

The local government sector has been asking successive Governments for water reform, long before Havelock North. The Government is proposing four new, large water service delivery entities. Their scale means they would be able to borrow enough to fund the investment needed in water services and infrastructure over the next 30 years. Scale would create operating efficiencies over time, especially in terms of procurement. The larger entities would have more power in the contracting market than 67 disparate councils, and be better able to fund and demand levels of service.

We want to hear your ideas directly – email feedback@lgnz.co.nz

We are also running workshops you can attend.



The status quo no longer applies.

- Everyone agrees that more investment is needed in water infrastructure – and increased investment has been reflected in councils’ recent Long Term Plans.
- But the magnitude of investment that will be required over the next 30 years is potentially beyond councils’ existing ability to fund, as infrastructure comes up for renewal, communities’ expectations increase and climate change threatens infrastructure.
- This investment is required to meet standards – and to meet communities’ expectations. Not just in drinking water, where current standards are not being enforced, but also wastewater and stormwater.
- The new regulator – Taumata Arowai – will enforce existing standards, with significant proposed penalties, including fines and criminal proceedings. The Water Services Bill is going through parliament right now.
- The Water Services Bill, once enacted, will impose new offences, some carrying criminal penalties, for council officers, employees and agents of drinking water suppliers. It will also confer new duties on local authorities to ensure communities have access to safe drinking water if existing private and community supplies face problems in complying with the regulatory requirements.
- An economic regulator will also be introduced. The purpose of an economic regulator is to ensure it’s no longer possible to under invest, or to charge consumers too much or to deliver poor quality service.
- If a council “opts out”, it would find itself operating in a very different landscape, with a large and growing proportion of expenditure and energy eaten up by three waters investment and compliance.



Water assets remain publicly owned.

- The assets remain in public ownership and aren’t being sold – the new entities would be collectively owned by councils, on behalf of communities.
- The entities will own and operate three waters infrastructure on behalf of territorial authorities – they will hold three waters assets and associated debt.
- Independent, competency-based boards would govern each entity.
- This is how these boards would be chosen. Councils and mana whenua would appoint a Regional Representative Group. This group would appoint an Independent Selection Panel, which would appoint the Entity Board.
- The Regional Representative Group will provide the entity with a Statement of Strategic and Performance Expectations that will influence the Statement of Intent that the water entity produces.
- Each entity will also have to meaningfully engage with communities on key documents.
- The Government is asking for feedback on whether the proposal includes the right mechanisms to allow community feedback. For example, should there be a water ombudsman?



There’s a package on the table for councils.

- LGNZ agreed with the Government a \$2.5+ billion package for councils, to wrap around the reform proposals.
- This agreement puts something on the table for councils that wouldn’t otherwise have been there. It doesn’t bind individual councils in any way.
- The package has three financial components:
 1. Support for local government to invest in communities’ wellbeing. This means all councils and their communities will be better off under reform. This part of the investment totals \$2 billion, with \$500 million being available from 1 July 2022.
 2. Targeted support to ensure no councils are financially worse off as a result of transferring their three waters assets.
 3. Cover of reasonable transition costs. This is intended to make sure council service delivery (including of water services) during transition isn’t compromised by the work needed to make the transition happen.
- The package covers more than money. It includes commitments to partnership with central Government, including in the Future for Local Government reform.



What’s happening now?

- At the moment, we’re in an 8-week period to give the sector breathing space to interrogate the reform. This period ends on 1 October.
- The purpose of this 8 weeks is to understand the model – and how it can be strengthened. It’s not a decision-making period. So it doesn’t trigger formal consultation.
- Everyone wants to know what happens next – and that’s in the Government’s hands.
- The Minister has said she wants councils to spend this time really interrogating this proposal and how it might work.



How can the proposal be improved?

We want to hear your ideas on how to address concerns councils have identified:

1. Ensuring all communities have both a voice in the system and influence over local decisions.
2. Effective representation on the new water entities’ oversight boards so that there is strong accountability to the communities they serve, including iwi participation, and effective protection against privatisation.
3. Making sure councils’ plans for growth are appropriately integrated with water services planning.



OWNERSHIP

Who will own the water assets under the reform proposal?

Local authorities would be the owners of the entity, on behalf of their communities.

The entities will own and operate three waters infrastructure on behalf of territorial authorities – they will hold three waters assets and associated debt.

The assets aren't being sold – the new entities would be collectively owned by councils, on behalf of communities.

Does the proposed model make privatisation likely?

Water services would be more difficult to privatise under the proposal than they are right now.

The reform proposals combine a series of measures that together help safeguard against future privatisation, including: The councils that constitute each entity would be the owners of that entity.

There is no shareholding structure in the proposal and a prohibition on dividends.

There would be statutory restrictions on the sale or transfer of material, strategic water assets. This is the current approach in the Local Government Act 2002, which prevents local authorities from selling or disposing of strategic assets or the infrastructure necessary for providing water services.

As a further safeguard, any proposal for privatisation would have to be endorsed by the Regional Representative Group (75% majority), put to a public referendum (75% majority), and put through the legislative and select committee processes.



GOVERNANCE

How will councils and the community be involved in governing the proposed entities?

Independent, competency-based boards would govern each entity.

This is how these boards would be chosen. Councils and mana whenua would appoint a Regional Representative Group. This group would appoint an Independent Selection Panel, which would appoint the Entity Board.

But each entity would also have to engage with its communities on key documents that set its direction. The entity would actively report on how consumer and community feedback was incorporated into decision-making.

How would mana whenua be involved in governance? I've heard talk of a "veto"

A mana whenua representative group would be part of the structure that selects the entity boards. It would help appoint a Regional Representative Group, which would appoint an Independent Selection Panel, which would appoint the Entity Board.

This is totally different from having "a power of veto".



THE MODEL

What alternatives were considered to the proposed model?

30 unique scenarios were modelled, ranging from a 2-entity model to a 13-entity scenario (similar to the regional council boundaries).

Why does LGNZ support reform?

We know the way of delivering water services needs to change, especially as we look into the future. Our communities need more investment in water services delivery and the current funding system isn't capable of providing that without significantly increasing costs to ratepayers.

The model is as fit-for-purpose as it can be, subject to the issues that we're still working through and want your feedback on.

Why would entities be better positioned to succeed than councils?

Entities will be in a better position to borrow sufficient capital to invest in three waters infrastructure. They will be well-placed to attract and retain the professional capability needed. Their market power would also mean they could negotiate better and more consistent procurement, and be better able to guarantee service in remote areas as part of that wider contract.



SERVICE LEVELS

Will my community get the same level of service under the proposal?

The Government has made an explicit commitment that staff working primarily on water would retain their salary, conditions and – critically – location if they transfer to the new water entities.

Individual communities have significant potential gain from the proposal. At the moment, small contracts on an ad hoc basis give contractors no incentive to invest in specialised plant, for example, especially outside cities.

At the moment, the supply chain has more market power than your average council. With four entities, the market power would switch around to the buyer.



FUNDING

How will the proposed entities be funded?

Like now, an entity would fund its operations from a combination of user payments and borrowing.

The key thing is that entities would have larger borrowing capacity to fund the necessary investments – they would be able to borrow significantly more than councils can.

They will also have more strategic procurement and investment plans. This means they would invest at the most efficient point in an asset's life, generating cost savings.

Will my community subsidise other communities' water services?

Like many other infrastructure models, this model is built on cross-subsidisation – which means investments could be made in places where the population is too small to afford it on their own.

Because entities will have greater efficiencies that drive lower operating costs, it's not comparing like with like, in terms of the status quo.

Would water meters be introduced?

Not necessarily – the entities will have the same scope to introduce meters as councils do now. The entities will have charging tools, as councils do now. But what they use will be subject to consultation with their communities/consumers.



THE PACKAGE

Why did LGNZ sign an agreement with the Government and does this bind councils?

LGNZ agreed with the Government a \$2.5+ B package for councils, to wrap around the reform proposals.

This agreement puts something on the table for councils that wouldn't otherwise have been there. It doesn't bind individual councils in any way.

When will we be able to access the package?

The first \$500m of the Crown funded 'better off' package will be available from 1 July 2022. The balance will be available from 1 July 2024.

The 'no worse off' payments will be made once assets have been transferred to the water service entities.



DECISION MAKING AND CONSULTATION

Can we still opt out?

Our understanding is that following this 8-week engagement, the Government will consider next steps, including the decision making and consultation process.

In terms of LGNZ's position, we passed a motion at our July AGM that did not support the reforms being made mandatory and acknowledged that individual councils remain able to express their own views on the reforms and make their own decisions.

When do we consult with our community?

Formal consultation is not required yet. That's because the proposal from the Government hasn't been finalised.

At the moment, we're in an 8-week review period so you can investigate the reforms, assess the potential impact on your council and suggest ways the proposal might be strengthened. Only once the reforms are more finalised will consultation obligations be triggered.

There are lots more FAQs on our website www.lgnz.co.nz/reforms/three-waters/