets and ownership of Entity B

The bold items are of particular interest and emphasised as non-negotiable considerations, should the reforms proceed.

PEOPLE

- **All water staff in councils are offered permanent employment in the Water Entity (including Watercare Waikato staff whom the majority are former WDC staff)**
- Employment terms must be at least as good as existing terms and conditions
- Retention payments may need to be considered and funded to retain key staff
- WDC obtain an agreement that X% of water staff in the Entity B workforce live and work in the WDC area or areas around our boundary (e.g. a number of staff live in Hamilton City and some in Auckland).
- Change Management. WDC would like to understand how Entity B would propose to manage a transition from Council to Entity B.
- The new entities are likely to recruit people from the industry and local councils could lose people to the new entity during the transition period and not have enough staff to carry out BAU.
- Watercare, and its operational capacity and capability, provide us with the improved position we have right now.

LOCAL FOCUS

- **Water is a key tool for shaping how communities develop and grow – How will work programmes reflect the needs and commitments of local councils? We are a growth council with well-formed workplans and infrastructure requirements. We need certainty through this process that we can meet our community aspirations and commitments.**
- **What safeguards are in place that, over time, WDC's growth aspirations are maintained and supported by Entity B and not watered down through the demands placed on resource from other councils?**
- **With only six voices on the Regional Representative Group, how would councils/communities' issues and priorities get heard? WDC has concerns about how we would get heard when we would be just one voice amongst many. If the Water Services Entity (WSE) is not located in our district, how would the WSE have a sense of local need?**
 - Who will consumers provide feedback or complaints to when something goes wrong?
 - How do we influence decisions that we feel are important, such as what we're going to do in what year, in in one locality?
 - How do we influence investment where we need it?
 - How do communities influence performance expectations?
 - How do you ensure flexibility and ability to respond with changing needs?
 - How will the WSE have informed discussions with communities?

- How will the WSE prioritise when faced with competing demands from 22 different councils and communities?
 - How will consumers influence the WSE re service delivery?
 - How does the consumer voice get heard?
 - How will the WSE accommodate differing levels of service delivery required by different communities?
- There are concerns about how the local voice will be heard in the proposed structure and how priorities for investment will be determined.
 - A District Social Action Plan should be created that ensures a direct link to the community wellbeing in the District
 - Local Input. Offices/depots/Staff/contractors should be sourced, at least in part, from within the WDC district. WDC would like local to be referenced as the district boundary of the local council not the region nor the area within the Entity B boundary.

AFFORDABILITY AND SUSTAINABILITY

- **Deliver a price path in line with or lower than our Long Term Plan budgets.**
- **WDC's Level of service is improving but the ultimate level of service is unaffordable to our community. As a result, we accepted a lower level of service as shown in our LTP 2021-31. WDC recognises that there needs to be change, we are already on that journey by partnering with Watercare through a contractual agreement.**
- **WDC would like an undertaking from Entity B that water assets would be maintained to at least the standard they are transferred to the Water Entity**
- Affordability of three water services remains a challenge for all concerned. Whilst the WICS's figures look attractive, will the assumptions behind them prove to be real and what happens to the model should other councils in Entity B opt out? What are the mitigations should the representations not meet with reality?
- The proposed tariff pricing for the delivery and utilisation of water services to the WDC ratepayer through Entity B has yet to be provided. WDC would like to understand the impact on the ratepayer through the proposed water tariff over the next ten years including those who currently don't pay for water services but who may through small water scheme regulation and compliance.
- We understand the intention to establish an economic regulator but don't understand what the role will entail. In some circles it has been likened to the role the Electricity Authority plays in the electricity sector but there are also varying opinions on how successful that body has been.
- Deliver efficient water services. We would like to understand further how efficiencies in water service delivery will be implemented.
- Continue to build relationships to support the effective management of water resources
- WDC wishes to understand further how Entity B will take a whole of catchment view and ensure the health and wellbeing of the Waikato River under Te Ture Whaimana, the transfer of water assets and associated debt to Entity B in the manner prescribed by the water reform process needs to be ratified by WDC ratepayers.

- How will existing Development Contributions commitments be honoured. Development Contributions are paid to Councils for provision of water services that would now be provided by the WSE. In addition, provision needs to be made for some form of development contribution once the new WSEs are established.
- How does the WSE envisage the potential disconnect between the timing of services provided by the WSE and residual service provision remaining with Councils will be managed?
- WDC would like to understand the impact on water reform from a customer centric perspective. Can the DIA please indicate what analysis has been completed on the cost that water reform will have on ratepayers, with ratepayers likely to receive two invoices, one for council delivered services and another for water. Will the aggregate of these invoices be more or less than currently charged to the ratepayer under one invoice?
- Manage growth in a sustainable way and future-proof the communities of Entity B.
- How will the WSEs measure performance and give councils and the community confidence that any reform process has been successful?
- How will the WSEs make decisions on infrastructure investment and levels of service bearing in mind the need to ensure consumer and business affordability?

SAFE WATER SERVICES

- **It is fundamental that Entity B must provide safe water**
- Achieve regulatory compliance
- Manage safe facilities and workplaces
- Watercare provide water services to WDC. However, with Auckland in Entity A and Watercare being a CCO of Auckland Council, WDC are unsure how transformation and transition of Entity A and B will be affected and impact water service delivery as usual from Watercare to WDC.

CUSTOMER

- We support an economic regulator to ensure our District customers are provided value in water services
- Provide an ombudsman framework for the customer to have a voice and escalate complaints against the Water Services Entity.
- Achieve satisfactory customer outcomes

IWI CO-GOVERNANCE

- **A clear commitment that under Entity B, that our responsibilities under the Treaty of Waitangi and Te Ture Whaimana are met. Reports from Watercare consider these important matters as part of the decision-making framework we currently use.**
- In the Waikato District and surrounds, it is essential the parties are committed to ensuring there is strong alignment with the vision and strategy for the Waikato River (Te Ture Whaimana) in line with the Waikato-Tainui Raupatu Claims (Waikato River) Settlement Act 2010.
- The feedback WDC have had from Iwi and manu whenua is there hasn't been enough consultation. Effective consultation with Maaori takes time and effort. DIA were prompted by

WDC on this at the beginning of their consultation with councils last year, but the advice doesn't seem to have been heeded.

- Entity B has the most iwi groups of all the four proposed entities. We are not clear on the alignment of Entity B boundaries to iwi and mana whenua rohe.

GOVERNANCE

- **The governance arrangements leave councils and mana whenua out of decision making and unclear how much they will be able to influence what gets done. Our understanding from discussions with mana whenua is that they are unhappy about the proposed governance arrangements.**
- **The current governance structure supports the Entity Board making decisions. It is unclear how much influence councils and mana whenua will have. Councils and mana whenua have the connection to the local community and therefore reflect the local voice.**
- The decisions about the selection of Entity Board members must be made based on the best person for the job.
- WDC believe the use of an Independent Selection Panel is an unnecessary layer of complexity and should be eliminated. The Regional Representative Group should make the appointments to the Entity Board.
- Councils and mana whenua need a structure that will facilitate decision making and enable priorities to be clearly determined. The proposed structure is unclear about how it will enable that to happen.
- Perhaps the simplest approach is to establish the entities as CCOs. This does present some other challenges such as debt caps (if one shareholder has more than a 50% shareholding). This and other challenges could potentially be addressed through legislation.
- Councils need an ability to ensure local interests are considered, growth aspirations are catered for and LTP commitments are met. Along these lines, a Letter of Direction from the Regional Representative Group might be an effective means of establishing priorities.

TRANSFER AND OWNERSHIP OF ENTITY B

- The "ownership" of Entity B without shares or recognition of capital provided by asset transfer is outside of traditional market sale and purchase practise. WDC would like to seek further understanding of the model and how the removal of water assets from WDC's balance sheet is reflected in the "no worse off" compensation component provided back to WDC. It would appear on the surface that WDC does not receive the full value of its water assets under the asset transfer to Entity B.
- As an "owner" without a representative at the board, how would WDC ensure that its growth aspirations and supporting infrastructure set out in its LTP form part of the considerations of the Entity B Board.
- The whole "ownership" concept is unclear. Councils will hold no equity, no assets and have limited ability to influence what work the entity does.

Other Matters

Seeking recompense for investment made in reform - First mover disadvantage:

WDC has taken a front foot to getting better outcomes in three waters ahead of the reform process. When undertaking the LGNZ Impact Assessment there is measurable difference in comparison to other councils (source comparison scoring information from Entity B Tuhura Partners) with the progress WDC has made with its partnership with Watercare.

An example of progress made is Meremere WWTP where an abatement notice was in place from the Waikato Regional Council for non-conforming discharge. Within two years, from a standing start, Watercare has renewed the resource consent for 35 years; and procured and built a high tech MBR plant which brings the plant in to compliance and allow for expected growth in the catchment.

It appears WDC could access the 'no worse off' component of funding from the WSE, post 1 July 2024. Some recognition and guarantee of WDC community investment in being ahead of the other Councils is requested. Should the reforms proceed, WDC would seek reimbursement of the costs faced to transition to Watercare over and above the standard "no worse off" payment.

Debt

WDC requires assurance that repayment of waters debt includes all debt and not just external borrowings. I.e. internal loans, deficit waters reserves.

Equity

WDC would like to ensure there is equity between councils in terms of the "no worse off" payments and that councils do not restructure their debt levels or asset base to take advantage of the reform process.

Ability to keep operating

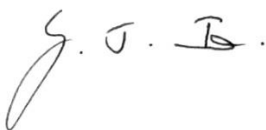
WDC has a unique concern, in that we need to ensure that Watercare has the ongoing capability to provide contracted service to WDC during the reform process whilst they themselves undergo reform.

We strongly recommend that government includes a strategy and plan that attracts people to the waters industry including developing a professional qualification and specific technical water training to help improve the sectors attractiveness as a career choice.

Speed of change

Whilst we are comfortable with the speed of change, we are not sure all councils will be, so we continue to see this as a risk. Should the water reform proceed, then WDC would be open to being involved in a pilot to share our experiences and process through our Watercare transition process. As a result, we would welcome the opportunity to invite Central Government to meet with us to highlight the benefits our communities have experienced from our partnership with Watercare.

Yours faithfully



G J Ion
CHIEF EXECUTIVE