

QUICK GUIDE TO GOVERNMENT THREE WATERS REFORMS

AUGUST 2021



Government has proposed changes to the way drinking water, waste water and storm water (three waters) services are delivered in our communities. Here we explain the reasons for the changes, what they might mean for Hawke's Bay ratepayers and communities, and what is happening over the next eight weeks.

GOVERNMENT'S CASE FOR CHANGE*

Reviews into the delivery of three waters services in New Zealand have identified significant ongoing challenges and a considerable level of underinvestment in three waters infrastructure.

Why is reform needed?

- Risk of failure to meet existing, safe drinking water standards with potentially serious consequences for public health, the environment and the economy.
- A constrained ability to plan, fund and finance resilient systems that can cope with climate change, emergencies and natural hazards.
- Ability to meet national and local environment objectives for freshwater and the marine environment.
- Housing infrastructure supply unable to keep pace with strong demand in high growth areas.
- Limits on regional development and wellbeing particularly for areas with declining rating bases.

This Government has ambitions to significantly improve the safety, quality, resilience, accessibility, and performance of three waters services, in a way that is efficient and affordable for New Zealanders.

Government says this is critical for:

- public health and wellbeing
- environmental outcomes
- economic growth and employment
- housing and urban development
- adapting to the impacts of climate change
- mitigating the effects of natural hazards.

Government also wants to ensure it delivers on Treaty-related obligations, including by improving outcomes for iwi/Māori in relation to three waters service delivery.

Integral to this is effective infrastructure delivery, underpinned by an efficient, high-performing, financially-sustainable, and transparent three waters system.

BACKGROUND TO GOVERNMENT REFORMS*

2017
Government inquiry into Havelock North drinking water

Government Three Waters Review

Review set up to address the challenges facing the regulation and delivery of three waters services.

2019
Decision to create Taumata Arowai, new water services regulator

Taumata Arowai Established

Central government progresses three waters regulatory reforms and agrees to support voluntary changes to service delivery arrangements.

2020
Legislation to strengthen regulation

Water Services Bill

Legislation introduced to strengthen drinking water regulation and oversight of stormwater and wastewater. To be administered by Taumata Arowai.

2020
Central/Local Government Forum

Three Waters Reform Programme Initiated

Central and local government agree partnership approach to progress three waters service delivery reform, in conjunction with infrastructure investment package – formation of joint Steering Committee. Both parties recognise the importance of Te Mana o Te Wai, and involvement of the Treaty partner in these discussions.

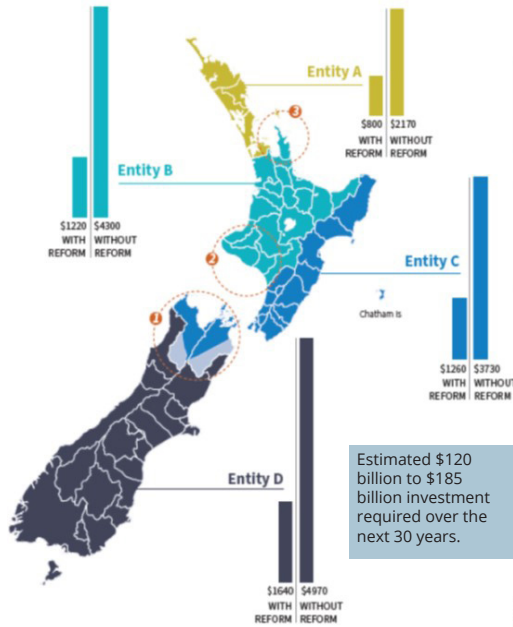
* Source: Department of Internal Affairs

A NEW SYSTEM FOR THREE WATERS SERVICE DELIVERY*

In June (2021) Government released its proposed service delivery model for four (4) regional entities with responsibility for the delivery of three waters services.

If the proposal progresses, it is likely the entities would be in full control of three waters service delivery from July 2024.

PROPOSED BOUNDARIES AND 2051 HOUSEHOLD COSTS*



ENTITY & CONNECTED POPULATION

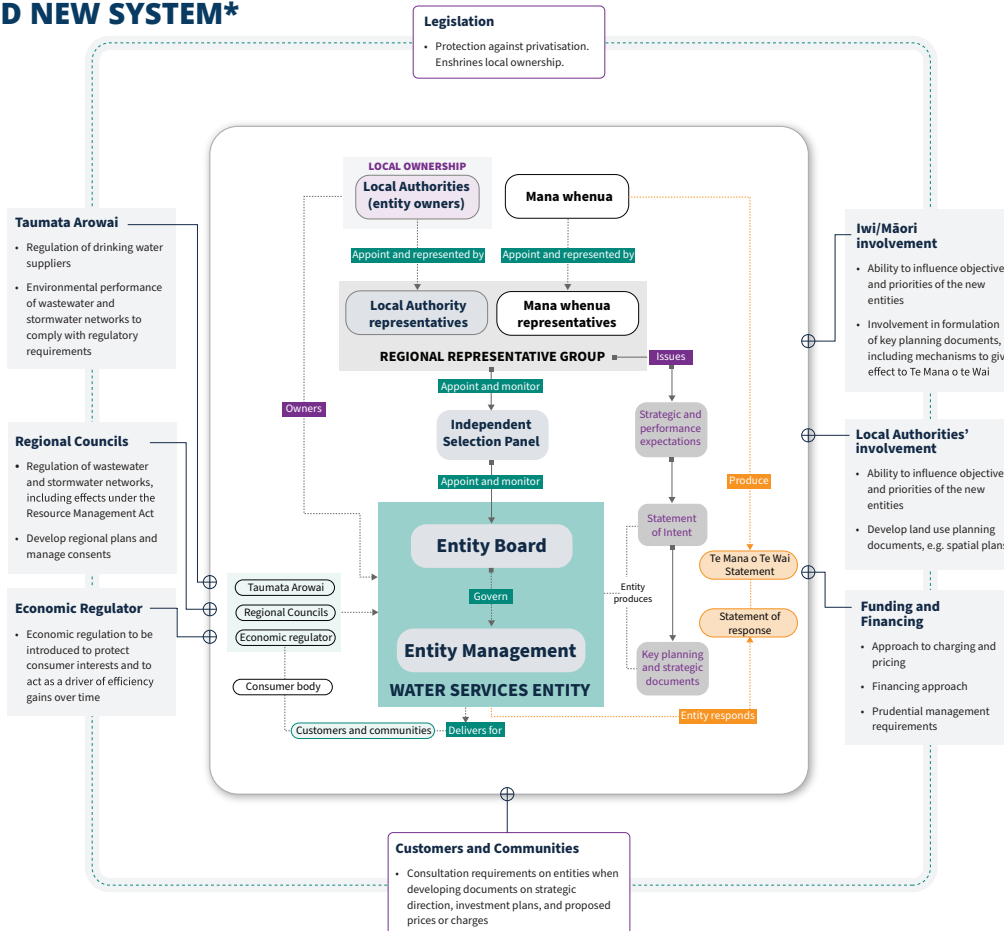
REGIONS INCL.

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

Key Design Features

- Maintaining local authority ownership of water services entities
- Protecting against privatisation
- Retaining influence of local authorities and mana whenua over strategic and performance expectations
- Providing balance sheet separation
- Integrated regulatory system

THE PROPOSED NEW SYSTEM*



* Source: Department of Internal Affairs

GOVERNMENT'S NATIONAL EVIDENCE BASE

The Department of Internal Affairs (DIA) has released a Local Dashboard tool (<https://threewaters.govt.nz/>) to show the potential impacts of three waters reforms on local authorities and communities across New Zealand. Two scenarios were modelled:

1. Aggregation of three waters services into four water services entities and the associated reforms to the regulatory, governance, management, resourcing and policy direction that support improvements (the whole reform package)
2. No aggregation of three waters services, but some reform, for example, decisions already made to introduce a drinking water regulatory system and environmental standards.

The four water services entities and associated reforms were modelled for Government by the Water Industry Commission for Scotland (WICS) based on using information supplied by local councils between October 2020 and February 2021.

WHAT DOES GOVERNMENT'S FINANCIAL MODELLING LOOK LIKE FOR HAWKE'S BAY?

AVERAGE HOUSEHOLD COST ¹	CURRENT	WITH REFORM	WITHOUT REFORM
Entity C		\$1,260	
Central Hawke's Bay	\$1,530	\$1,260	\$7,260
Hastings	\$810	\$1,260	\$4,530
Napier	\$610	\$1,260	\$2,540
Wairoa	\$1,100	\$1,260	\$8,690+

¹ 2051, based on WICS analysis

The assumptions Government has used to quantify the inputs are determined through benchmarking against the UK experience. There has been some adjustment based on council RFI feedback the potential investment requirements and ability to deliver the same efficiency gains.

The key assumptions that drive household costs are:

- Investment – this is the single biggest driver of household cost in the WICS model.
- Standardised assumptions for number of households (connections) and proportion of income from households. In some cases there are material differences between the standard assumptions and actuals.
- Debt/Revenue – the difference between the treatment of debt in the councils and the entities means that it is likely to overstate the size of the difference in charges between council and the water service entity.
- The impact of these are so significant that all other assumptions have minimal impact on household costs.
- Government have undertaken the analysis over a 30 year time horizon.

HOW THIS COMPARES TO THE HAWKE'S BAY THREE WATERS REVIEW FINANCIAL MODELLING

In 2019/20 Hawke's Bay's five councils – Central Hawke's Bay District, Hastings, Napier, Wairoa and the Regional Council – worked together to complete an assessment of the current state of the region's drinking, waste and storm water services and assessed service delivery options against agreed objectives and cultural principles to ensure sustainable delivery of these services over the long term, and ahead of expected changes in Government regulations.

We have reviewed the Government's financial modelling for Entity C against the modelling done as part of the Hawke's Bay Review (2020), which has since been updated based on Councils' LTPs and RFI information provided to Government.

COUNCIL	HAWKE'S BAY REVIEW 2031	WICS 2031	WICS 2051
Central Hawke's Bay	\$3,199	\$6,521	\$7,260
Hastings	\$1,381	\$3,583	\$4,530
Napier	\$1,427	\$1,793	\$2,540
Wairoa	\$3,869	\$8,801	\$8,690+
Hawke's Bay Asset Owning CCO	\$1,471	-	-
Entity C	-	\$1,260	\$1,260

All councils show an increase in household charges using the WICS data (2051) when compared to the 2031 figures (based on councils continuing to deliver individually).

All show a decrease under the WICS Entity C model.

WHAT'S THE SAME

Despite the differences between the Hawke's Bay Three Waters Review and the Government's modelling, they are directionally consistent:

- Future costs of three waters services will rise significantly in response to meeting changes in standards, regulation and an increasingly rigorous compliance regime.
- Costs will not fall equally across the region.
- There are financial benefits from aggregation of three waters services.
- There are strategic benefits, an improvement in capability and capacity and potentially a more meaningful role for Māori with a change in service delivery model.

WHAT'S DIFFERENT







It is important to note the Government's modelling has been completed using a different approach, and different assumptions to the Hawke's Bay Three Waters Review.

At an individual council level the investment numbers produced by Government are based on population, land area and density alone and bear no relationship to each council's:

- Type, quality or number of waters sources
- Receiving environment for wastewater discharges
- Current treatment approach
- Levels of service
- Asset age, performance or condition

ASSESSING GOVERNMENT'S PROPOSALS AGAINST OUR OWN INVESTMENT OBJECTIVES

In our 2019/2020 Review, the five Hawke's Bay councils agreed six investment objectives for any new regional three waters services delivery arrangement. We are now taking the time to assess Government's proposals against these objectives, with the analysis expected to be completed by the end of September.

<p>To provide three water services in a way that is affordable and effective</p>	 <p>The three waters service's model must address the challenge of providing for an effective, affordable service in a fiscally responsible way.</p>	<p>Value Te Ao Māori</p>	<p>Incorporating and implementing mātauranga Māori, culture and values (i.e. Te Aranga Design Principles) are a core element for any potential framework to realise and enhance the region's commitment to Māori to protecting/enhancing water.</p>
<p>To provide services that are safe, reliable and resilient</p>	 <p>Access to safe and reliable three waters service are fundamental to all the urban and rural communities of Hawke's Bay.</p>	<p>Value water</p>	<p>Wai is the essence of all life and the world's most precious resource. It is of high importance to Māori, as it is the life giver of all things, a precious taonga, part of our whakapapa.</p>
<p>To provide services through a model that enables a meaningful role for Māori</p>	 <p>The Local Government Act requires a local authority to provide opportunities for Māori to contribute to its decision making processes.</p>	<p>Whakapapa – genealogical links</p>	<p>Recognise and respect the relationship and whakapapa (genealogical link) that mana whenua has with water.</p>
<p>To provide services through a model that has the value of water at the centre</p>	 <p>Water is vital to community life and as such three water services are part of a holistic water system.</p>	<p>Te mauri o te wai – the life force of water</p>	<p>Mauri is the integrated and holistic well-being and life support capacity of water. The well-being/healthiness of the water, the land and the people are intrinsically connected.</p>
<p>To provide three waters services in a way that supports our urban and rural communities</p>	 <p>The services influence how people across Hawke's Bay live, work, gather, socialise, recreate and value environmental amenity.</p>	<p>Holistic approach to water</p>	<p>Although the project is based around the review of the service and delivery of the three waters (infrastructure), the proposed model needs to take into account a holistic water approach: there is only one water.</p>
<p>To provide three waters services that build enduring capability and capacity</p>	 <p>The three waters model must be capable of, and have the capacity to, deliver quality sustainable planning, management and operation of three water services now and into the future.</p>	<p>Enabling of Te Tiriti o Waitangi</p>	<p>Involving mana whenua in governance and decision making required to ensure Te tiriti o Waitangi obligations are met, as well as making sure they are able to actively exercise kaitiakitanga in a practical way.</p>
		<p>Mana motuhake - identity, self-determination</p>	<p>The identity of mana whenua in Hawke's Bay should not be lost in any potential model. But inclusion and co-governance whilst keeping their identity is an opportunity.</p>

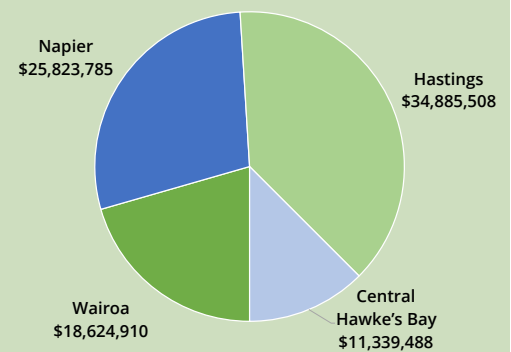
GOVERNMENT'S PROPOSED SUPPORT PACKAGE

In July the Government announced a package developed in close partnership with Local Government New Zealand, \$2.5 billion in support to the sector through the transition to the proposed new water services delivery system. The support package means that should reforms proceed, councils will be supported through the transition process and the financial impacts of reform will be managed.

Government also expects to meet the reasonable costs associated with the transfer of assets, liabilities and revenue to new water services entities, including staff involvement in working with the establishment entities and transition unit, and provision for legal, accounting and audit costs.

Details of the support package are another element of Councils' considerations between now and the end of September.

HAWKE'S BAY 'BETTER OFF' FUNDING ALLOCATIONS



GOVERNMENT THREE WATER'S REFORM PACKAGE[†]

Announced in July 2021, there are two broad components to this support package:

- \$2 billion of funding to invest in the future of local government and community wellbeing, while also meeting priorities for government investment (the "better off" component)
- \$500 million to ensure that no local authority is financially worse off as a direct result of the reform (the "no worse off" component).

'BETTER OFF' COMPONENT

The "better off" component of the support package will be allocated to territorial authorities using a nationally consistent formula based on:

- a 75% allocation based on population size
- a 20% allocation based on the New Zealand deprivation index
- a 5% allocation based on land area (excluding national parks)

To deliver the following outcomes

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

'NO WORSE OFF' COMPONENT

The "no worse" off component includes an up to \$250 million allocation to support councils to meet unavoidable costs of stranded overheads, based on:

- \$150 million allocated to councils (excluding Auckland, Christchurch and councils involved in Wellington Water) based on a per capita rate that is adjusted recognising that smaller councils face disproportionately greater potential stranded costs than larger councils
- Up to \$50 million able to be allocated to councils that have demonstrable, unavoidable and materially greater stranded costs than provided for by the per capita rate
- The remainder of the no worse off component will be used to address adverse impacts on the financial sustainability of territorial authorities.

[†] \$1.0 billion of this package will be a direct contribution from the Crown. The remaining \$1.5 billion will be funded by the Water Services Entities. Government's view is that the \$1.5 billion from Water Services Entities is at effectively no net cost to customers, due to the proposed Crown support arrangements (such as a liquidity support) which reduce the borrowing costs of the water service entities.

EIGHT WEEK FEEDBACK PERIOD

The purpose of this time in the Government's reform process is to provide the opportunity for all local councils to:

- understand the large amount of information that has been released on the nature of the challenges facing the sector, the case for change, and the proposed package of reforms, including the recently announced support package;
- assess how the proposal affects our local authorities and communities; and
- identify issues of local concern and provide feedback to Government on what these are and suggestions for how the proposal could be strengthened.

In particular:

- Understand the key features of the proposed model
- Apply the proposed model to council & community circumstances, both today and in the future.
- Consider the model holistically – in terms of service, finance and funding, economic development and growth, workforce, delivery and capability and social, cultural and environmental wellbeing.

No formal decisions are required by Councils during this period.

ENGAGEMENT WITH IWI/MĀORI

Over the next eight weeks, the Government will continue to lead engagement with iwi/Māori over the reform programme.

To recognise the role that iwi/Māori will play in the new delivery system as partners, local authorities will be expected to engage with iwi/Māori in determining how it will use its funding allocation.

NEXT STEPS

By late 2021, we expect the following:

- If the Government's reform is still retained as a voluntary ("opt out") option, Councils will decide on whether they continue to participate in the reforms.
- Confirmation from Government in the incorporation of Community Consultation into the revised reform timeline for Council decisions.
- The Water Services Entities Bill to be introduced to Parliament.
- Taumata Arowai is expected to take over from Ministry of Health as regulator for drinking water.

For further information on the Government's Three Waters Reform programme please go to:
<https://www.dia.govt.nz/Three-Waters-Reform-Programme>

To read the Hawke's Bay Three Waters Review report please go to:
www.hb3waters.nz

