

# Three Waters Reform Programme

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## Mid-2021 Three Waters Proposals

**This webinar is offered under embargo until 10.30am on 30 June 2021**

[www.dia.govt.nz/Three-Waters-Reform-Programme](http://www.dia.govt.nz/Three-Waters-Reform-Programme)

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**Te Tari Taiwhenua**  
**Internal Affairs**

# Welcome house keeping

- **This webinar is offered under embargo until 10.30am on 30 June 2021**
- All attendees will be on mute throughout the session
- Should you have any questions please send these through the Q&A function and we will address them at the end of the presentation with the time remaining
- Please note this session will be recorded so should you wish to ask an oral question verbally your username and video will be recorded
- Select to “All Panelists” when you are posting your questions
- This presentation assumes a base level of understanding about the history of the reforms. More information about this background can be found on the Reform Programme webpage
- Materials will be sent to you under embargo following this webinar

# Materials to be provided

- Following this presentation we will provide you with a suite of information under embargo including:
  - This slide pack
  - A two-page A3 summarising key reform decisions
  - A set of FAQs about these decisions
  - A dashboard on the entities' expected financial performance
  - Three Cabinet papers proactively released as part of this announcement
  - The Department's Regulatory Impact Analysis that accompanies these Cabinet papers
  - WICS part 4 – detailed analysis of Auckland Council
  - WICS part 5 – Council specific analysis of average household costs with and without reform
  - A link to the local dashboard
  - A set of specific key messages and FAQs about the local dashboard

# Purpose of this presentation

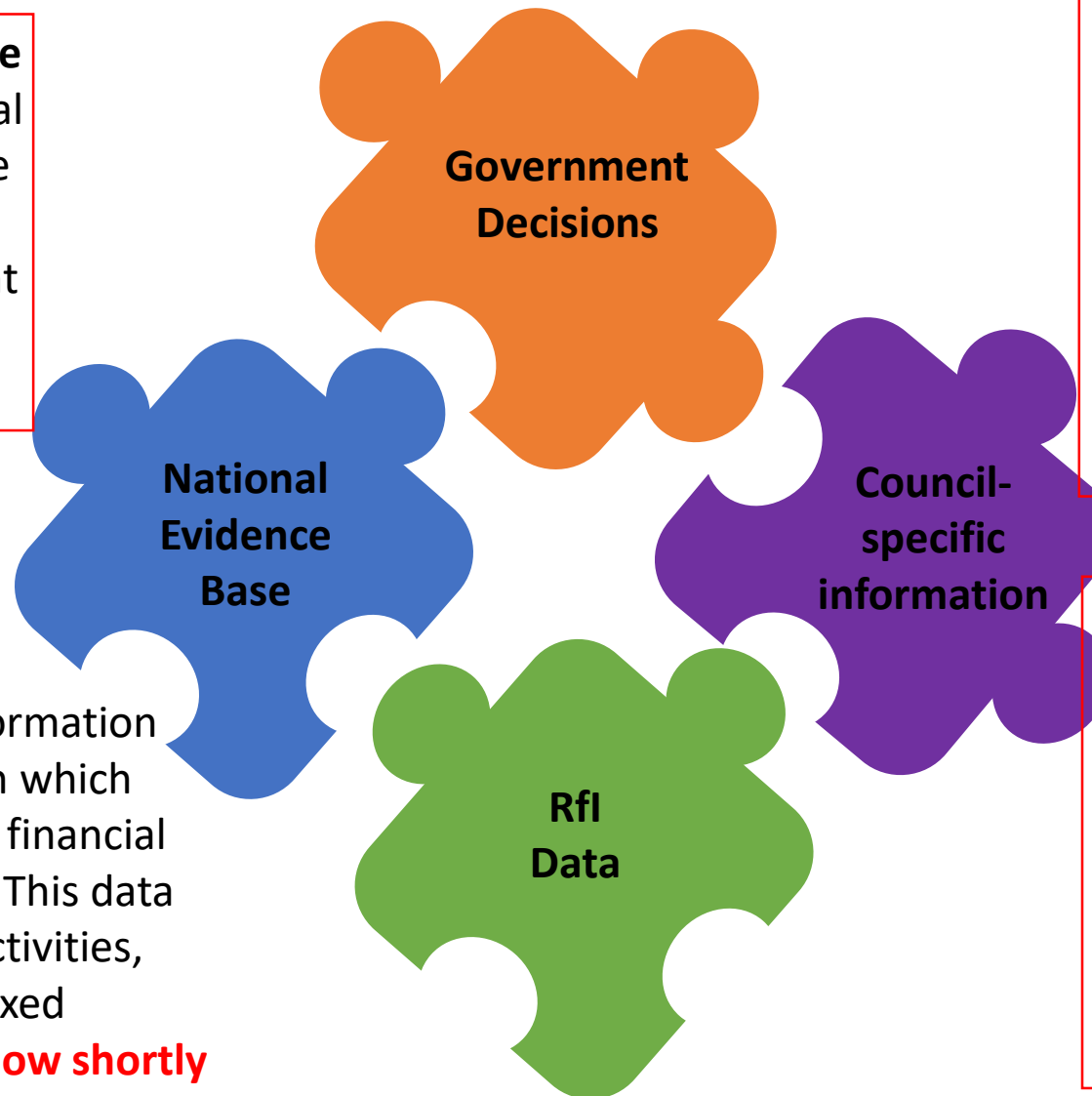
- The Government is expected to announce key reform design and policy proposals as part of the Three Waters Reform Programme at 10.30am on 30 June 2021.
- This webinar provides an overview of:
  - The decisions taken by Cabinet on the design of the new entities; and
  - a suite of supporting information to be released by DIA, in partnership with the Joint Steering Committee, to support your understanding of these decisions
- A fourth paper setting out proposed arrangements for transitioning to, and implementing, the new three waters service delivery system is yet to be considered by Cabinet
- We anticipate further Government announcements on the reforms in the coming weeks

# How the information fits together

The **national-level evidence base** discusses the potential benefits of reforms and the extent to which these can be achieved under different scenarios.

**Released 2 June 2021**

The **Rfl data** - local raw information provided by councils - upon which commercial, economic and financial analysis can be conducted. This data covers a range of council activities, assets and services with mixed confidence grades. – **to follow shortly**



## **Today's discussion**

**Government decisions** on the number and proposed boundaries of the entities are informed by the national evidence base and local analysis (among other considerations such as iwi rohe/takiwā, catchments and communities of interest).

## **Today's discussion**

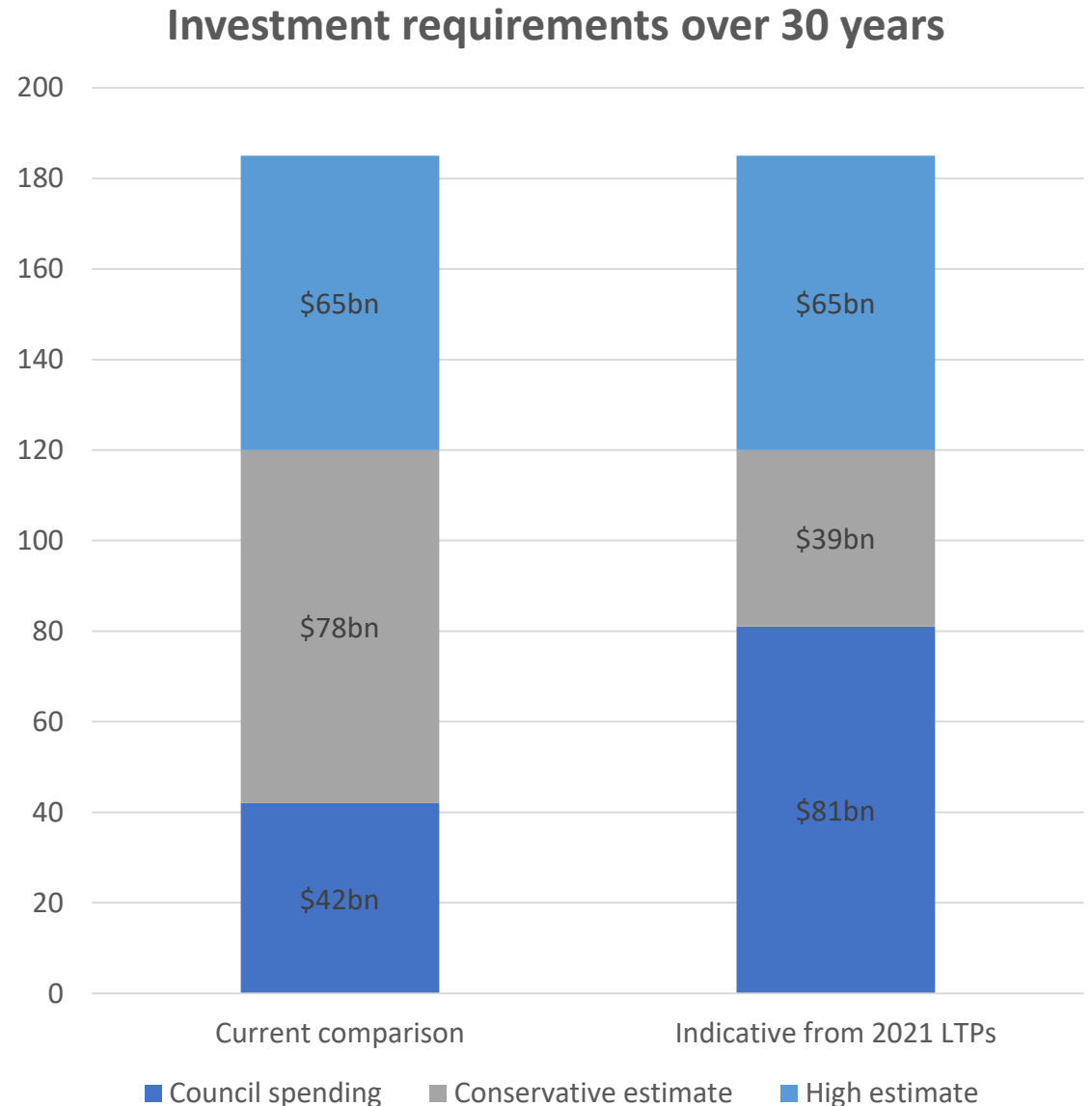
**Council-specific information** provides a picture of what the reform proposals could mean for each unique council based on the Government's decision on entity numbers and boundaries, and available financial information.

# The case for change

- Historically, there has been a poor information base about New Zealand's three waters infrastructure, assets and operations
- In recent years a substantial body of analysis and evidence on the sector has been developing
- On 2 June DIA released information to advance our understanding of these essential services at a **national level**. Key findings include:
  - An investment requirement for New Zealand's three waters services over the next 30+ years of between **\$120bn - \$185bn** without reform
  - Efficiencies in the range of **45% over the 30 year** period could be achieved through the reform process
  - The Reforms could result in an additional **5,800 to 9,300 jobs** and increase in GDP of between **\$14b to \$23b** in NPV terms over 30 years
  - Evidence and modelling suggests between one and four entities would provide the most efficiencies

# Potential investment in context

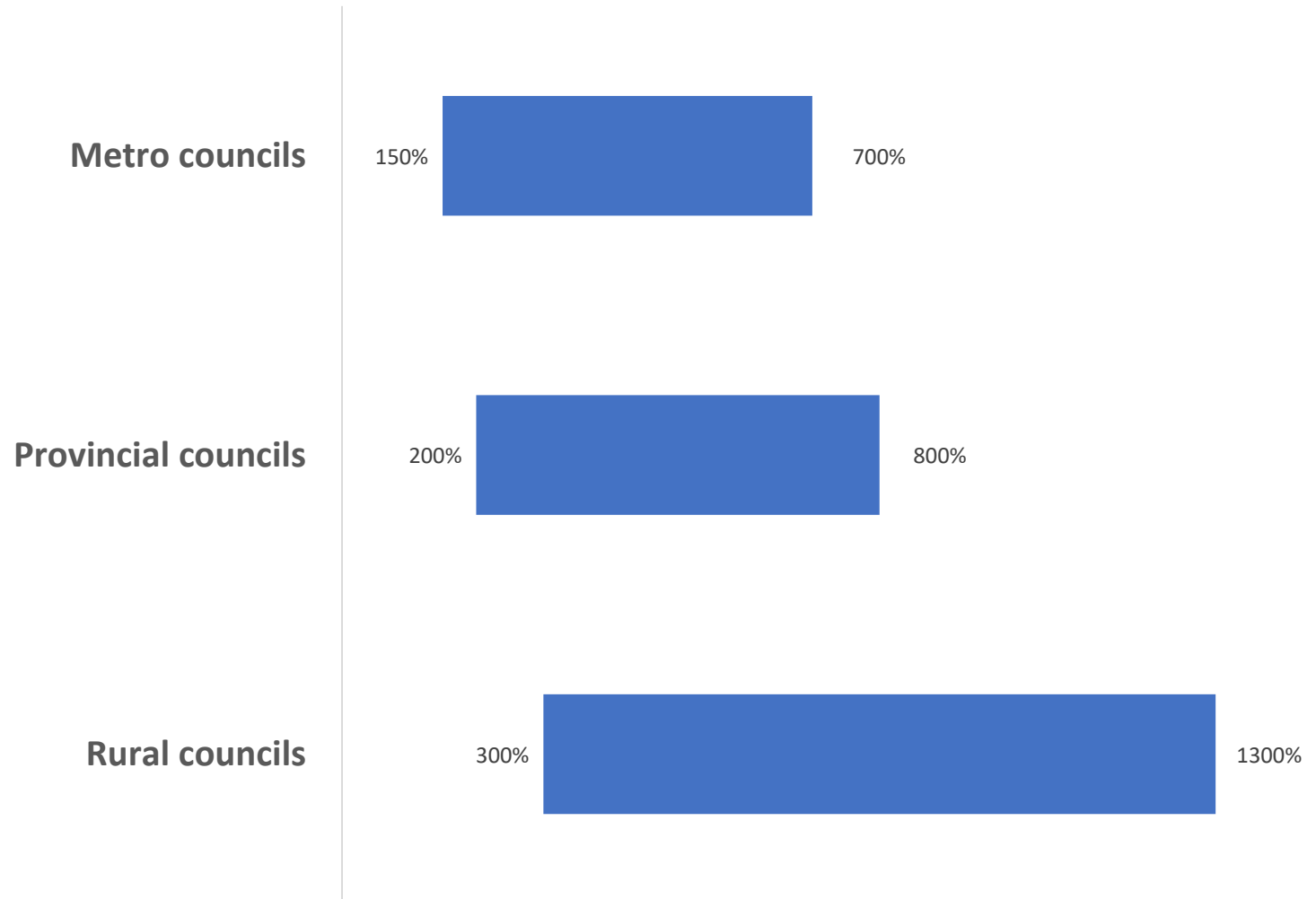
- WICS \$120bn - \$185bn findings in context:
  - Requires a national annual spend of \$4 billion to \$6 billion over the next 30 years
  - Historically council capital expenditure is around \$1.4 billion per annum
  - Forecasts in draft LTPs indicate a substantial lift to around \$2.7 billion annually



# Cost implications for local authorities

- Catching up on this investment will have significant implications for local authority finances, and present **affordability issues**, particularly for smaller communities.
- Average annual costs for metro councils would need to increase by **1.5 and 7 times** to meet the required investment.
- Costs for provincial councils would need to increase by **between 2 and 8 times**.
- For rural councils, average costs would increase by **between 3 and 13 times**.

Increase in average household costs from 2021 to 2051 without reform

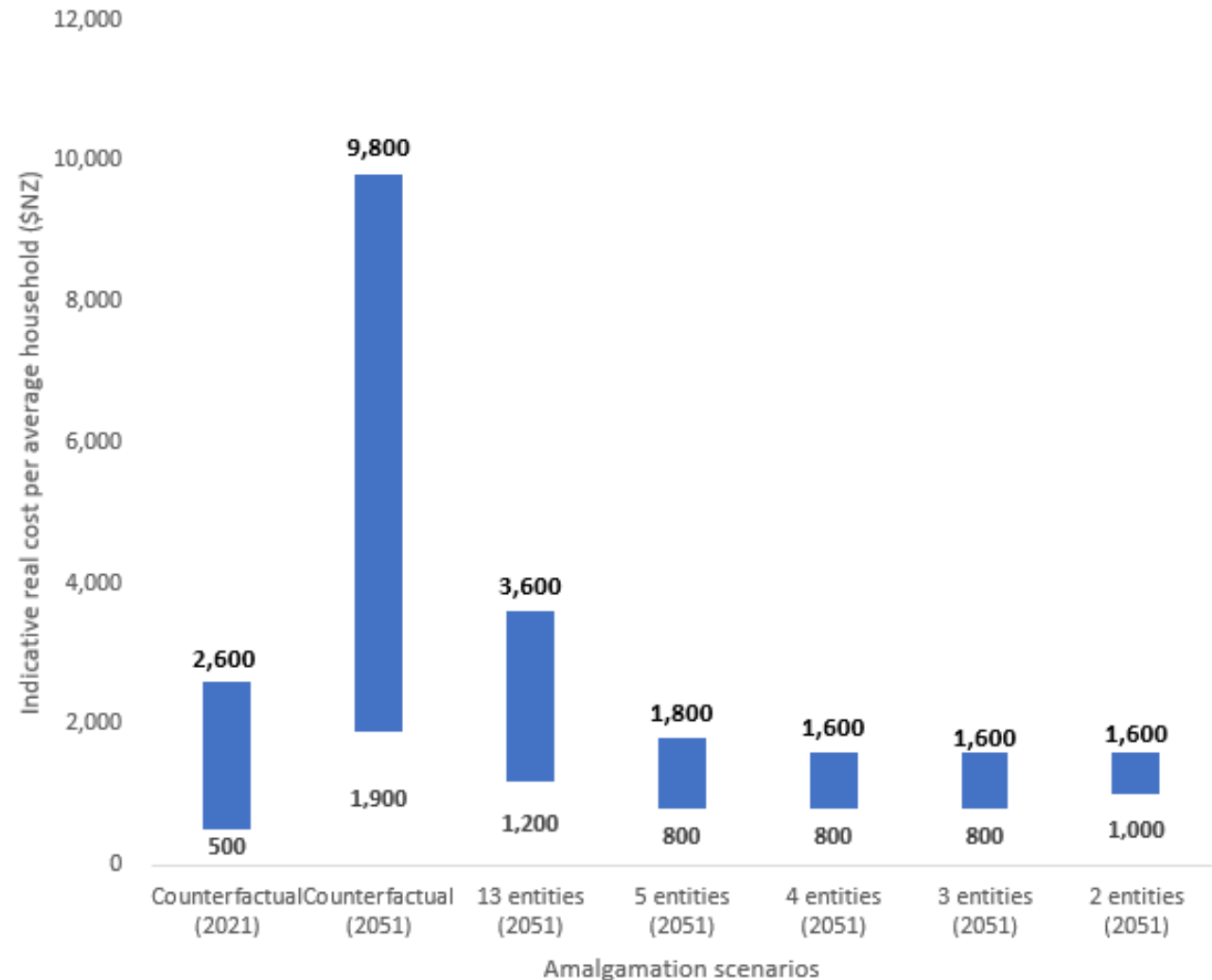




# WICS aggregation scenarios

- The Water Industry Commission for Scotland (WICS) assessed a range of scenarios (testing between 1 to 13 entity configurations for a total of 30 scenarios).
- Scenarios involving a larger number of entities are likely to limit the extent to which the new entities can realise efficiency savings
- Scenarios involving a smaller number of entities are more likely to create entities of a scale that would optimise efficiency
- Cabinet considerations included an objective that all communities are better off under reform

Indicative real cost per household in current prices\*

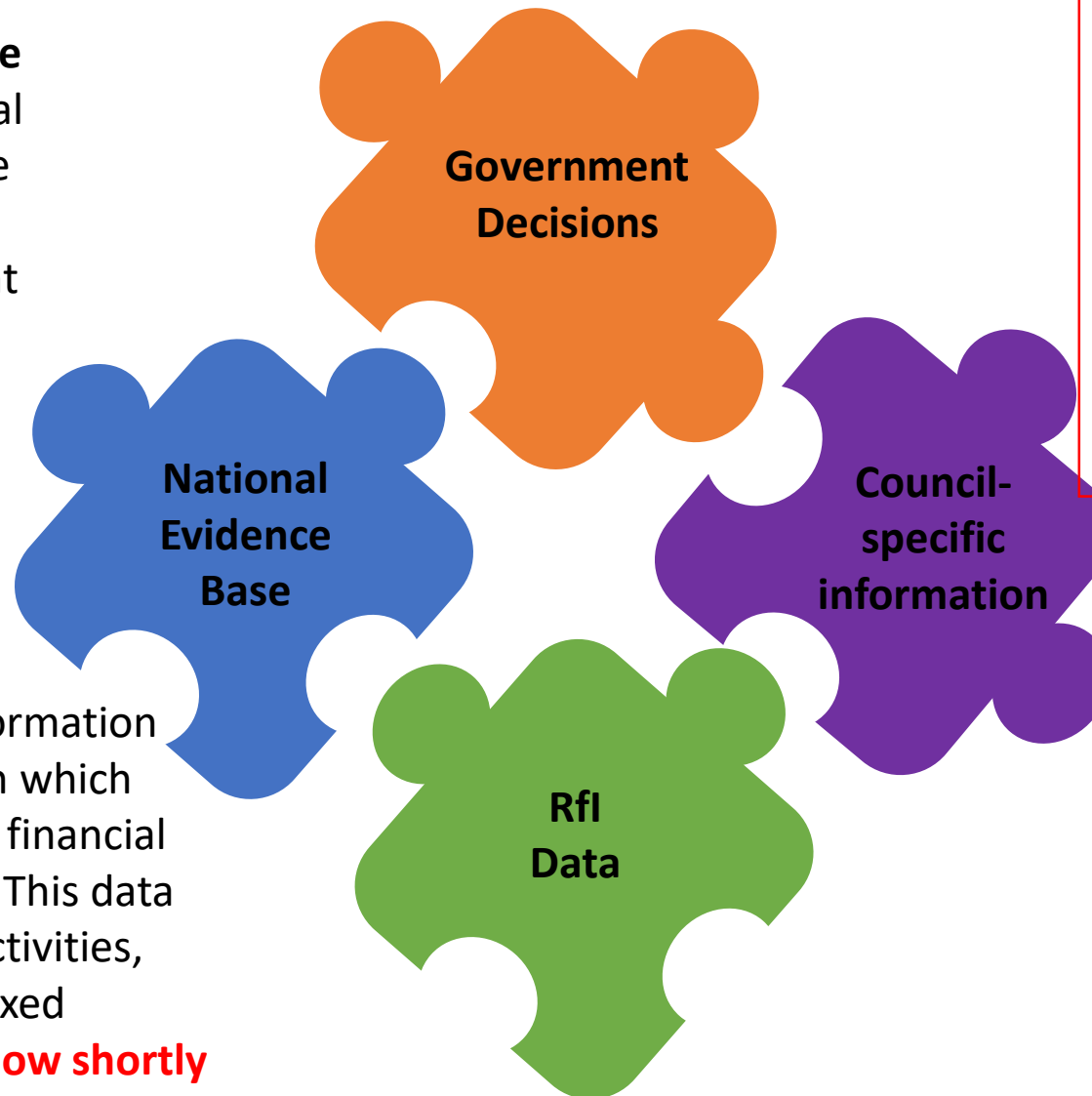


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# Cabinet considerations

- Cabinet has considered a suite of three papers on key reform features and policy proposals.
- These papers cover the following aspects of the reform proposals:
  1. ***A new system for three waters service delivery*** – sets out the case for change and the need for a comprehensive package for reform
  2. ***Designing the new three waters service delivery entities*** – details the structure of the entities, associated oversight, governance and ownership arrangements, and mechanisms that provide for communities and consumers voice in the new structure
  3. ***Protecting and promoting iwi/Māori rights and interests in the new three waters service delivery model*** – sets out specific mechanisms for protecting and promoting rights and interests in the new service delivery model
- These papers are also accompanied by a detailed Regulatory Impact Analysis, FAQs and A3s

# Summary of the package of reform

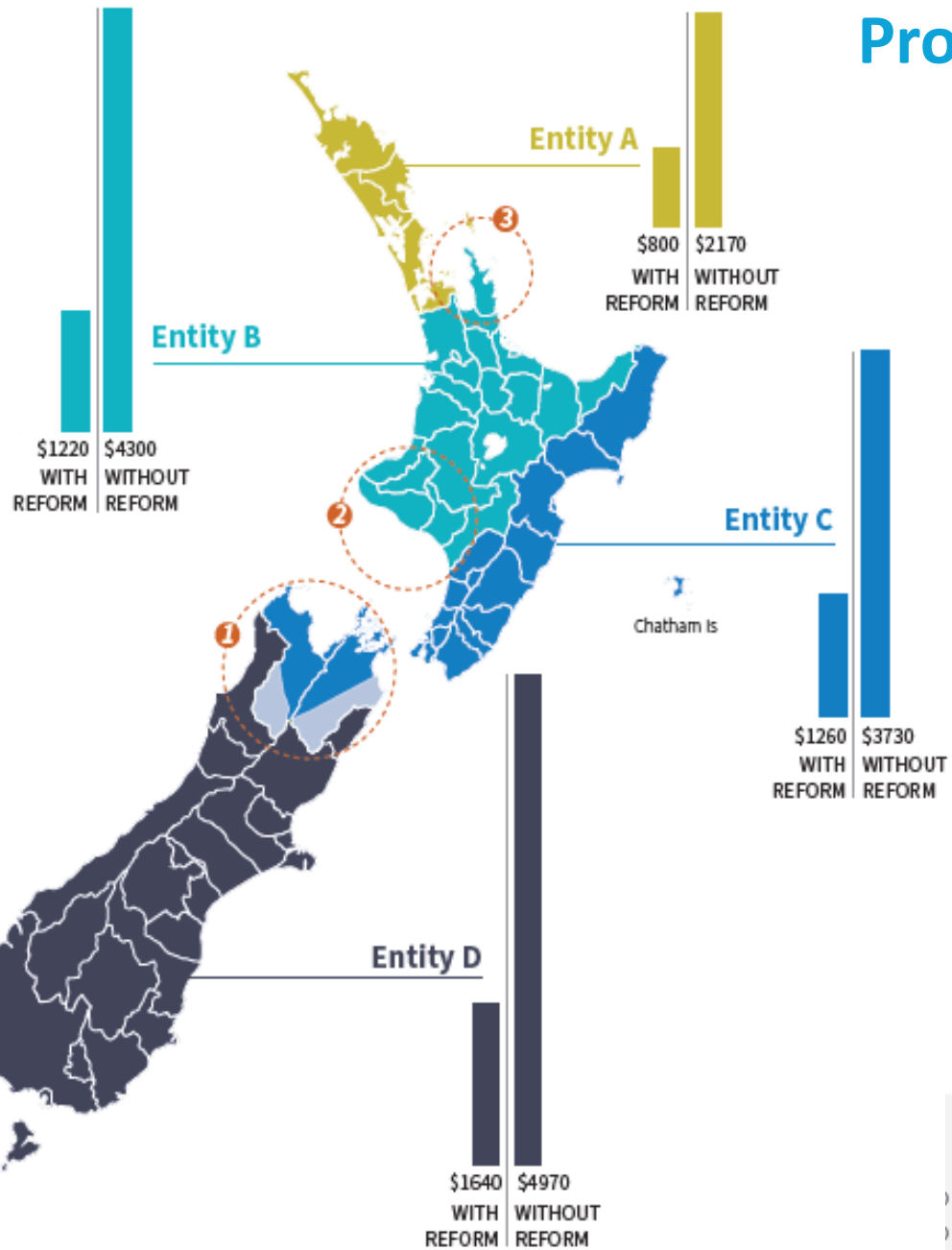
The Government has made policy decision on an integrated and extensive package of reform. The package proposes the following core components:

- establish four, publicly-owned water services entities to provide safe, reliable and efficient three waters services – with protections against future privatisation
- the entities will own and operate three waters infrastructure on behalf of territorial authorities, including transferring ownership of three waters assets
- independent, competency-based boards to govern each entity
- a suite of mechanisms to protect and promote iwi/Māori rights and interests
- an economic regulatory regime to protect consumer interests and provide strong incentives for performance
- stewardship arrangements for the new system to ensure it adapts to shifts in national objectives and priorities and remains fit for purpose

# Boundaries of entities

- The Government has agreed to ‘preferred options’ for the boundaries of these entities
- Key considerations on the size and shape of entities were that they:
  - have a **sufficient asset and customer base** to be financially sustainable, have economically efficient **scale**, and deliver services at an **affordable price**
  - operate effectively in relation to **water catchments** and achieve environmental outcomes
  - engage **meaningfully with iwi/Māori**, which requires decisions on boundaries to be informed by an understanding of rohe/takiwā boundaries and a ki uta, ki tai approach
  - understand and reflect **relevant community interests**, particularly existing relationships or a shared identities between neighbouring communities
  - have access to a **skilled local workforce**
- However the Government remains interested in continuing discussion with local government and iwi/Māori ***most affected by the proposed boundaries*** for feedback before confirming them in legislation

# Proposed boundaries and 2051 household costs



Entity and connected population	Regions included
<b>A. 1,725,853</b>	Auckland and Northland regions
<b>B. 799,608</b>	All districts from the Waikato, Bay of Plenty and Taranaki regions and the upper parts of Manawatū-Whanganui region (Ruapehu, Whanganui, and Rangitikei)
<b>C. 955,154</b>	<ul style="list-style-type: none"> <li>The districts in the eastern and lower part of the North Island</li> <li>Gisborne, Hawke's Bay region, lower parts of the Manawatū-Whanganui region (Horowhenua, Manawatu, Palmerston North and Tararua), and Wellington regions; and</li> <li>The local authorities at the top of the South Island (Tasman, Nelson and Marlborough)</li> </ul>
<b>D. 864,350</b>	The districts and regions in the rest of the South Island, including those parts of the Marlborough and Tasman Districts that comprise the Ngāi Tahu takiwā

# Purpose and objectives of the entities

- The Government has agreed the new entities will provide services and infrastructure relating to drinking water, wastewater **and stormwater**
- The ***purpose*** of the entities would be to **provide safe, reliable and efficient water services**. With high-level ***objectives*** relating to:
  - delivering water services and infrastructure, in an **efficient and financially sustainable** manner
  - protecting and **promoting public health** and the **environment**
  - supporting and **enabling housing and urban development**
  - operating in accordance with best commercial and business practices
  - acting in the **best interests of consumers and communities** now, and into the **future**
  - **giving effect to Te Mana o te Wai**
  - delivering and managing water services in a **sustainable and resilient** manner
- The entities will need to have the legislative powers, functions, and responsibilities required to fulfil their purpose and objectives

# Operating principles of the entities

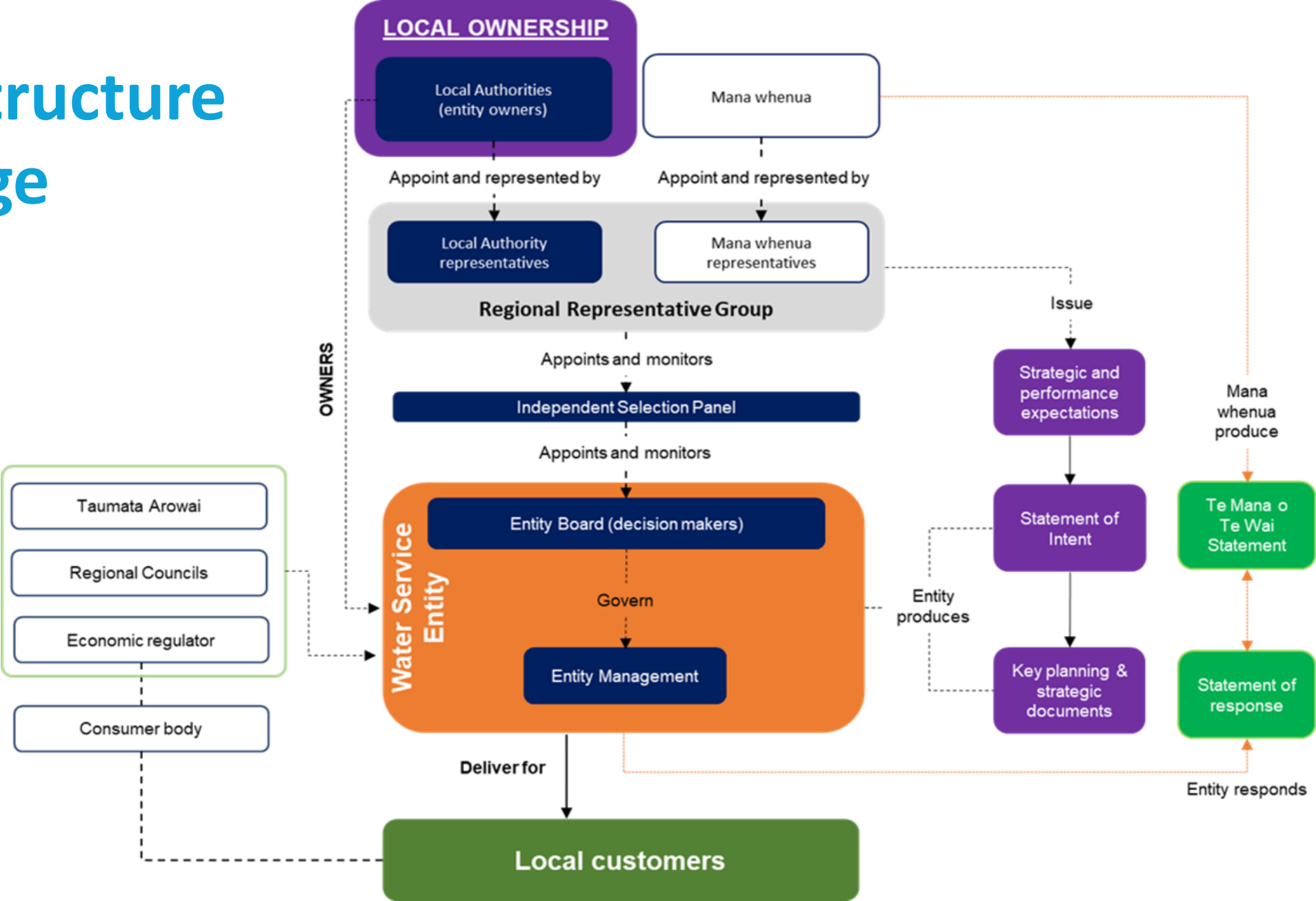
The Government has also agreed operating principles to be set out in the legislation, to guide and inform how the entities deliver their objectives and functions.

These would broadly relate to:

- developing and **sharing capability and technical expertise** – internally and across the industry
- **innovation** in the design and delivery of water services and infrastructure
- being **open and transparent** – including pricing, levels of service, and reporting performance
- **partnering and engaging early and meaningfully** with Māori, local government, and communities
- **cooperating with, and supporting**, other water providers, local authorities, and the transport sector –in infrastructure and land-use planning, and development
- understanding, supporting, and **enabling mātauranga Māori, tikanga Māori and kaitiakitanga** to be exercised



# Entity structure on a page



# Ownership

## Entity Ownership

- **local authorities** are the **‘owners’** of the entity, **on behalf of their communities** – This is a ‘no shareholding’ ownership with **no financial recognition** of ownership
- **mana whenua** will have a joint **oversight** role

## Protections

- protections in legislation **against future privatisation** – local government will be written into legislation as owners on behalf of their communities
- any proposal for privatisation would need to be endorsed by the Regional Representative Group (by at least a 75 per cent majority) and then put to a public referendum (that also requires at least 75 per cent of votes to be in favour of the proposal for it to proceed)
- no provision for financial recognition of ownership, including no shareholdings and a prohibition on dividends

# Governance

- Each entity will have a regional **Representative Group** that provides for proportionate representation of the local government and mana whenua
- The Representative Group will issue a Statement of **Strategic and Performance Expectations** to inform the entity's planning and **monitor performance** against these documents
- Entities will be required to produce a **Statement of Intent** in response to the Strategic and Performance Expectations
- The Representative Group will also establish and monitor the **Independent Selection Panel (ISP)** that appoints and removes members to the entity's board
- The **independent board**, appointed by the ISP, will **govern the new entities** and will require relevant competencies – to be set out in legislation
- A Government Policy Statement will provide direction to entities on national policy priorities

# Appointment to the Representative Group

- Local authorities and mana whenua will appoint representatives to their Regional Representative Group via a nomination and voting process
- Representatives would be elected members (or a relevant and appropriately qualified senior council officer) and iwi/Māori representatives
  - Preferably 10 or fewer representatives per entity – but no more than 12
  - Appointments of iwi/Māori representatives will be guided by a kaupapa Māori approach
- Representatives must:
  - comprise a distribution of metropolitan, provincial and rural local authorities (noting 50:50 representation between local government and mana whenua); and
  - represent a geographical spread across the jurisdiction of the entity
- There will be a requirement to rotate Representatives after a maximum period
- The Minister of Local Government will have the ability to appoint a group to work with councils and mana whenua, if needed to facilitate the appointments of Representatives.

# Entity Board

- An independent board, appointed by the Independent Selection Panel (ISP), will govern the entities
- Boards will be accountable to Representatives, local authorities, mana whenua, and the wider public and will be subject to:
  - a requirement to formally report to Representatives annually on the performance of the entity against the Statement of Strategic and Performance Expectations and other strategic documents
  - a process for the ISP to conduct an annual performance review of the board
  - reporting to Representatives on carrying out the board's functions
- Boards will be made up of no more than 10 members, with the chairperson holding the casting vote
- Representatives can request a board member be removed and/or assessed by the ISP, with the ISP having the discretion to remove a member

# Step change for iwi/Māori rights and interests

- The reforms provide opportunities for a step change in the way iwi/Māori rights and interests are recognised. These are woven throughout the new system through:
  - statutory recognition of the **Treaty of Waitangi** and **Te Mana o te Wai**
  - Creating a **mana whenua group in the governance** of each entity, with equal rights to local government
  - **Te Mana o te Wai statements**
  - Each entities' board will be required to have:
    - Treaty of Waitangi, mātauranga Māori, tikanga Māori, and Te Ao Māori competencies
    - specific expertise in kaitiakitanga, tikanga and mātauranga Māori in delivering water services
  - Entities will fund and support **capability and capacity** of mana whenua to participate in its activities

# Entity oversight and accountability

- The water services entities will be subject to:
  - consultation requirements on their strategic direction, investment plans, and prices/charges
  - mechanisms that enable communities and consumers to participate in entities' decision-making processes
  - economic regulation, to protect consumer interests and drive efficiencies
  - charging and pricing frameworks to protect consumers
- MBIE are developing advice on the new economic regulation regime and consumer protection mechanisms and will consult local government on this
- As a 'last resort' a Crown intervention framework with a risk-based approach, will be introduced

# Consumer and community protections

- While MBIE are refining the consumer protections
- In addition to the Representative Group which will act on behalf of their communities, each entity will be required to **engage in a meaningful and effective manner on** key documents, including:
  - Investment prioritisation methodology
  - Asset Management Plan
  - Funding and Pricing Plan
- The entities will also be required to publish these, and to report on how consumer and community feedback was incorporated into decision making
- Each entity will be required to establish a **consumer forum** to assist with effective and meaningful engagement
- A new set of **charging and pricing arrangements** are also being established to improve pricing transparency and affordability of water services

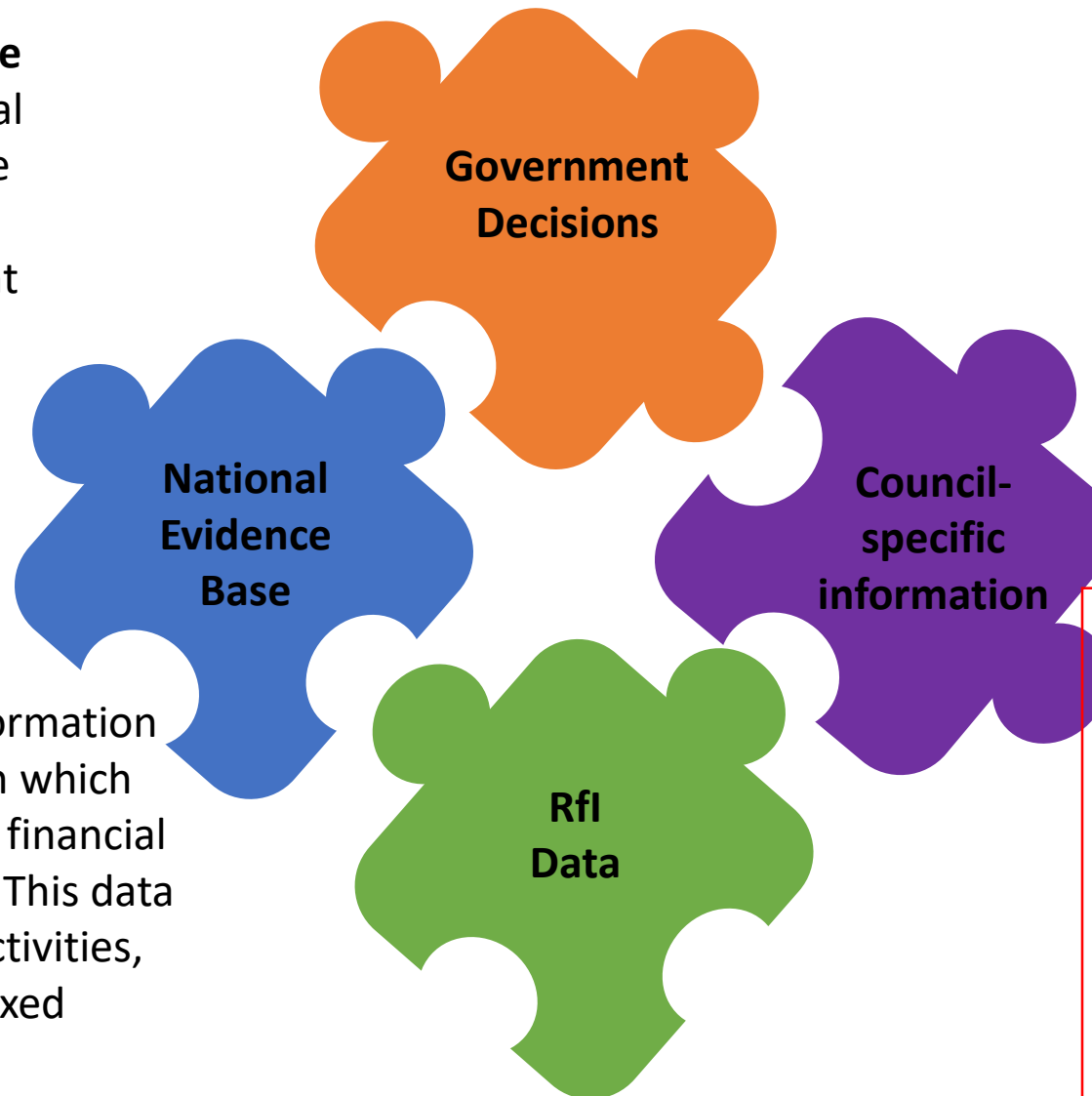


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# Council-specific data and analysis

- In addition to the proactive release of the three Cabinet papers and detailed Regulatory Impact Analysis, DIA will also be releasing:
  - **Local dashboards** - Council specific snapshots that combine some key figures from across the WICS, Deloitte and DIA analysis
  - **WICS part 4** – detailed analysis of Auckland Council
  - **WICS part 5** – council specific analysis of average household costs with and without reform

The next slide provides a picture of what to expect from the local and entity specific dashboards

## Economic

GDP Growth

4.0%

Low Scenario

6.3%

High Scenario

Employment Growth

0.3%

Low Scenario

0.5%

High Scenario

## Operations



92

Three Waters  
FTEs



0

Distribution Zones  
Reporting  
Determinand  
Failures

## Financial

Average Household Cost per Annum (Real):



\$950

FY21: Current

\$1,220

FY51: Reform

\$3,460

FY51: No reform

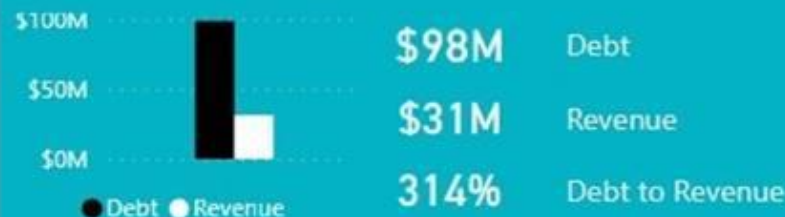
Capital Expenditure Forecast (FY21 - FY30):

● Renewals ● Growth ● Enhancement



Current Investment in Renewals as a Percentage of Depreciation: 58%

Debt to revenue (FY21):



## Performance

Operating Performance Assessment Band (\*)



## Services

Total Number of Billed Properties:

31,442

Water

27,550

Wastewater

37,850

Stormwater



0%

Population Change  
(Summer vs Winter)

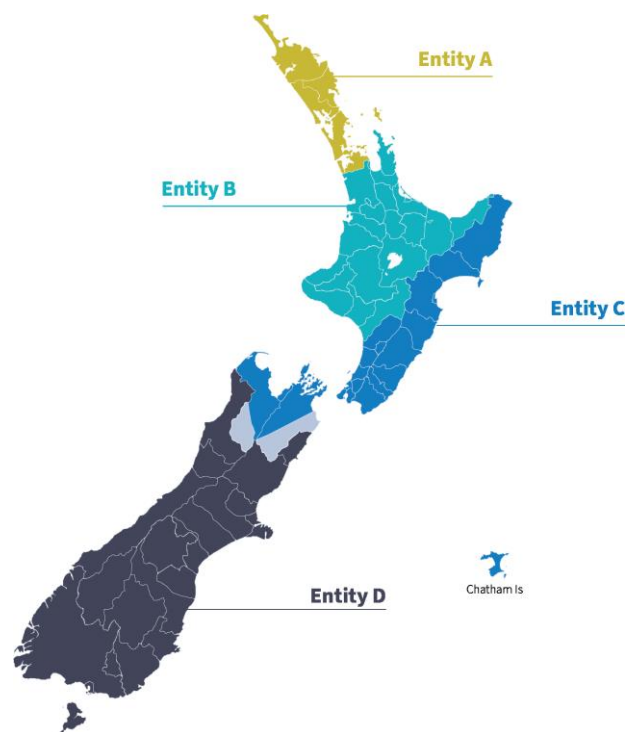
2,175

Properties Affected by  
Unplanned Interruptions

198

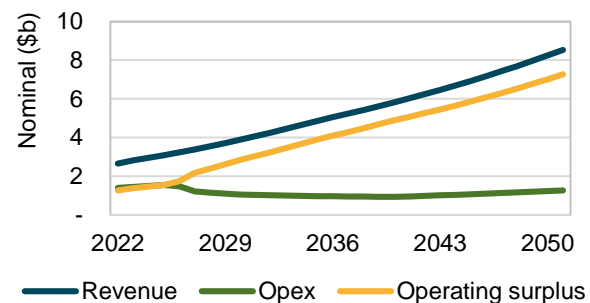
Total Unplanned  
Interruptions

# Water Services Entities – Overview

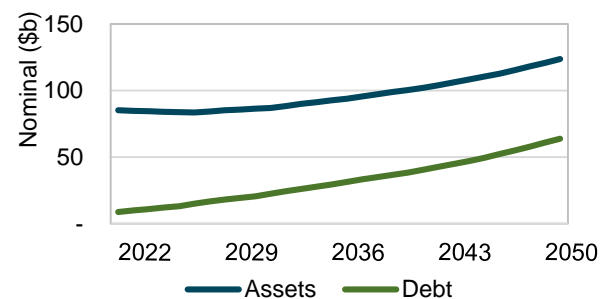


	Entity A	Entity B	Entity C	Entity D
Connected population (2020)	1.7m	0.8m	1.0m	0.9m
<b>Average household cost (2051, real)<sup>1</sup></b>				
With reform	\$800	\$1,220	\$1,260	\$1,640
Without reform	\$2,170	\$4,300	\$3,730	\$4,970

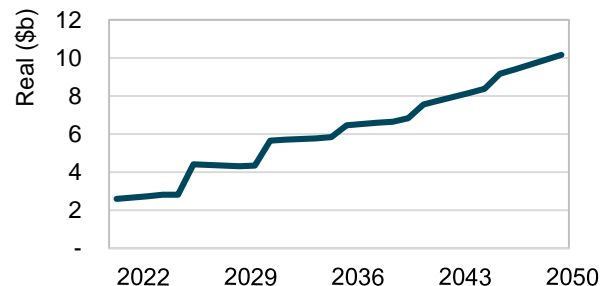
Forecast combined operating performance



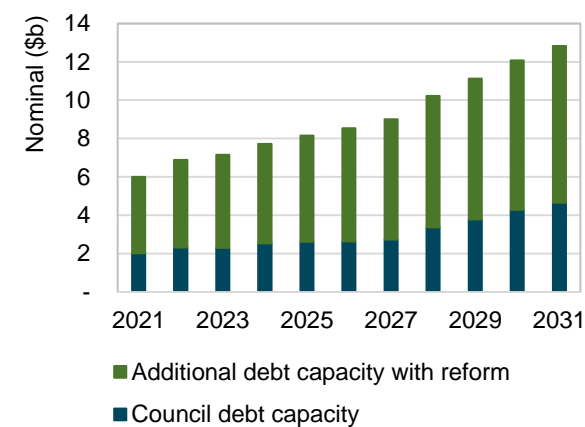
Forecast combined financial position



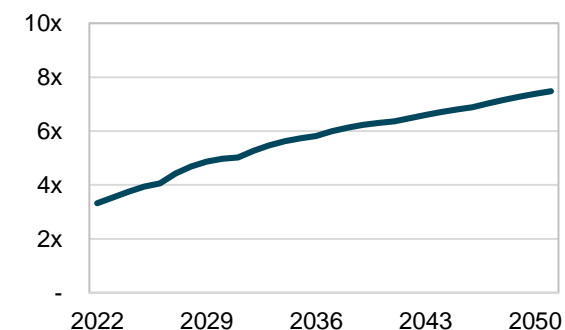
Forecast combined capital expenditure (pre efficiencies)



Estimated combined debt capacity with reform<sup>2</sup>



Forecast combined debt to revenue<sup>3</sup>



<sup>1</sup> Forecast average household costs are based on analysis undertaken by WICS.

<sup>2</sup> Estimated debt capacity is based on draft 2021-2031 LTP data.

<sup>3</sup> Water entities are expected to have an issuer credit rating similar to that of councils. Further information is provided overleaf.

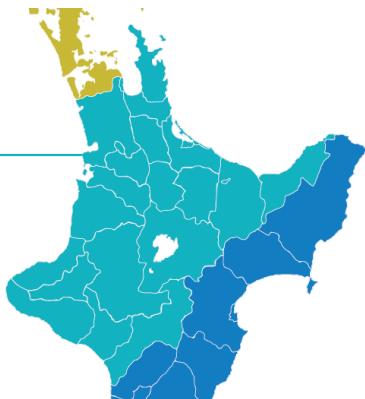
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# Entity B

## Entity B



- Hamilton

Hauraki

Kawerau

Matamata-Piako

New Plymouth

Opotiki

Otorohanga

Rangitikei
- Rotorua Lakes

Ruapehu

South Taranaki

South Waikato

Stratford

Taupo

Tauranga

Thames-Coromandel
- Waikato

Waipa

Waitomo

Western Bay of Plenty

Whakatane

Whanganui

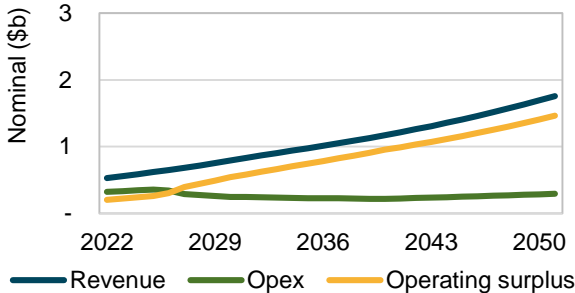
### Entity B

Connected population (2020) 0.8m

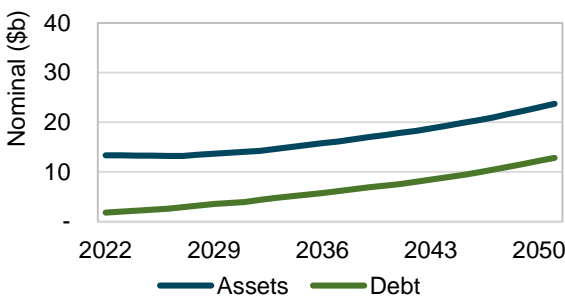
### Average household cost (2051, real)<sup>1</sup>

With reform	\$1,220
Without reform	\$4,300

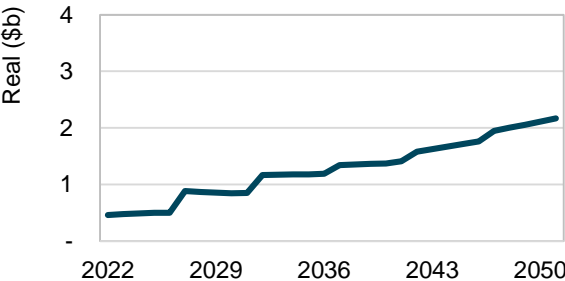
### Forecast operating performance



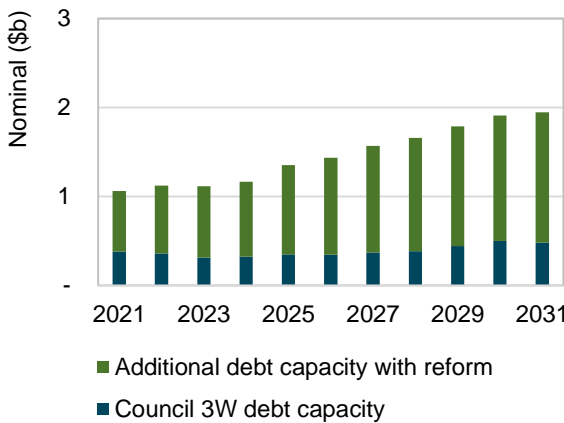
### Forecast financial position



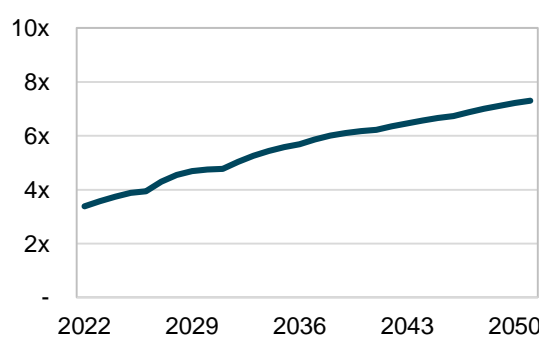
### Forecast capital expenditure (pre efficiencies)



### Estimated debt capacity with reform<sup>2</sup>



### Forecast debt to revenue<sup>3</sup>



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# Next Steps



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# Next steps

## Mid July

- Further detailed dashboards on council finances
- Release of RfI data – DIA will release a flat file containing all non-commercially sensitive council raw data provided under the RfI – mid-July 2021
- Process from here
- Announcements on reform support package for local government

## Ongoing

- Engagement with councils on the reform proposals
- Targeted hui with iwi/Māori

**Cabinet is expected to confirm boundary choices – September 2021**

# Questions?

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Please use the Q and A function to post your questions or use the raise hand button to ask your question verbally.



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# Ngā mihi, Thank you

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**Reform Programme Webpage:** [www.dia.govt.nz/Three-Waters-Reform-Programme](http://www.dia.govt.nz/Three-Waters-Reform-Programme)

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