

Three Waters Reform Programme

A proposal to transform the delivery
of three waters services

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

Email: 3waterssteeringgroup@dia.govt.nz

Quick overview

1 An opt-in reform programme

With an initial **\$761 million funding package** from central government, and designed to support economic recovery post COVID-19 and address persistent systemic issues facing three waters, by:

- stimulating investment and job creation to assist with **economic recovery**;
- reforming water service delivery, **into larger scale providers**, to realise significant economic, public health, environmental, and other benefits over the medium to long term.

2 Phased delivery

The reform programme will be undertaken in phases, each informed by the previous stage.

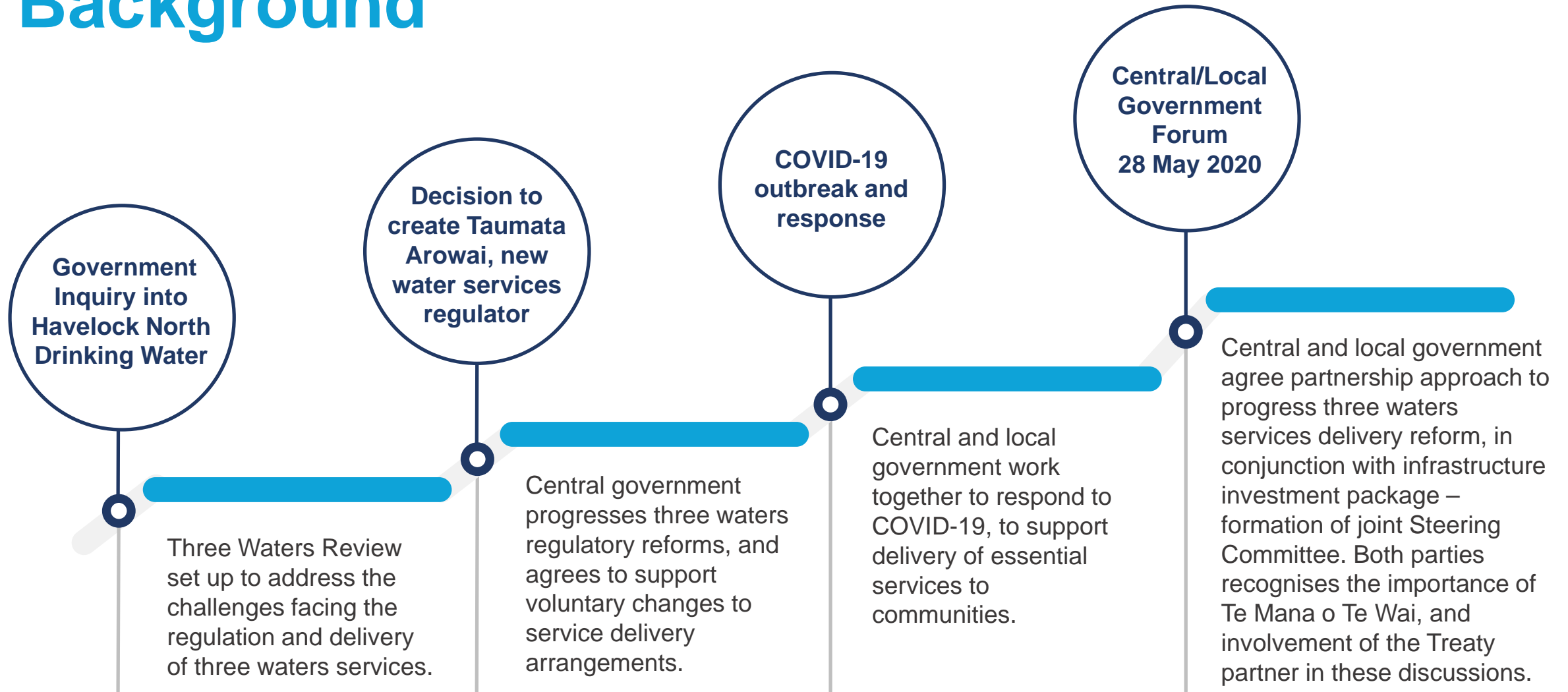
The first phase requires Councils to consider a **non-binding MOU** to share information and participate in reform programme and **does not require asset transfers**.

This is a **good faith** agreement to work together.

3 3-year horizon

Subsequent phases will occur over the **next 3 years** and will require close collaboration, including with input from iwi/Māori.

Background

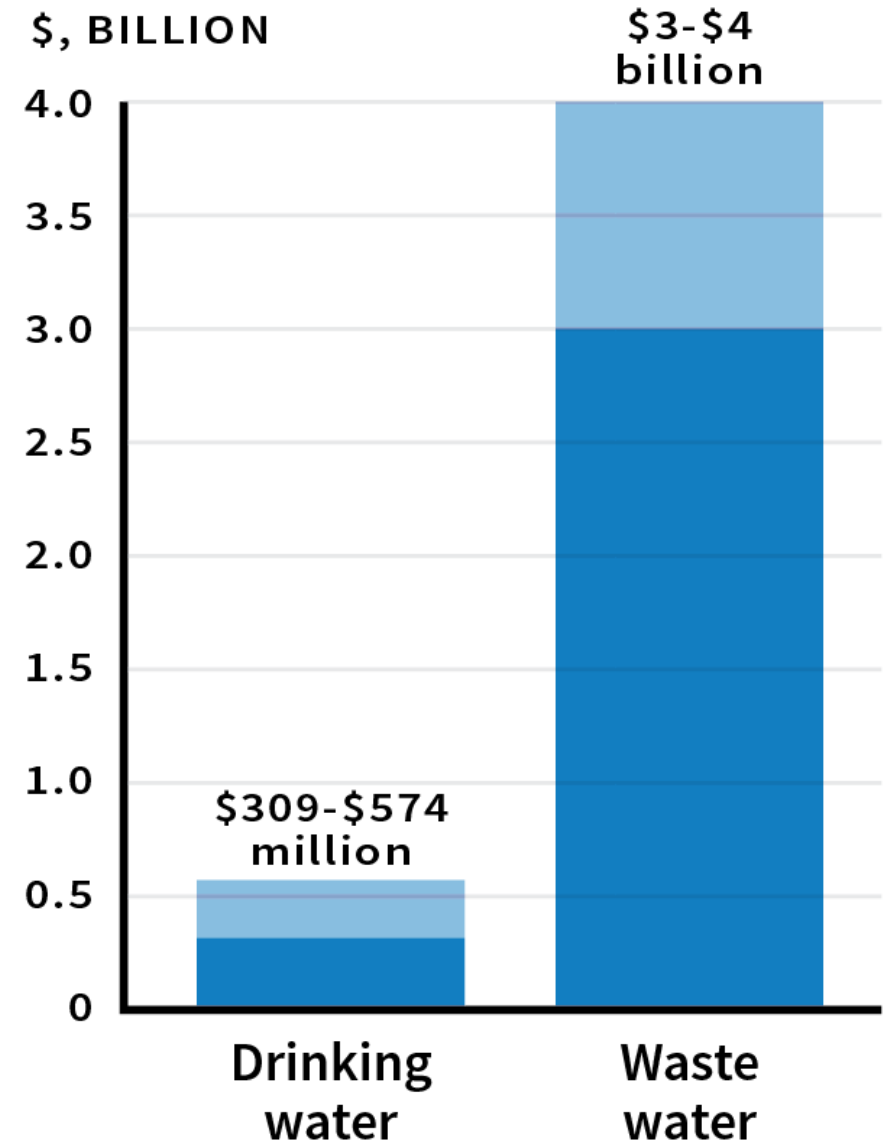


Regulation

- Taumata Arowai, new drinking water regulator, with a focus on compliance, monitoring and enforcement of new drinking water regime.
- Water Services Bill to give effect to Cabinet decisions to significantly strengthen the regulatory framework.
- Potential economic regulation to:
 - Improve transparency about infrastructure and investment
 - Protect interests of customers
 - Support efficiency

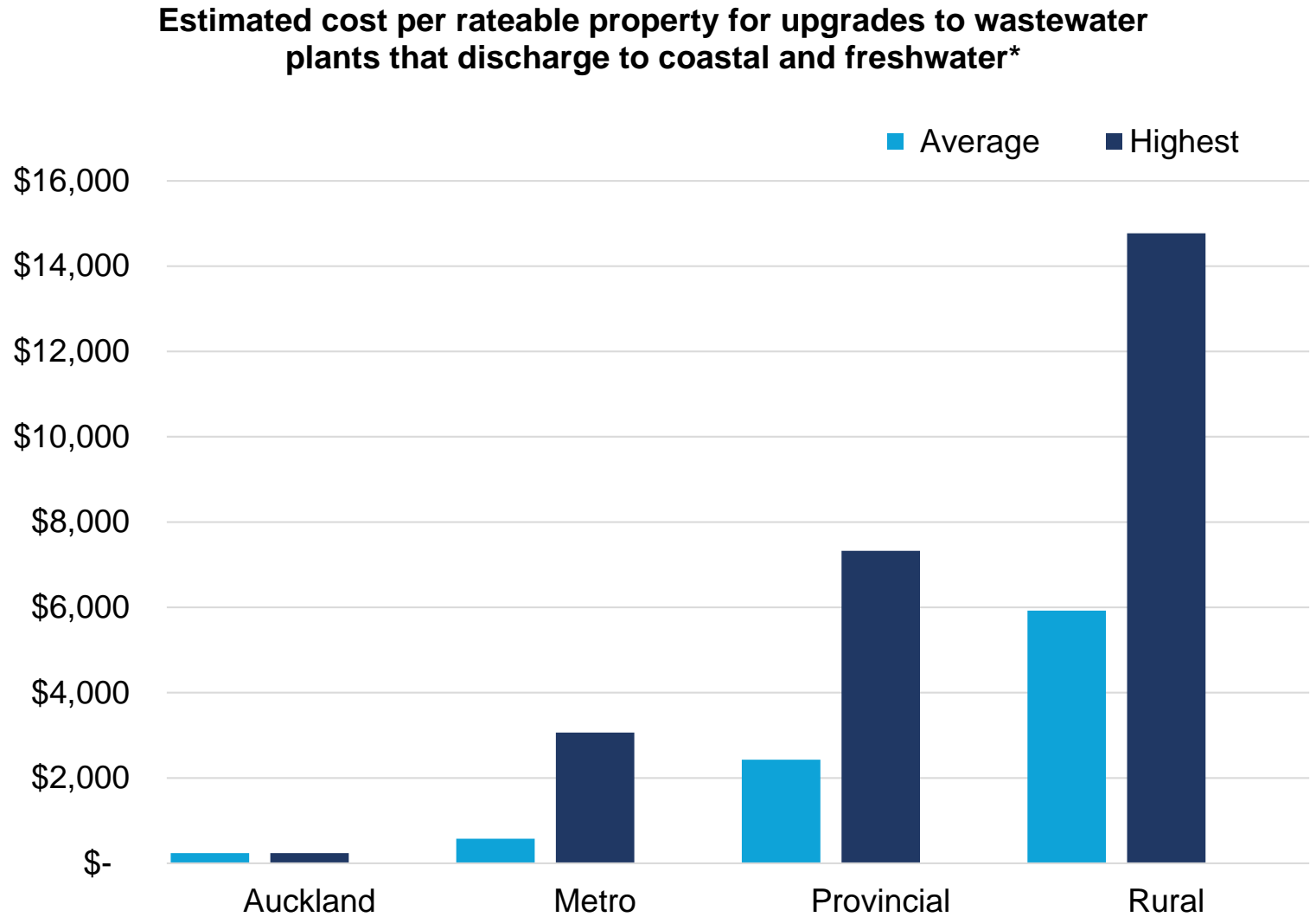
Investment challenges

1. Staying ahead of the significant reinvestment and renewals has been a challenge.
2. The cost of meeting drinking water and waste water standards will be high.
3. Funding, financing and affordability issues are only going to be exacerbated by the revenue challenges following COVID-19.
4. Pipes are 80% of the asset base, and are in addition to this.



Funding and affordability challenges

The challenge is greatest for small councils with fewer ratepayers to share costs.



* Wastewater costs are driven by existing RMA consent requirements, not three waters changes

Parallel Conversation

There is a parallel opportunity for the local government sector to partner with the Government to ensure the sector is better positioned to expand their role in delivering community wellbeing.

- The Government is acutely aware of the significance of the proposed reform programme for the roles and functions of local government in supporting community wellbeing.
- Over the last year DIA has engaged with local government on how to better promote community wellbeing. We have heard:
 - All parties would need to operate in a different, more seamless and sustainable way;
 - Needs a partnership between local government and central government, iwi, NGOs, and industry to better deliver community-led priorities.

Proposal

The Government is proposing a programme for reforming three waters service delivery arrangements, which would be delivered in parallel with an economic stimulus package of Crown investment in water infrastructure.

Economic stimulus package

- \$761m in FY 2020/21.
- Funding provided to territorial authorities who opt-in to a partnership process, before the end of August.
- Funding to be invested in three waters infrastructure that support economic recovery.
- Further tranches will depend on Government decisions and progress against reform objectives.

Service delivery reform Programme

- A phased, three-year programme to reform three waters services delivery arrangements.
- Supported by joint central/local government steering committee.
- Engagement with sector, Iwi/Māori and stakeholders throughout the programme.

Reform objectives

A Significantly improving safety and quality of drinking water services, and the environmental performance of wastewater and stormwater systems.

B Ensuring all New Zealanders have equitable access to affordable three waters services.

C Improving resource coordination and unlocking strategic opportunities to consider national infrastructure needs at a larger scale.

D Increasing resilience of three waters service provision to both short- and long-term risks and events, particularly climate change and natural hazards.

E Moving three waters services to a more financially sustainable footing, and addressing the affordability and capability challenges faced by small suppliers and councils.

F Improving transparency and accountability in cost and delivery of three waters services, including the ability to benchmark performance of service providers.

Reform design features

Design features that the **proposed** reform programme should examine, as a minimum:

- A Water service delivery entities** that are:
 - **of significant scale** (most likely multi-regional) to enable benefits from aggregation to be achieved over the medium- to long-term;
 - **asset-owning entities** with balance sheet separation, to support improved access to capital, alternative funding instruments and improved balance sheet strength; and
 - **structured as statutory entities** with appropriate and relevant commercial disciplines and competency-based boards.
- B Delivery of drinking water and wastewater services as a priority**, with the ability to extend to stormwater service provision only where effective and efficient to do so.
- C Publicly owned entities**, with a preference for collective council ownership.
- D Mechanisms for enabling iwi /Māori and communities** to provide input in relation to the new entities.

Approach to aggregation

The potential size of the entities will need to be considered against three principles:

Scale benefits

Potential to achieve scale benefits from the greater scale of water service delivery to consumers at a multi-regional level to ensure full benefits of scale are achieved through a population/customer base.

Communities of interest

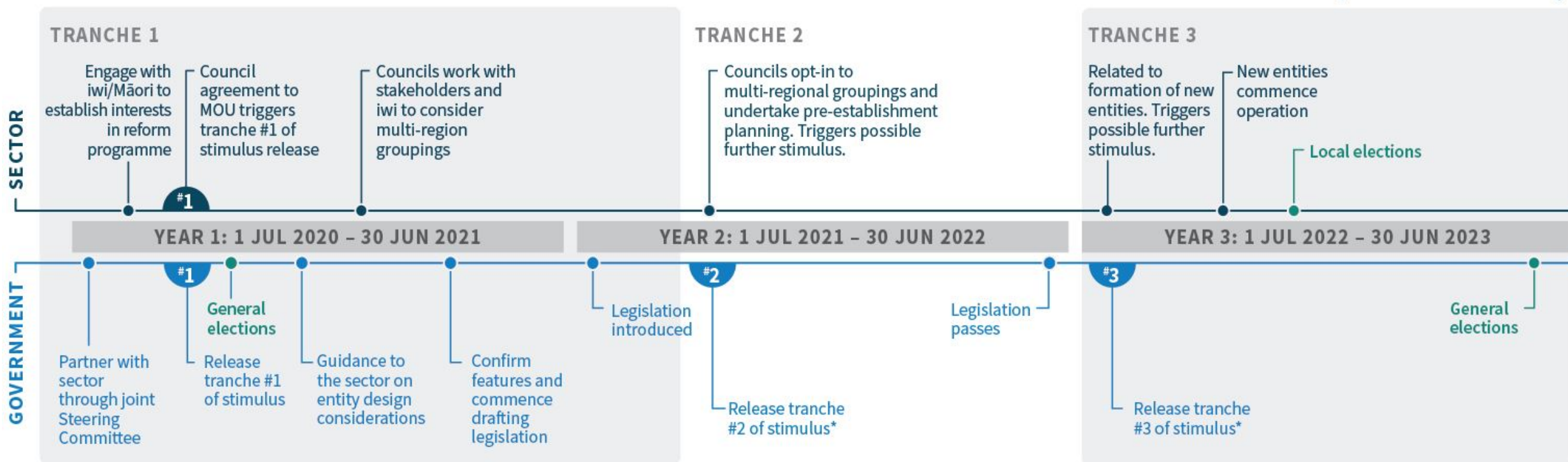
Alignment of geographical boundaries to encompass **natural communities of interest**, belonging and identity including rohe/takiwā.

Relevant regulatory boundaries

Relationship with **relevant regulatory boundaries** particularly to enable water to be managed from source to the sea.

Indicative timeline

** Subject to Government decision-making*



Questions?

Breakout session

Let's break into small groups and discuss:

- 1** What are your thoughts on the proposed minimum design features and reform process?
- 2** What factors do you think the Steering Committee should consider as the reform programme progresses?
- 3** What guidance or support do you think would be helpful?

Next steps

What **mechanisms and support** will be made available to local authorities to participate in this process?

Memorandum of understanding

A model agreement developed by the Steering Group for each Council to enter into with the Government:

Legal opinion commissioned by SOLGM on behalf of the Steering Committee was provided by Simpson Grierson that the MoU **does not** contain any explicit triggers for consultation under the Local Government Act 2002.

Committed to...

- Engage in the first phase of the reform programme.
- Work with neighbouring councils to consider the creation of large scale entities.
- Principles and objectives of working together with central government.
- Openly share information and analysis undertaken on the state of the three waters asset base and delivery system.

Does not...

- Legally commit Councils to future phases of the reform programme.
- Require Councils to transfer assets or establish new water entities.
- Exclude participation in later phases – Councils that choose to opt-in later can still do so but will not have access to the initial funding package.

Funding

Decision to opt-in to tranche one required no later than the end of August to access initial stimulus funding

1

Funding provided to maintain and accelerate three waters infrastructure investment

- Funding provided as a grant.
- Can be used for Capex and/or Opex.
- Drinking water and wastewater priority.

2

Funding allocation to be determined shortly

- Ministers working to confirm this shortly.

3

Planning implications

- Likely focus on renewals and bringing forward of BAU capital works programme.

Funding Agreement

Mechanisms for accessing the Government funding package:

Funding Agreement

- Standard-form agreement between Crown and local authorities.
- Guides the release and use of funding.
- Grant funding.
- Sets out:
 - Funding amount.
 - Funding conditions.
 - Public Finance Act/ public accountability requirements.
 - Reporting obligations.

Delivery Plan

Potential
mechanism for
accessing the
Government
funding package:

Potential Delivery Plan

- Short-form template submitted to Crown Infrastructure Partners for review and monitoring.
- Show that funding is applied to operating or capital expenditure that supports economic recovery and maintains/increases investment in core water infrastructure.
- Sets out:
 - A summary of works.
 - Estimated cost.
 - Location of the physical works.
 - Number of people employed in the works.
 - Reporting arrangements.
 - Assessment of how it supports the stimulus objectives.
 - Expected benefits/outcomes.

What are we inviting local authorities to do before August?

Consider whether you will opt-in to a partnership process with the Government to:

- Explore and design a pathway for reforming three waters service delivery arrangements in a way that will be beneficial for your communities.
- Secure an initial release of funding to stimulate economic recovery and maintain, increase or accelerate planned investment in three waters infrastructure.

NOTE: Decisions required no later than the 31 August to access initial stimulus funding.

Next Steps

Upcoming Future Engagement

- Updated FAQs and guidance material following workshops (ongoing)
- Webinar with CEs and Water Managers (early August)
- Webinar for Legal and CFOs (early August)
- Iwi/Māori engagement, in conjunction with Taumata Arowai (September/October)
- Steering Committee communications and updates (ongoing)
- Policy and Commercial discussions (post August)

Questions?

Breakout session

Let's break into small groups and discuss:

- 1** What are your thoughts about the proposed MoU/Funding Agreement and Delivery Plan?
- 2** What further advice or information would your Council require to consider opting in to tranche one?
- 3** What guidance or support do you think would be helpful?

Ngā mihi Thank you

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Te Tari Taiwhenua
Internal Affairs

We are.
LGNZ.
Te Kāhui Kaunihera o Aotearoa.

 **SOLGM**
New Zealand Society of
Local Government Managers