

Three Waters update

Meeting: Kaipara District Council
Date of meeting: 25 August 2021
Reporting officer: Sue Davidson GM Sustainable Growth and Investment
Jim Sephton GM Infrastructure

Purpose | Ngā whāinga

To update Council on the Three Waters information from Central Government as part of the 8 week period allowed for Council consideration and questions.

Executive summary | Whakarāpopototanga

Council is in an 8 week period of reflection based on information released by the Government regarding the 3 Waters reform and the 'offer'.

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

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

Following the council briefing on 4 August 2021, a number of questions were raised through LGNZ to be raised with the Department of Internal Affairs. At the time of writing there was no response however it is anticipated that this will be provided by LGNZ at the briefing.

Officers continue to work with colleagues in the water sector to prepare for a possible transition to a new entity and understand the logistics.

This is a briefing paper only. No decisions are required at this stage.

Recommendation | Ngā tūtohunga

That Kaipara District Council:

- a) Notes the Three Waters Update report.

Context | Horopaki

The Government has recently announced an integrated and extensive package of reform proposals together with a comprehensive financial support package.

[https://www.dia.govt.nz/diawebsite.nsf/Files/Three-waters-reform-programme/\\$file/three-waters-guidance-for-councils-august-and-september-2021.pdf](https://www.dia.govt.nz/diawebsite.nsf/Files/Three-waters-reform-programme/$file/three-waters-guidance-for-councils-august-and-september-2021.pdf)

Central Government has made an offer to Councils to take over the running of the three waters assets which they predict will require greater investment to meet higher regulatory standards which will be unaffordable to ratepayers in the current system. .

The Kaipara Infrastructure Strategy forecasts significant capital and operational investment over the next 30 years (2021 – 2051)

▪ Drinking Water	\$211m
▪ Wastewater	\$95m
▪ Stormwater	\$35m
▪ Flood Protection & Land Drainage	\$110m

This does not include areas where there is no system – e.g. Papanui – where investment is likely to be required in the future to meet safety and environmental needs.

With 15,000 rateable properties (about 8,100 households in the District) and only a small proportion connected (25% for drinking water and xx% for waste water).

The Offer - There are two parts to the offer

The Crown is proposing that a Three Waters Reform financial support package be provided to local authorities, comprising:

- (a) a “no worse off” package which will seek to ensure that financially, no local authority is in a materially worse off position to provide services to its community directly because of the Three Waters Reform Programme and associated transfer of responsibility for the provision of water services (including the transfer of assets and liabilities) to the Water Services Entities. This will be funded by the relevant three services entity at the time of water transfer, as this is when most of the financial impacts will crystallise.
- Need to negotiate transaction costs associated with the transfer of assets, liabilities, revenues, including staff involvement working with the establishment entities and transition unit, and legal ,accounting and audit costs-This is likely to include back up for water staff
 - Accumulated cash reserves earmarked for future water infrastructure. Local authorities will be encouraged to use these reserves and the government will disclose a materiality level balance that can be retained
 - Payment to local authority by the relevant water services entity, being the amount of debt established through any due diligence/audit relating to three waters
 - Standard costs, being organisational overheads previously allocated by the local authority to three waters services that are not able to be transferred or avoided (potentially 2 years and it is likely to be based on a per capita rate recognising smaller Councils face disproportionate costs(\$150m in total excludes Auckland, Christchurch and Wellington Water
 - Potentially more to fund stranded overheads if Government thinks we have been adversely affected by overheads(\$50m)
 - Potentially a one off payment for a small number of Councils that may not be able to finance their non water related functions - unlikely to be KDC

and

(b) a “better off” package of \$2 billion which supports the goals of the Three Waters Reform Programme by supporting local government to invest in the wellbeing of their communities in a manner that meets the priorities of both the central and local government, and is consistent with the agreed criteria for such investment

- Demonstrates central government confidence in the future of local government, with 25% provided from 1 July 2022 to enable early investment and 25% from 1 July 2024
- 50% will be funded by the new water services entities from 1 July 2024
- Funding based on population, deprivation index and land area. KDC has been allocated \$16,141,395

Criteria

- supporting communities to transition to a sustainable and low-emissions economy, including by building resilience to climate change and natural hazards;
- delivery of infrastructure and/or services that:
- enable housing development and growth, with a focus on brownfield and infill development opportunities where those are available
- support local place-making and improvements in community well-being.

Conditions

- Council expected to engage with Maori in determining how this will be used
- Council to continue commitments in LTP
- Council to assist in the preparation of initial asset management plans

Discussion | Ngā kōrerorero

LGNZ are on hand to help individual Councils understanding the information and the impacts on their Council. LGNZ has suggested a framework for Councils to consider

- Services
- Finance and funding
- Workforce and capability
- Social and economic wellbeing

Services

A key point to note is that Flood Protection and Land Drainage is not specifically included or excluded from the information presented to date. A working group has been established to consider this aspect.

Council may choose to encourage or discourage the inclusion of flood protection and land drainage in the new entity. It should be noted that the full costs of investing in and maintain these facilities as we respond to climate change, could challenge our communities ability to fund.

Issue	Comment
Compliance of drinking water schemes	<p>Council meets all drinking water standards on its treated water systems as at 2021.</p> <p>If levels of service or monitoring requirements are to increase, then more resource will be needed in local Councils. It is anticipated more compliance analysis, reporting, and management with water quality, regulatory and economic regulator expected. This will push up our cost structure in the LTP as much more data will be needed for reporting and decision making.</p>
Condition of Assets /Asset Lifecycle	<p>Water supply infrastructure Kaipara's water supply infrastructure is aged and in largely poor condition. The overall poor condition results in an increased risk of failure and significant repair costs. Over the next 10 years the depreciation funded is totally funding renewals because of the backlog. Most of the reticulation is in poor condition.</p> <p>Wastewater infrastructure The wastewater network is in average condition/above average condition. Over the next 10 years the reserves for funded depreciation will accumulate for future capital expenditure</p> <p>Stormwater Stormwater condition unknown. Over the next 10 years it is forecast a reserve will build up in stormwater depreciation</p>
Significant Future Investment Challenge	<p>Water supply is becoming more critical with climate change and increased risk of more frequent droughts. Climate change adaption, sea level rise drought, larger and more frequent storms are all issues that will increase in effect on KDC Stormwater condition, impact of growth and the environment will be a significant future challenge.</p> <p>Critical investment includes</p> <ul style="list-style-type: none"> • Water security for Mangawhai, Maungturoto/Kaiwaka and Dargaville • Creation of waste water schemes to support coastal communities • Stopbank enhancements to protect productive land <p>The 2021 LTP allows for growth however it does not fully enable desired development as signalled in the Spatial Plan. Growth has significant investment challenges needing to be funded upfront. It is anticipated that the District Plan will enable more development sooner – which could result in the need for greater resources within Council and to fund infrastructure.</p> <p>The constrained (Approved in the LTP to achieve an affordable rates rise) spend over the next ten years is \$68m. The unconstrained spend (investment recommended to Council at the start of the development of the LTP) was \$99m.</p>
Private supplies and future new supplies will be an obligation of Council	<p>A data base of private supplies is being developed for the region. It is noted that this will encompass everything from Marae to Campgrounds. A key risk for council is its ability to monitor and effectively support private suppliers.</p> <p>In wastewater it is recognised that we have many coastal communities with failing septic systems. This is both a result of the age of the assets, rising sea levels and increasing demand in summer. This may include Papanui, Tinopai and Pahi, towns which currently don't have a wastewater system</p>

Finance and Funding

Issues	Comments																												
Value of Three Waters	<p>Central Government will not fund the valuation of the assets but will repay all debt outstanding to the Council relating to the three waters.</p> <p>The depreciated value of the assets are \$132.9m as at June 2020.</p>																												
Debt	<p>\$52.4m debt relating to three waters (see below)</p> <p>\$50m swaps relating to the above debt</p> <p>Debt ceilings are not a problem now for KDC nor will it be in future if three waters is divested.</p> <p>Based on the possible rates revenue only being \$30m and other revenue being \$20m External Debt could be raised to a maximum of \$85m . This is the maximum per our treasury ratios (net debt as a percentage of total revenue < 170%)</p>																												
Depreciation Reserves	<p>Rating for depreciation is the basis of funding the renewals programme. As at the 30 June 2020 these depreciation reserves totalled \$1.631m. MBIE advise these will need to transfer over to Central Government or be utilised over the next two years</p>																												
Extra cost challenges	<p>Promised as a result of these reforms to improve the level of service to ratepayers</p>																												
Cost to ratepayers	<p>Indications are that harmonised (one charge) will be made for these systems</p> <p>The proposed reform will reduce Kaipara ratepayers cost for 3 Waters (where a resident is connected to waste and water) from</p>																												
Make up of Rating Income	<p>Water, wastewater and stormwater make up 28% of our revenue</p> <table border="1" data-bbox="534 1189 1094 1505"> <thead> <tr> <th>Revenue ex LTP</th> <th>2021 \$m</th> <th>%</th> <th>2031 \$m</th> </tr> </thead> <tbody> <tr> <td>Water supply</td> <td>3.6</td> <td>9%</td> <td>6.1</td> </tr> <tr> <td>Wastewater</td> <td>6.6</td> <td>15%</td> <td>9.2</td> </tr> <tr> <td></td> <td>1.7</td> <td>4%</td> <td>3.8</td> </tr> <tr> <td>Subtotal Three Waters</td> <td>11.9</td> <td>28%</td> <td>19.1</td> </tr> <tr> <td>Other rates</td> <td>30.1</td> <td>72%</td> <td></td> </tr> <tr> <td>Total rating revenue</td> <td>\$42.0</td> <td>100%</td> <td></td> </tr> </tbody> </table>	Revenue ex LTP	2021 \$m	%	2031 \$m	Water supply	3.6	9%	6.1	Wastewater	6.6	15%	9.2		1.7	4%	3.8	Subtotal Three Waters	11.9	28%	19.1	Other rates	30.1	72%		Total rating revenue	\$42.0	100%	
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Potential stranded overheads	<p>The loss of the three waters business from Council will mean costs have to be trimmed to be sustainable to our ratepayers . Direct costs would be transferred to the new entity but overheads would be stranded as there would be less services for these to be spread over. This will be approximately \$2m</p>																												

A summary of outstanding debt (000s) as at 30 June 2020 is as follows:

\$000	Water	Wastewater	Stormwater
Dargaville	1714	1466	1332
Maungaturoto	1422	1232	
Maungaturoto (Fonterra)	1424		
Mangawhai	11	41645	1228
Ruawai	213		
Glinks Gully	97	73	
Te Koporu		46	34

Kaiwaka		191	22
Baylys			244
Total \$52394	\$4881	\$44653	\$2860

Workforce and Capability

Issues	Comments
Opportunities for Staff	<p>We need to start working on the opportunities for our staff now. Although the decision to progress with the reform is some time away, we need to be best prepared if the change does happen and also manage peoples concerns during the process.</p> <p>Their participation in the design of the new entity will help us create a great place to work and one which delivers for our community. This is a new entity which will require more people than currently exist in the industry – i.e. this is about growing the workforce to deliver a bigger programme, not reducing it.</p> <p>If the proposal goes ahead, then we have a period of time to grow and position our people to be part of a \$13b entity capable of delivering a world class water system for every part of our community.</p> <p>We currently have a number of staff directly employed by the Council working on three waters. This includes</p> <ul style="list-style-type: none"> • Planning • Operations • Delivery <p>There are 10 contractors also working continuously on our schemes</p> <p>The guidance from DIA recognises the protection of contracts and locations of work. It is highly likely that the new entity will seek to create a working environment that allows for a more flexible working environment with offices in various locations.</p>
Capacity to employ more staff to resource three waters anticipated increase in three waters	It is envisaged it will be difficult to attract specialist staff to Kaipara, competing against other T/As if Kaipara were to opt out
Systems to meet the step change that will be demanded of us	<p>Information and asset management systems are improving but are basic to what will be required</p> <p>For example, Kaipara uses Asset Finder which is completely appropriate tool which offers value for money. Larger organisations tend to use better asset management systems which can provide increased efficiency and functionality.</p>

Social and Economic Wellbeing

Issues	Comments
<p>Will the package help our ratepayers</p>	<p>In terms of not being worse off then the package would appear beneficial to our District</p> <ul style="list-style-type: none"> • Transfer of \$52m debt • Reduction in costs to communities <p>There is \$16.1m that will transfer to Council on 1 July 2024 as part of the 'Better Off' package</p> <p>These projects should meet the criteria</p> <ul style="list-style-type: none"> • supporting communities to transition to a sustainable and low-emissions economy, including by building resilience to climate change and natural hazards; • delivery of infrastructure and/or services that: <ul style="list-style-type: none"> ○ enable housing development and growth, with a focus on brownfield and infill development opportunities where those are available, ○ support local place-making and improvements in community well-being. <p>Engagement with our Iwi partners will help us develop a response to what this investment might look like. Considerations could be given to funding the following projects</p> <ul style="list-style-type: none"> • Resilience <ul style="list-style-type: none"> ○ Kaihu Tank Filler ○ Marae support ○ Climate adaptation programme ○ Coastal community waste schemes • Growth <ul style="list-style-type: none"> ○ Dargaville Water Security Project ○ Maungaturoto/Kaiwaka Water Security ○ Mangawhai Water Security ○ Mangawhai Wastewater Enhancements
<p>Governance of Three waters</p>	<p>The proposed Governance Structure for the new entity is included at Appendix B. This includes both Iwi and local government.</p> <p>Engagement with local communities in the development of the entity funding plan and operations is not yet clear. This would be an opportunity for Council to provide ideas as to how this could be done effectively.</p>
<p>Will Council have the ability to prioritise growth locally</p>	<p>Any new entity would be expected to give regard / effect to the District Plan and other relevant documents. This reinforces the importance of the District Plan review and incorporating the expectations of the Kaipara Spatial Plan.</p> <p>Further work will be required to understand</p> <ul style="list-style-type: none"> • Council role in facilitating development • Council engagement in developing the Entity Forward Works Programme • Development contributions • Asset inspections and handover
<p>Will local economy jobs, GDP and growth be better off in terms of Three water</p>	<p>The additional investment in three waters will have an impact on jobs and GDP. The Procurement Policy for the new entity would need to reflect social procurement as per MBIE best practice guidelines.</p>

Risks

Council risks regarding opting out of the 3Waters reform are:

- a. Ability to fund the infrastructure deficit required to be addressed to meet the new service level and Taumata Arowai regulatory requirements.
- b. Ability to resource infrastructure service delivery requirements – staff and external support. Staff retention may prove difficult for individual Councils.
- c. The biggest risk to our debt management is not forecasting our debt correctly due to lack of understanding as to the conditions of our assets and their management and future new projects.

Council risks regarding opting into the 3Waters reform are:

- a. There are resilience risks associated with centralised management and services delivery verses local management and services, but this should be mitigated by retaining some staff in the local areas.
- b. The ability for Council to facilitate development in the district. Currently the Council develops the 30 Year Infrastructure Strategy which responds to desired growth. Proactive engagement with developers is sought to enable the right outcome. The risk is that we are not able to achieve an integrated outcome to development or prioritise investment which will enable sustainable growth
- c. There is a risk that Council does not have the capacity / capability to manage remaining infrastructure, specifically Parks & Open Spaces and Land Drainage
- d. The loss of the 3Waters business from Council means costs have to be trimmed to be sustainable to our ratepayers. Overheads would be stranded as there would be less services for these to be spread over.

Significance and engagement | Hirahira me ngā whakapāpā

The decisions or matters of this report do not trigger the significance criteria outlined in council's Significance and Engagement Policy. When a decision is required the special consultative procedure will need to be followed.

Next steps | E whaiake nei

LGNZ are facilitating questions on the proposed reform and offer. Central Government have given Councils 8 weeks to understand the offer and the impact and benefits on them and their community.

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

Attachments | Ngā tapiritanga

A	Governance Framework
B	Questions raised to LGNZ