August 2021

FAQs from Taituarā webinar with Chief Financial Officers

Useful links referenced in the discussion:

- Transforming the system for delivering three waters services - the case for change and summary of proposals - 30 June 2021
- Department of Internal Affairs - Regulatory Impact Analysis - Decision on the reform of three waters service delivery arrangement - 30 June 2021
- WICS Individual council models and slide packs page
- Three Waters Reform Programme - Support Package - Information and Frequently Asked Questions (FAQs)

Contents

Modeling of the case for change and efficiencies

Q. How did WICS calculate the investment requirements?

- WICS has used several different modelling approaches to estimate the potential investment required for New Zealand's three waters services over the next 30 plus years
- This includes investment needed to:
  - replace and refurbish assets as they meet the end of their useful life, and
  - to enhance infrastructure to meet the needs of population growth and to meet relevant regulatory standards
- WICS estimates this investment at a national level is in the order of $120bn - $185bn over the next 30 years.

What were the different approaches?

- Approach 1 looks at relationships between historic investment and factors like population density and geography in Great Britain (this was the same approach used in Phase 1 but has been updated using Council RfI information)
- Approach 2 is the same as approach 1 but uses Scottish data only (not wider Great Britain)
- Approach 3 compares asset values in New Zealand with the United Kingdom and assesses the potential investment that would be required to close the gap in asset values

- Approach 4 uses councils' own estimates of required investment supplied through the RfI (although not all councils submitted estimates and the methodology varied between councils).

Q. Why are the WICS numbers so different from our own estimates?

- The figures in the model related to future investment are based on WICS analysis of the potential future investment needs based on both Council provided information and its own modelling.
- The WICS analysis seeks to provide an estimate of what the future investment requirement across the country might be, based on the experience of United Kingdom water providers operating under a broadly similar regulatory framework.
- WICS has assessed maintenance and growth investment based on information Councils provided through the RfI. These should be comparable with planned investment in LTPs but may differ depending on:
  - differences in growth projections between the RfI and LTP
  - different levels of renewals expenditure relative to the rate of depreciation
  - adjustments to planned investment following the completion of RfI submissions.
- In seeking to understand investment to enhance network performance and compliance with regulatory requirements, it has assessed these based on similar geographical, topographical and population density characteristics observed between council areas in the United Kingdom and New Zealand. As such there is likely to be more variance between these estimates and planned expenditure in the council's own LTP.
- It is worth noting that actual required investment in all parts of the United Kingdom have been found to be much higher than was expected at the start of their reform journey, which explains why, for some councils, the WICS estimates are likely to be materially higher than the allowances included in their LTPs.
- The Individual council models and slide packs page WICS has prepared for each council tests whether the assumed future investment requirement (among other assumptions) might disproportionately impact the results of its modelling. The sensitivity analysis shows that even if the investment figures provided through the RfI are used, reform would still provide a net benefit to all in terms of future household costs and the service, health and environmental outcomes for residents.

Q. How can we accept the significantly high household cost figures that have been presented?

- The Department of Internal Affairs considers the figures are robust and well founded. Two independent reviews of WICS' analysis have been conducted:
  - Beca reviewed the similarities and differences between the NZ and UK three waters sectors and found that WICS' analysis would ***likely underestimate the scale of the future investment requirement*** given it does not take account of investment to meet iwi/Māori aspirations and strengthen seismic resilience.
  - Farrierswier reviewed WICS' general approach and underpinning assumptions and found its modelling was reasonable given the uncertainties associated with projecting 30 years and ***should give reasonable estimates in terms of the direction and order of magnitude of the benefits***.
- These projected costs need to be considered in the context of a history of underinvestment in water infrastructure in New Zealand and the need to take a long-term (30-50 year) intergenerational view in providing safe and environmentally appropriate water services.

- Consumer expectations and a changing regulatory environment (new water services regulatory framework and national policy statement on freshwater) are also expected to impact significantly on forward costs, as is meeting iwi/Māori aspirations, including around Te Mana o Te Wai, and building resilience to climate change and future seismic events.
- The challenge of estimating future investment requirements can be compounded by some councils' imperfect and incomplete information on the condition of their assets, a situation that has been highlighted by the auditor-general[1] on several occasions. The Request for Information process was the first step towards addressing this information challenge, but there is some way to go to reach a mature level of understanding of our collective three waters network and asset quality.

Q. How did WICS establish the potential scope for efficiency improvements?

- WICS considers that New Zealand's water sector is in a broadly similar position to where Scotland was prior to reform in the late 1990s, in terms of relative operating efficiency and levels of service.
- In just under two decades, Scottish Water has lowered its unit costs by 45% over that period. WICS considers that New Zealand can achieve similar outcomes to Scottish Water over a longer period (30 years). This represents efficiency improvements in the vicinity of 2% per annum. This is a conservative estimate. There might also be an expectation that catch-up efficiency could take no longer than 15 years, which is 4% per annum.
- In its analysis, WICS has used regulatory models developed in the United Kingdom (UK) and applied in other jurisdictions, which have been subject to regulatory and legal review.
- These models have also been adjusted to take account of New Zealand-specific observed costs and they allow for a comparison of the differences in performance between local authorities and frontier companies in the UK, given the operating environment faced by each modelled entity.
- WICS applies the efficiency challenge for each entity on the basis of the gap that exists with frontier companies.

Q. How do we know that the efficiency assumptions are robust?

- The approach WICS has taken was independently peer reviewed by Farrierswier, a regulatory economics consultancy in Victoria, Australia, with deep understanding of the water services industry.
- Farrierswier found that the approach WICS takes to assessing the potential efficiency gains is reasonable, and they agree with WICS on the factors that will promote efficiency gains in the water sector, including the quality of management, clear policy priorities, and an appropriate economic regulatory regime.
- Farrierswier[2] comments on the potential that exists for efficiency gains from amalgamating water services in New Zealand, and notes **significant improvements are possible through aggregation and associated reforms**, including improving the ability to attract and retain skilled management and staff, more effective procurement functions, asset level optimisation and reduction in corporate overheads and duplicative functions.

[1] https://oag.parliament.nz/2020/local-govt/part2.htm

[2] Farrierswier (2021). Review of methodology and assumptions underpinning economic analysis of aggregation. Available at https://www.dia.govt.nz/diawebsite.nsf/Files/Three-waters-reformprogramme/$file/farrierswier-three-waters-reform-programme-review-of-wics-methodology-andassumptions-underpinning-economic-analysis-of-aggregation-released-june-2021.pdf

Q. Where can we see examples of the actual increased efficiencies apart from the Scottish example (rather than targeted efficiencies referred to in the presentation?)

- Significant improvements in efficiency have been achieved in overseas jurisdictions that have pursued reform of a similar nature to that proposed in New Zealand. Some examples are provided below:
  - A report for the United Kingdom water trade association[3] found that **reform of the water industry in England resulted in annual productivity growth of 2.1% or 64% over 24 years** when adjusted for service quality improvements.
  - WICS[4] reports that **Scottish Water has been able to reduce its operating costs by over 50% since reform**, while improving levels of service to customers and absorbing the new operating costs associated with its investment programme.
  - Frontier Economics,[5] in its review of the experience with water services aggregation in Australia, Great Britain, Ireland and New Zealand (Auckland and Wellington) finds that there is **"strong and consistent evidence" that reforms have led to significant improvements in productivity and efficiency.**
  - In Australia, the Productivity Commission[6] found that **service delivery reform has helped to improve efficiency and deliver significant benefits for water users** and communities.

Q. How applicable are the Scottish standards to New Zealand?

- The WICS methodology takes account of differences both in density and land mass between New Zealand and Scotland.
- Beca has reviewed the use of the United Kingdom's three waters standards and practices and their relevance to New Zealand, given WICS has used United Kingdom data and benchmarks as part of its analysis. Beca finds that the forecasts from WICS modelling may underestimate the estimated investment requirements and timeframes, suggesting that WICS modelling of future investment may be conservative.

Q. What opportunity is there for councils to challenge the WICS assumptions and modeling?

- Through the 8-week process we are getting a lot of questions about the modelling and encourage those questions and feedback from councils.
- The Department of Internal Affairs considers the modelling and analysis to be robust and rigorously tested. From a policy development perspective, the modelling and independent peer review has been undertaken by internationally renowned experts. It has been subject to a wide range of sensitivity analysis, to test the impact on average household cost estimates from varying a number of assumptions, like future investment and efficiency gains for example. Even if these assumptions are varied we have seen a similar set of conclusions.

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[3] Frontier Economics (2017). Productivity improvement in the water and sewerage industry in England since privatization. Available at https://www.water.org.uk/wp-content/uploads/2018/11/Water-UK-FrontierProductivity.pdf

[4] Water Industry Commission for Scotland (2021). Supporting Materials Part 2: Scope for Efficiency. Available at https://www.dia.govt.nz/diawebsite.nsf/Files/Three-waters-reform-programme/$file/wics-supportingmaterial-2-scope-for-efficiency.pdf

[5] Frontier Economics (2019). Review of experience with aggregation in the water sector. Available at https://www.dia.govt.nz/diawebsite.nsf/Files/Three-waters-documents/$file/Frontier-Economics-review-of-experience-with-aggregationin-the-water-sector.pdf

[6] Productivity Commission (2021). National Water Reform 2020: Productivity Commission Draft Report. Available at https://www.pc.gov.au/inquiries/completed/water-reform-2020/draft/water-reform-2020- draft.pdf

Q. If the level of efficiency is to be attained, then how can all the extra jobs be created? How do you reconcile a close to doubling of the workforce and GDP growth driven from the reforms and achieve a 45% cost saving through efficiency?

- Our modelling indicates that the reforms will result in much larger levels of investment nationwide.
- We expect we will still get improvements in labour productivity. But because of the step change in investment and the labour intensive nature of the industry, reform will still create many more jobs.
- Using Scotland as an example, it has achieved the above efficiency gains, but its workforce is much larger than it was prior to reform (with many of these jobs being rural/regional staff) by virtue of the level of investment and associated economic activity.
- This is discussed in detail in the Deloitte report – Industry Development Study & Economic Impact Assessment

Q. Our work has identified that the efficiencies claimed for OPEX are far greater than the 45%, plus they have also assumed the absorption of 3% increased operating costs from Capex that is applied to the opt out comparator. Any advice on how to lower the eyebrows that Nick referred to?

- The overarching number of 45% reflects a collection of individual assumptions and efficiencies.
- WICS has applied a number of efficiency assumptions based on the type of expenditure, for example assuming that opex on new investment and real capital price inflation would be absorbed by the new water service entities under an economic regulatory regime. This approach is consistent with regulatory practice internationally and reflects the approaches used by Ofwat and WICS over many years to estimate potential operating efficiencies for water service providers.
- Also if you want to look to other analyses we have the Department of Internal Affairs - Regulatory Impact Analysis - 30 June 2021 which incorporates the findings from surveys of economic literature – see also examples of efficiencies above.

Q. Will we be able to answer questions from our elected members as to whether our communities will have to pay more under the new entities, and how much more?

- Firstly, it is important, when advice is being given on the reform proposals, to consider what the counterfactual is. In this case it is not a question of comparing reform with the status quo.
- The status quo is changing with the introduction of Taumata Arowai and an increased focus from Regional councils. The compliance, monitoring and enforcement of health and environmental quality standards will introduce new costs to delivering these services. Furthermore, the reforms are proposing to introduce economic regulation to drive investment and efficiencies.
- Therefore, under the status quo we are anticipating large increases in the costs of providing these services should councils continue to deliver these services alone. The WICS modelling seeks to quantify the likely scale of increase that could be expected based on the information available in New Zealand and from overseas experience.
- The modelling provides average household cost comparisons projected for 2051 to enable as close to a like-for-like comparison as possible. This modelling shows that all communities will benefit from greater affordability under the reform proposals i.e. a lower increase in prices than going it alone.

- Currently there is a wide variety in charging and pricing approaches across councils, for example we understand Wellington has 200 different tariffs, and there are different charging mechanisms for households as opposed to businesses which makes it difficult to make a general statement of what would happen to any individual ratepayer, which is why the modelling compares the cost of delivering these services on an average household based assessment, with and without reform.

Q. Has consideration been given in the efficiency calculations of the impact on Councils efficiency from having integrated asset management teams with 3 waters and roading?

- It is expected that the gains through addressing asset management for the three waters assets on the scale proposed at a multi-regional entity level, together with improved governance, stronger balance sheets and the introduction of economic regulation will provide more significant efficiencies than by integrating infrastructure functions at an individual council level.
- The entities will be formally required (either through statute, regulation, and/or as a matter of policy) to consult and collaborate with other utilities (including roading controlling authorities) on such matters as planning of service and infrastructure extension.
- The Department's Regulatory Impact Analysis discusses a range of alternates that were considered during the Department's analysis.

Funding and financing

Q. Is there an intention to amend the legislation for the LGFA to make the three waters entities eligible to borrow from (and/or participate in) the LGFA? If so, how is it intended to manage the increased lending risks for the LGFA and in particular for member councils that are guarantors of the LGFA debt.

- We have engaged with the LGFA to understand potential appetite from their management to participate in the financing of the proposed water services entities.
- Under the LGFA's current arrangements, they would not be able to provide financing to the water services entities as the entities are neither a CCO or a council. This would require the LGFA to either establish a new financing vehicle for water entities, or to change its covenants with shareholder approval.
- The Government has proposed that LGFA remain a potential financing option for the water services entities and that further work be undertaken with the LGFA to understand how this could be given effect to.
- While we acknowledge that lending to water services entities will have a different risk profile to LGFA borrowing, this is not to say that it has increased risk.

Q. Will there be Crown guarantees or other Crown financial support for the three water entities borrowings?

- At this stage, the government has not committed to providing a Crown guarantee to the water services entities. However, it has agreed to make available to the water services entities a liquidity facility, accessible under certain conditions, on similar terms to the liquidity facility enjoyed by the LGFA.
- Further details on the Crown support arrangements can be found in Cabinet Paper Two.

Transfer of Assets and Debt

Q. Many Councils fund their balance sheet as a whole. Typically they run an internal "Bank" and have loan funding allocated to activities including each of the three waters. What is the mechanism proposed to transfer to a three waters entity that debt including the related interest rate derivatives (swaps)?

- A financial due diligence process will be undertaken to accurately determine the value of three waters debt on a robust and nationally consistent basis. This process will also provide further insight into the financial arrangements that have been entered at the three waters and council level.
- Currently it is expected that debt and interest rate derivatives (swaps) will not be transferred/novated to WSEs. Instead, when the transfer takes place and payments are made to councils, it will be up to councils to choose how they want to manage their financial position. This reflects that, where financial arrangements/swaps have been entered at the council level, it is not possible to novate a proportion of all contracts to reflect the three waters share and it is not practical or fair to select specific contracts to novate.

Q. Some councils offset the costs of three waters by using other income streams e.g. profits from commercial activity/ CCO dividends. We are assuming those council income streams will be retained by Councils and not go to the three waters entity, is that correct?

- Only revenue related to three waters will be transferred to the WSEs. Note that the value of revenue related to three waters will be identified as part of the financial due diligence process.
- Revenue related to other council activities will remain with the council. In situations such as the above where three waters are subsidised by other revenue sources (eg profits from commercial activity/ CCO dividends), these revenue streams will not be transferred to the WSEs.

Q. I note that there is an expectation that the three waters entities will only be charging connected properties. Our council collects rates to fund water supplies from properties that benefit not just those connected. Will those unconnected properties now not have to contribute?

- The approach to charging and pricing is still being considered and further work is being undertaken to understand the range of charging mechanisms currently being used by councils and the impact of alternative charging structures.

Q. What consideration has been given to the accounting treatment attached to proposed asset/debt transactions to establish the proposed three waters entities?

- The accounting treatment of the transactions at the point of transfer are complex. The situation is unique and is not considered by standard accounting guidance.
- There are multiple considerations to work through, including the accounting treatment pre- and post-transfer.
- We are working to ensure the accounting treatment do not affect your prudential measures and borrowing ability.
- We have been working with our advisors to understand the accounting treatment, and potential accounting outcomes.
- We will be continuing to work through these matters during the transition period, and will be providing advice to councils on the accounting treatment, including template disclosures for reporting purposes.

Q. Transfer of Assets, Easements, Legal agreements, Property divisions etc. could take some years to determine. What are the support structures you are foreseeing how this is done and timeframes?

- The transition process over the three-year transition period will include working through and identifying these legal arrangements.
- The Government has announced $296m budget for that process, including funding to support councils through this process to ensure they can both continue to deliver services and participate appropriately in the process.
- Further work will be needed to finalised details of this process. We will be working with LGNZ, Taituarā and councils to determine that process.

Q. How would land on which the assets are on be addressed, would they be transferred as well?

- This is another detailed question that we will need to work through during the transition period. However, at this stage the principles described above and in the presentation, would likely apply. For example, those assists critical to the delivery of three waters services would transfer which would likely include the land underneath treatment plants.

Q. What will happen with the ownership and revenue streams from non-water assets, sitting on land currently described as a water asset.

- As above, this is something that will be worked through with councils as part of the detailed due diligence process to identify the more complicated situations and work through these.

Q. When Development Contribution reserves relating to 3 waters will transfer, will the new entities have any legal obligations to ensure that projects the funds were collected for are then carried out by the new entities?

- As discussed in the presentation, the reserves transferred to the new entities would need to be ringfenced to those projects/assets that they were collected for.
- We are still working through the legislative amendments that may need to be made for the financial arrangement of the new entities, this will be carried out over the next few years to ensure they have the right requirements to ensure these funds are delivered for their original purpose.

Asset ownership

Q. It was stated that the operation of the assets will transfer to the new entities, but ownership of the assets will remain with the community. How will this work from a balance sheet perspective i.e. what balance sheet will these sit on? With that accounting approach then the ownership interest of each Council will need to be reflected on the balance sheet how will that be determined?

- This is something often misrepresented in terms of the reform proposals. The proposal is that the assets would transfer from the councils to the new entities and would sit on the balance sheet of the entities.
- The entities will be collectively owned by councils on behalf of their communities and this would be listed in legislation, but this would not include shareholding interests or dividends.
- The entities will be independently governed by competency-based boards appointed by an independent selection panel.
- This level of independence is important to achieve balance sheet separation from councils.
- The Department engaged with Standard & Poor's (S&P) to test six hypothetical entity design scenarios through a process known as a 'Ratings Evaluation Service' (RES). The assessment

by S&P of potential credit rating implications associated with the Reform Programme was made across different scenarios to ensure officials were informed about a number of potential structural, system and entity design choices. These documents outline the scenarios and outcomes of the Rating Evaluation Service.

- Rating Evaluation Service (RES) Letter - Three Waters Reform Programme
- Information Memorandum - Standard and Poor's - Three Waters Reform Programme
- Credit Implications of New Zealand's Proposed Three Water Reforms

Q. If a cash payment for debt is proposed, will it take into account that Councils may be locked in to higher than current interest rates on that debt for some years? Can we have a bit more clarity on this, specifically from a Treasury Strategy perspective over the period to 1 July 2024?

- This is something we will need to work directly with councils on to understand this position through the transition period.
- It would be difficult to novate the hedging, which is why there is a financial sustainability package included in the reform funding to support any financial implications of the transfer and ensure no council is worse off.
- Following reform decisions there will be a commitment to make that payment on 1 July 2024.
- We will be looking to work with councils to undertake the treasury management for that large payment. For any additional debt you are managing or repaying in that period, the preference would be to have that on a short-term basis for repayment on 1 July 2024.
- As above we will work with councils that have an issue around their hedging positions to ensure there is no adverse impact on their communities from this payment.

Q. What timeline should we expect for the due diligence process?

- Currently the Government has paused taking decisions on next steps for the reform pathway while local government engage with the reform proposals.
- The Government will then take decisions on next steps in the reform pathway. Once these decisions are taken we will be able to consider a more detailed timeline for transition activities taking into account the wider reform process.
- That said, as you would expect there will be different elements of the discovery and due diligence progress that will need to occur faster or slower across the transition period. We are currently identifying priority areas for due diligence (in consultation with the sector) to support the detailed transition timeline.
- As discussed in the presentation, the financial due diligence or audit process (focussed on identifying three waters related debt and revenue) is expected to commence as soon as possible following reform decisions. The timeline will depend on the process determined by the independent auditor, however, we will target having at least preliminary findings available in the second quarter of 2022.

Charging and pricing

Q. What will be the mechanism that the three waters entities will have to charge and then enforce payment for unpaid water charges?

- The new entities will need the right balance of charging instruments to effectively and equitably charge customers across the network. Many of these charging tools are already used by local authorities now when setting prices for water services across the country.

- There will be standard mechanisms in relation to non-payment of charges from water services entities.
- Generally, a typical overdue payment management process would be followed. For example, initial reminder and warning notices and where bills remain unpaid forwarding unpaid accounts to a debt collection agency.
- Watercare also has an ability to restrict water supply in certain situations and this power is likely to be available to water services entities. However, limitations to protect consumer wellbeing will be in place. This framework will be supplemented by a proper process for escalation and appropriate protections for vulnerable groups of the community. For example, any water restriction would only be to the extent that sanitary conditions can be maintained and no restriction in situations that would cause unsafe conditions or extreme hardship.

Q. Can you expand on the revenue collection in the initial years please - did you allude to councils collecting revenues on behalf and passing them on to the WSEs in the initial years until the standardised pricing regime for the WSE is put in place? How long is this expected to take? Assume the WSEs will be setting the required revenues for the councils to collect?

- As discussed in the presentation, the expectation is that entities ultimately will charge customers directly. Over the coming years, the transition team will be working with establishment entities to investigate if this can be efficiently and effectively set up for day one (1 July 2024).
- If this cannot be set up for day one, the entities may need to use existing council billing systems for billing in the short term. If it is necessary for councils to collect revenue on behalf of the entities over the short-term, councils will be reimbursed for this service (much as District Councils do now where they also send out rating notices on behalf of their Regional Council). This would be a short-term arrangement and transitioned as quickly as possible.

Q. Councils have both urban and extraordinary users, what is the approach to pricing and supply to extraordinary users

- This will be a matter of the funding and pricing policy for the entities to consider and will be subject to any regulation of pricing structures (further Cabinet decisions will be made on this with more detailed pricing information).
- We note the funding and pricing policy will be required to be consulted on with all consumers and communities by the water service entities.
- The water service entities have been designed to be responsive to consumers (of which extraordinary users are an important subset). The system (including regulators, Government Policy Statement, Regional Representative Group and competency based boards) is also designed to ensure three waters services are improved over time for the benefit of all users.

Q. Has differential pricing across different council boundaries and ring-fencing of debt by the new entities been specifically ruled out?

- The Government has a clearly stated objective to ensure **all New Zealanders** have access to **affordable** safe drinking water and stormwater and wastewater services that meet today's public health and environmental expectations.
- This does not mean differential pricing across different council boundaries and ring-fencing of debt by the new entities has been specifically ruled out.
- Further Cabinet decisions are required regarding the regulation of water service entity pricing structures (alongside the development of the economic regulation regime) and there will be opportunity for input from councils into this process.

- More detailed information is required to understand the impact of these decisions (including detailed water pricing information from all councils).

Indicative Financial Tool

Q. For the Financial Impact Tool, can you please clarify where you got the data from to populate these dashboards? For example, whether it is from Council published draft LTPs on council websites?

- The data is from Council published draft and final LTPs taken from Council websites. When each council is selected in the model, it states whether the data is "draft" or "final".

Q. In the latest model the Net Debt is quoted on the graph but appears to not take account of financial assets. Why?

- The ratios calculated for LGFA, rating agencies and prudential metrics involve several detailed adjustments, some of which are unique to individual councils. Given available information, it is not possible to make all of these adjustments.
- The Financial Tool is based on data compiled from LTPs, and includes aggregation of some line items. As a result, some of the ratios presented in the Financial Tool will differ from values calculated by individual councils who will have access to more detailed data and be able to make the necessary adjustments.
- Although this may result in differences in the "without transfer" scenario compared to ratios calculated by councils, we expect the "with transfer" scenario to still be informative of the direction and magnitude of the change resulting from the transfer.
- With the above in mind, the Financial Tool was built with functionality to enable users to input alternative data, which allows councils to account for these adjustments as well as alternative financial forecasts.

Other matters

Q. How will integrated multipurpose water supplies be treated e.g. the Waimea Community Dam, that provides irrigation water, water for the urban reticulated supplies and environmental flows into the river be treated along with public good and economic benefits? It's the same water release that achieves the three purposes?

- The Waimea Dam is a useful example of a mixed-use asset that supplies drinking water, irrigation and ecological replenishment, there is also an interesting ownership structure for this scheme.
- These sorts of schemes and assets present unique circumstances that need working through during the transition period.
- LGNZ are holding a workshop on this matter in the coming weeks and have sought expressions of interest for participants via Mayors and CEs.

Q. Does central government have another workstream to address the impacts of the proposed change on other legislation, such as the LG Rating Act?

- Yes, there are a number of consequential legislative changes that would be needed as a result of implementing the proposal to transfer water services. No only within the local government specific legislation, but also others such as Civil Defence and Emergency Management legislation.

- We are likely going to need multiple pieces of legislation to give effect to the reform proposals, currently we are scoping at least two over the three year period, should the reforms proceed as proposed.

Q. When will we see the non-financial performance measures for the new entities so that we can answer the service-related questions of Councillors and community? We can see that fundamentally the financial aspect of the new entity should be economies of scale so cheaper, but what will the experience of the community be i.e. time to fix a leak, time on the phone trying to get through etc.?

- The Ministry of Business, Innovation and Employment will be consulting on the economic regulation and consumer protection regimes that will advance the interests of consumers later this year, including a proposal for the consumer protection regulator to have a statutory obligation to develop these kind of minimum service level requirements.

Stormwater

Note: the first report from the Stormwater Technical Working Group is expected to be released shortly on the Department's webpage.

Q. The focus has been on potable water supplied or connections to Wastewater systems but what basis is assumed for recovery of costs related to storm water for which there is no "connection".

- This is part of the pricing and charging tools that will need to be available to the entities discussed above. This is not necessarily only connection based.
- For stormwater services, the entities are likely to charge for services based on some universal charging regime that can reflect those that receive benefits from the service, both the private benefit to individual property owners, as well as the wider public good component e.g. a uniform annual charge is one example.

Q. Will stock water and more importantly rural drainage/stormwater schemes/services assets/structures be transferred. How has this stranded overhead been assessed?

- Only stormwater assets (which could include hard and green infrastructure) owned by local authorities are in the scope of the reforms. Within council-owned assets only those assets where their predominant function is stormwater will be transferred to water service entities.
- All other assets will remain with current owners and service level agreements will be developed between current owners (e.g. councils and transport operators) and water service entities to manage the stormwater function of those assets.
- The Stormwater Technical Working Group identified that there is significant variability in the council arrangements for the management of rural drainage schemes, so the transition process will involve engagement with the sector to work through special cases to ensure local authorities are not left with stranded assets and functions.

Q. How has land drainage being included in the stormwater definition?

- The definition for stormwater in the Water Service Bill is: *infrastructure and processes that are used to collect, treat, drain, and discharge stormwater from a built area or transport corridor in an urban area*.
- The Stormwater Technical Working Group agreed that this refers to the reticulated system and the overland, secondary, and above ground flow paths where stormwater flows and

should be implemented using a catchment-based approach, but must consider the local context.

- Land drainage is a key component of the catchment, it plays a significant role in the functioning of the stormwater system and service level agreements between the water service entities and local authorities and regional councils will be required to manage this.

Q. Will the water entities consider taking on assets that we currently classify as Flood Control, where they effectively contribute to urban stormwater?

- The transfer of regional council functions and infrastructure to manage flood risks is currently outside of the scope of the Three Waters Reform Programme.
- However, unitary authorities have been clear that any future arrangements will need to take into account these existing arrangements or risk “stranding” some operational functions.
- This means that in some cases it may be an option to consider transferring the asset or developing a service level agreement between the water service entity and the unitary authority. Regional Council may also want to voluntarily enter into similar arrangements for some flood control assets.
- For some flood control assets, there will be interactions with water service entities’ management of the stormwater system (particularly in urban areas), in these cases service level agreements may be required between water service entities and regional councils.