

3 Waters Briefing – September 2021

Meeting: Council Briefing
Date of meeting: 1 September 2021
Reporting officer: Jim Sephton, GM Infrastructure Services

Purpose | Ngā whāinga

To update Council on the proposed 3 Waters Reform and include responses from both Government and staff with regards to specific issues affecting Kaipara District Council.

Context | Horopaki

Over the past four years 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 Waters Reform.

The background to this reform is provided in **Attachment A** 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 change¹ 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 the 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).

Council has been placed in Entity A and KDCs better off funding allocation is \$16.1m

Elected Members have been provided the opportunity to raise questions through LGNZ and DIA as part of the 8-week period which continues to the end of September 2021.

Councils have been specifically asked to provide solutions to three outstanding issues:

- 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.

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

¹ [Transforming the system for delivering three waters services \(dia.govt.nz\);](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](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)

Discussion | Ngā kōrerorero

Response to questions

Following the August Briefing, Elected Members provided a number of questions which were put to DIA. The response to these questions is included at **Attachment B**.

At the August Council Meeting, Elected Members also raised a number of questions within the framework provided by LGNZ. DIA have since provided some additional information, which go some way to addressing these questions, provided at the attachments. Staff have also listed the questions raised at the Council meeting and provide some commentary, outlined below:

- **Attachment C** Key reform questions and essential facts 26th August
- **Attachment D** Three Waters Reform – Governance
- **Attachment E** Community voice
- **Attachment F** Rural schemes
- **Attachment G** Planning Interface

Services

1. Will the raw water connections between Dargaville and Kaihu be included in the reforms?

See **Attachment F** – Rural Schemes.

The Government is committed to ensuring all New Zealanders, no matter where they live, have access to safe, affordable and sustainable drinking water. The three waters service delivery reform is proposing to reform council-owned drinking water, wastewater and stormwater supplies. It is not designed to reform privately-owned supplies.

There are a range of rural water schemes that provide a combination of drinking water and stock water to rural communities and/or supplies that have mixed ownership. Supplies of this nature exist throughout rural areas and are essential to the economy and local communities. Many were developed by central government funding in the 1970s, are funded and run by committees of farm users, and receive council expert assistance to run the supply.

Where there are existing service delivery arrangements between councils and community/rural schemes, officials will need to work together with all parties through any transition period to identify these and ensure the services continue in a future system with appropriate agreements in place with the new entities.

Taumata Arowai is also working with the rural sector on appropriate, practical and cost-effective compliance solutions for small suppliers. For example, point of entry devices such as UV filters would enable farmers providing drinking water to their neighbours to do so affordably while meeting regulations and giving confidence to all parties on the safety of the water.

It is therefore assumed that the Raw water line (and associated connections) would be transferred to the new entity.

2. Will all ratepayers be picking up the cost of flood protection (stop banks)?

There is no specific advice at this stage however DIA are undertaking work in this area.

3. Who will fund future drinking or wastewater systems, Council or an entity?

A report by the Water Industry Commission for Scotland (WICS) estimates that New Zealand will need to invest between \$120 billion to \$185 billion in our three waters infrastructure over the next 30 years to catch up with historical underinvestment, meet drinking water and environmental standards, provide for future population growth, and undertake ongoing maintenance and refurbishment of three waters assets.

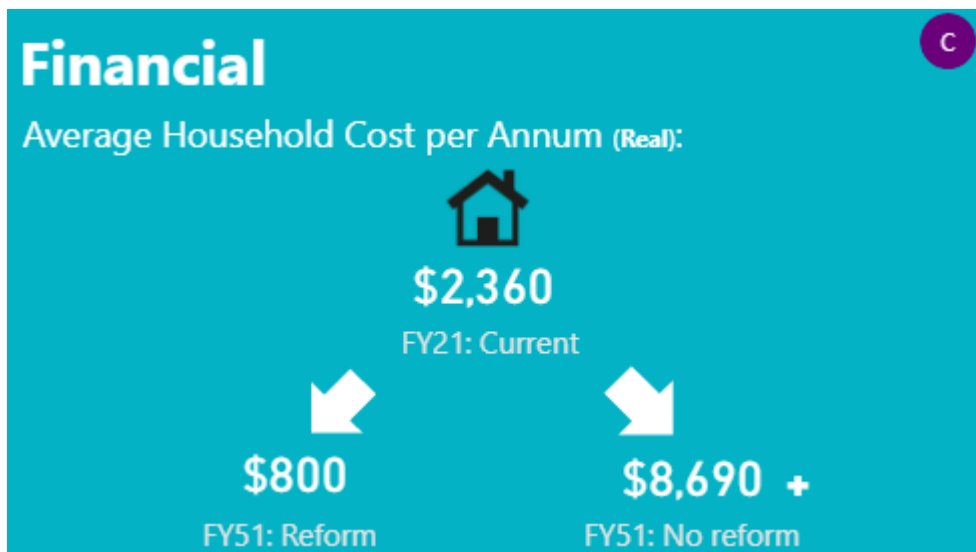
There will be tighter scrutiny on stormwater and wastewater services to ensure they meet community expectations and rising environmental obligations.

It is inferred that where there is a breach of environmental standards – e.g. Paparoa – that the entity will need to meet the environmental obligations.

Finance and Funding

1. Cost to ratepayers' figures/data to be included in future reports.

The predicted cost to ratepayers was provided by DIA as part of the dashboard. This information was based on information provided by Kaipara District Council.



2. Development contributions – need clarity on how DCs will be managed/collected with the new entity.

Question to be raised with DIA

3. Need some data comparing the 3 waters projects/funding that is included in our LTP, against the projects that were omitted from the LTP (due to rates affordability) against what the Wicks data has said

This has been provided in the next section.

4. How do the projects omitted from our LTP get included in the data that the DIA is using, so that it is accurate?

See **Attachment G** – Planning Interface.

The first asset management plan of the water entities (for a three-plus year period commencing 1 July 2024) will need to be developed during the transition period to ensure that there is no interruption to delivery of capital projects or services.

The current thinking is that the Water Entities' first asset management plan will be developed in collaboration between local councils and the relevant transition authority and will be based on the current (2021) Long Term Plans.

Staff will work with DIA to confirm the projects required to meet health and environmental obligations which were omitted from the LTP due to affordability concerns.

5. To inform possible future community consultation what would the shape of the staff and what the council will/will not be able to do if this proposal goes ahead?

[See **Attachment C** – Key reform questions and answers]

A major focus of both central and local government is ensuring that reform creates a platform to attract, develop and retain talent and enhance local expertise. Independent expert advice considers that the water service delivery reforms will provide real opportunities to the three waters workforce through increased and sustainable career pathways and opportunities.

To give staff early certainty the Government has announced that council employees that primarily work on water services will be guaranteed a role with the new water service entities that retain key features of their current role, salary, location, leave and hours/days of work.

A more bespoke approach is required for senior executives and contractors. The Three Waters Reform team will work with councils, staff, and unions further on this through a transition period over the coming years, should the reforms proceed as proposed.

It is too soon to be able to advise on what the remaining Council structure will look like as this transition will also need to be cognisant of the future of local government reforms.

In addition, staff are undertaking a Section 17a review of infrastructure services and this will be reported back to Council in September.

6. Will flood defence and land drainage be included

There is no specific advice at this stage however DIA are undertaking work in this area.

Workforce and Capability

Council had no specific questions in this area.

Social and Economic Well-being

1. Would like more clarity on what the \$16.1m could fund for our community well-being package

Clarification will be sought from DIA

2. Need more information on the governance framework e.g. numbers involved, representation

[See **Attachment D** – Governance]

3. How confident are we that council and our ability to deliver remaining infrastructure is sustainable if these reforms go ahead?

Infrastructure Services is organised in a functional model – Planning, Operations and Delivery – with resources spread across a number of activities. Focusing on fewer activities would require an adjustment in how we work, however we can be confident that with appropriate funding and systems in place, those services will be delivered to meet the communities desired level of service.

For example. Historically, Kaipara was not able to resource a complete transport team, however by combining resources with its neighbours and creating the Northland Transport Alliance, it has been able to meet the levels of service and deliver an extensive programme for transport.

The Section 17a review will provide recommendations on how Solid Waste and Open Spaces might be delivered going forward. This will consider options such as shared services, bringing services in-house and more localised contracts.

4. Can you please do some more work around risks and how they can be mitigated?

This will be provided in the briefing presentation and documented in the September Council Meeting.

Future regulated model – in response to Q3 Finance & Funding

[See **Attachment C** – Key reform questions and answers]

There is a common misconception that the Government is asking councils to consider and compare their current three waters operations and costs with a future under the service delivery reforms. This is incorrect. The status quo for water service providers is changing and council water providers and their communities will face very significant regulatory obligations and costs if they were to opt out of the reforms.

The Government is already reforming regulations to ensure all New Zealanders have access to safe and affordable drinking water. There will be tighter scrutiny on stormwater and wastewater services to ensure they meet community expectations and rising environmental obligations. The reforms will also introduce economic regulation. This will ensure that sufficient funds are collected from ratepayers and households for maintaining, renewing and upgrading infrastructure, and that providers deliver service levels and prices that are in consumers best interests. Stronger consumer protection mechanisms will also be put in place.

The combination of health, environmental and economic regulation will ensure all New Zealanders' three waters services meet their expectations. The service delivery reforms are designed to ensure this will be affordable for communities across New Zealand.

Taumata Arowai will become the authority overseeing the three waters later in 2021. They have signalled that they will work closely with Regional Council to ensure that standards are met. Whilst this is not necessarily an increase in standard (for example water drinking standards will remain aligned with WHO) it will mean that there will be a consistent enforcement of standards.

So what might this mean for Kaipara?

- We know that we have private waste water schemes which are failing. Previous briefings have covered known issues in Spring Street, Station Road and Paparoa. There are other coastal areas which are not being pursued – e.g. Tinopai – where summer peaks strain the existing system and it is known that there is coastal pollution
- Some of our plant and systems will require upgrades to meet safety and environmental standards. In this LTP we introduced the start of a SCADA upgrade which focuses on only the most critical assets. A full roll out was not included in the LTP
- For the last three years we have met drinking water standards with the exception of connections to the raw water line for potable water. We will likely be required to increase our levels of monitoring and compliance and will need to respond with more urgency to those areas that are failing.
- National Policies with regards freshwater standards are likely to have a significant impact on our ability to source water year round from rivers. This will exacerbate the impact on Dargaville and Maungaturoto which are subject to routine drought management orders

The current LTP does not include investment in water security (only investigations). A significant investment will be required to meet both current and future population needs.

- Climate Adaptation Planning will be undertaken this year and this is likely to identify areas where the community want to protect. Significant investment in flood protection is anticipated. Whilst this is included in the LTP it is entirely based on an assumption of external funding.
- There is the potential for Council to have to work with and potentially take over private water supplies if they are unable to meet quality standards and regulatory requirements

Required capital investment includes

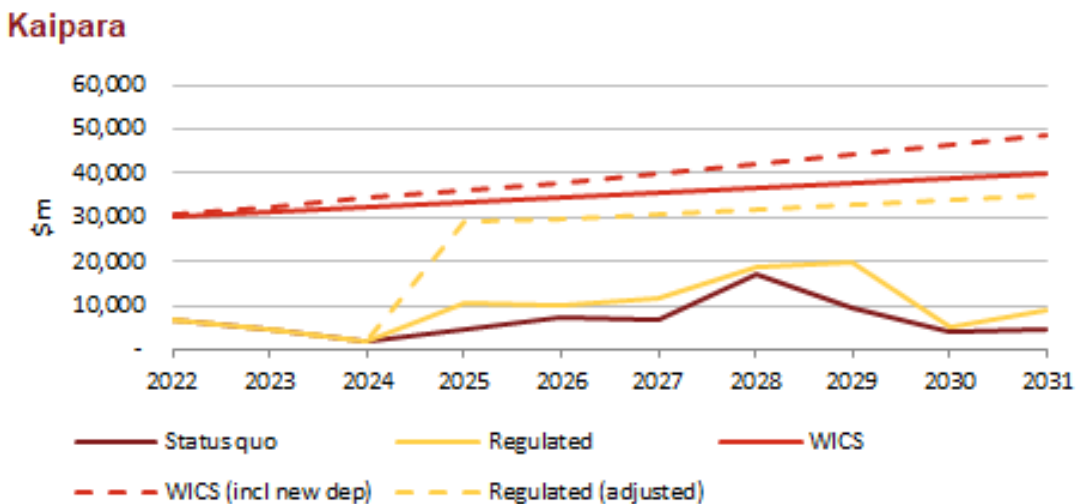
- Renewals
- Growth
- Enhancement
- Depreciation

Through the LTP process we constrained our investment so that rates would be affordable. Our focus was first and foremost on renewals and limited growth.

We also presented an unconstrained model which included investment required that could not be provided for, allowing for affordable rates. This resulted in a reduction in the following areas;

- Significant reduction in stormwater budget. No catchment management plans have been undertaken. Some investigations for Dargaville Stopbank but no construction costs.
- Coastal wastewater systems were removed
- Growth in Mangawhai was moved from this LTP period to the next ten years
- Growth projects in Dargaville, Kaiwaka and Maungaturoto were removed. Design of only the most critical sections was allowed for.

The WICS model presents an indication of what investment might look like based on trends experienced in the UK and elsewhere. The graph below illustrates that current spending (for a District of our size and population) might be expected to be circa \$30m compared to the \$8m we are currently investing.



Our unconstrained forecast was used as a starting point for what a future regulated 3 waters might look like.

Given the likely implications of what a regulated three waters environment might look like, we have adjusted the programme to increase investment. Even if we only need 80% of the investment to the level indicated by WICS, there is still a significant increase above what Council is currently investing through the LTP.

Transition

Taituarā have provided the following:

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.

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*

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 that does 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*

Next steps | E whaiake nei

Next steps are expected to be announced after 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, 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.

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.

Attachments | Ngā tapiritanga

	Title
A	3 Waters background information (Taituarā)
B	Response to Elected Members questions from August Briefing (DIA)
C	Key reform questions and essential facts 26 th August (DIA)
D	Three Waters Reform – Governance (DIA)
E	Community voice (DIA)
F	Rural schemes (DIA)
G	Planning Interface (DIA)