

Three Waters Reform Programme

The National Construction Clients' Group Conference 7 May 2021

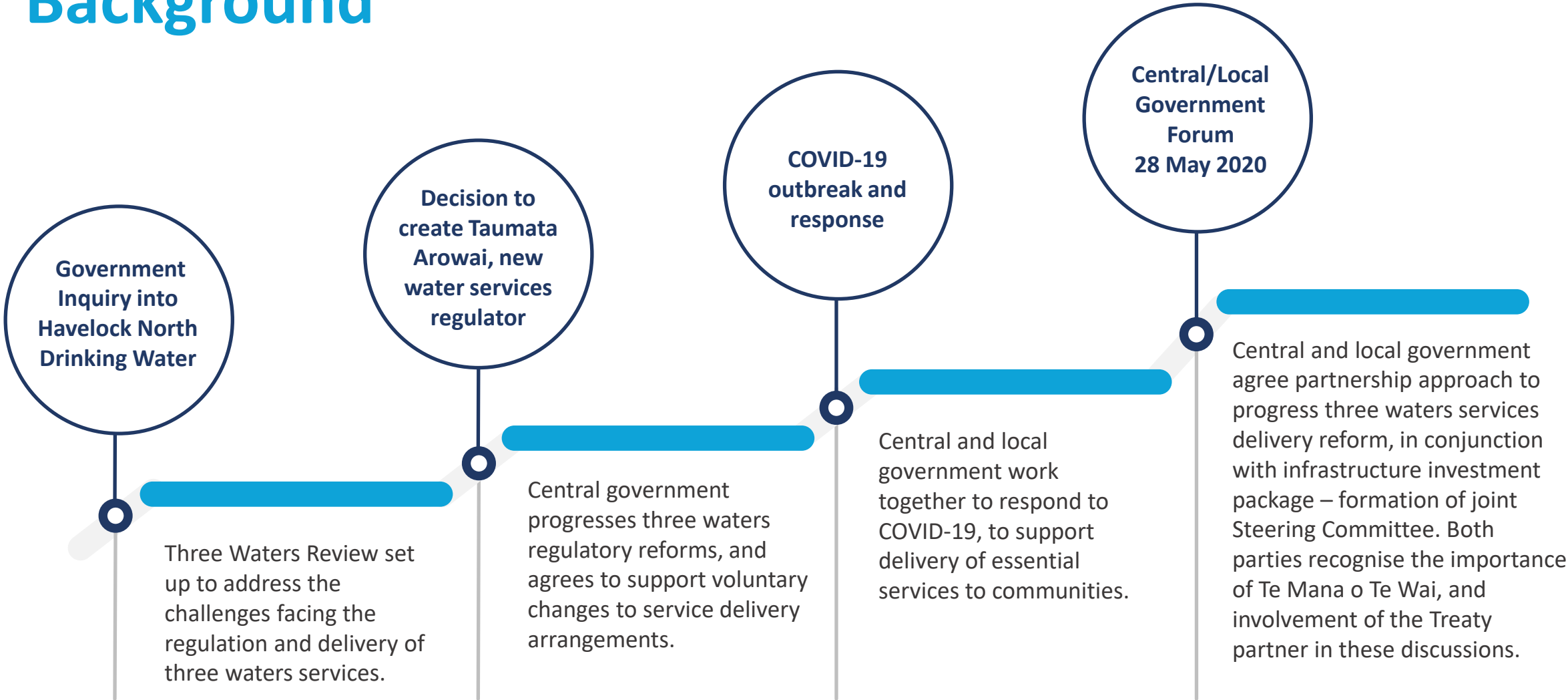
Website: www.dia.govt.nz/Three-Waters-Reform-Programme

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Background



Impetus for reform

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 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 environmental 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

Key design features of a new service delivery model

Decisions and directions during 2020 mean the reform proposals will include certain features:



Multi-regional entities of scale

Significant aggregation into a small number of multi-regional activities.



Public ownership

Entities must be publicly owned, with mechanisms to recognise Treaty rights and interests and to prevent future privatisation.



Statutory entities

Three waters entities designed and established by legislation.



Asset ownership

Three waters entities responsible for ownership of all water infrastructure assets.



Competency based boards

Professional directors on three waters boards.



Balance sheet separation

Complete structural separation from local authorities.

Success factors



Independent decision making



Management and governance competency



Mechanisms to recognise Treaty rights and interests of iwi/Māori



Mechanisms to enable community input



Financial independence



Flexible cost effective financing



Equity/equality between local authorities

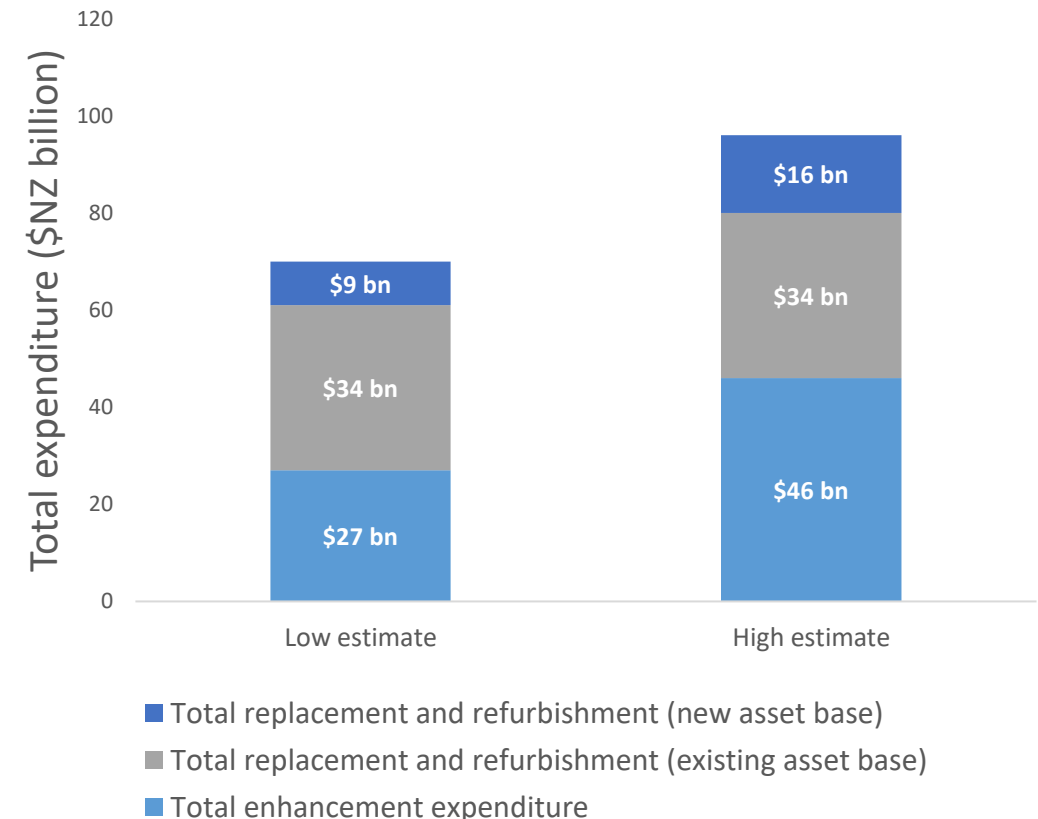


Structural longevity

A growing infrastructure deficit

- Early analysis commissioned using publicly available information on council assets, finances and connected properties found a conservative estimate of:
 - an estimated **\$34 billion to maintain and replace the existing asset base** due to ageing infrastructure
 - a minimum of **\$27bn of additional investment** (in addition to the above) required over the next 30 years to **upgrade existing** three waters assets to meet environmental and current drinking water standards. **The upper estimate is around \$46bn.**
 - a minimum of **\$9 bn to maintain and replace the new asset base** introduced over the next 30 years. **The upper estimate is around \$16 bn.**
- These estimates made **no allowance** for investment required to meet population growth or to address resilience issues.

WICS Phase One: Estimated enhancement and expenditure growth between 2020 and 2050



In total, this early analysis suggests a total investment of around \$70 to \$96 billion is required over 30 years

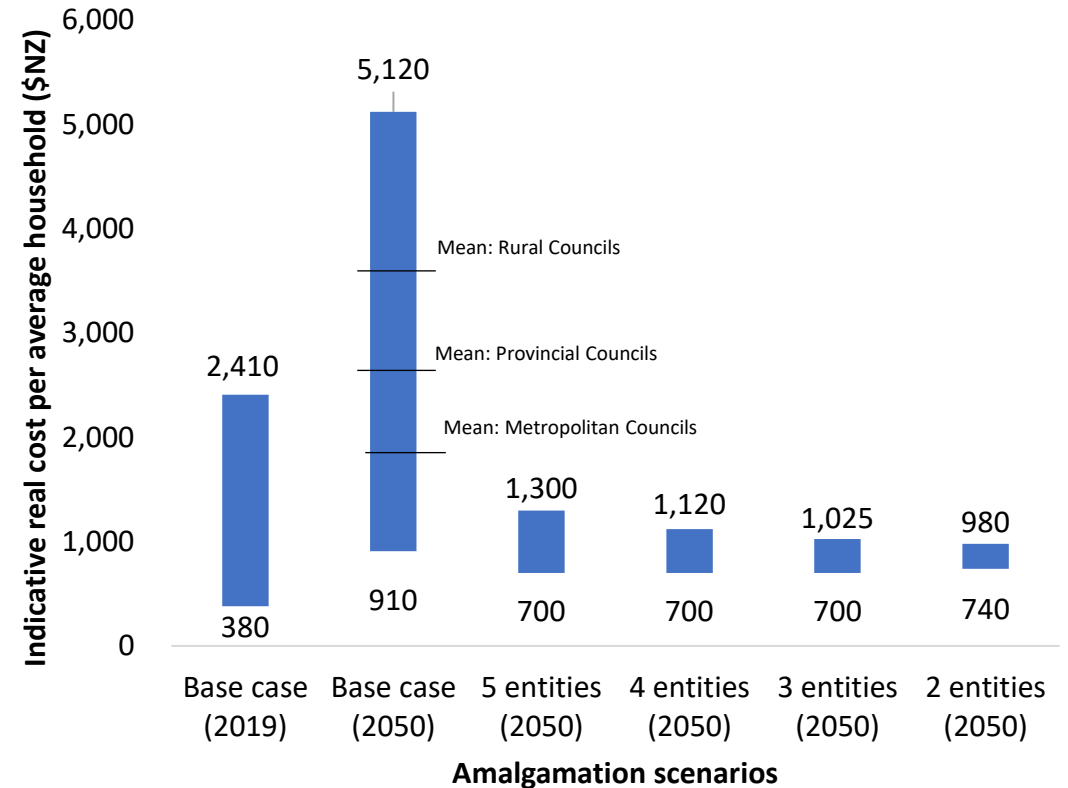
Early analysis from the RFI

- Council staff have recently completed the **most comprehensive data** collection on three waters assets and service delivery ever undertaken in New Zealand.
- **The results of the RFI are still being processed** but early insights are showing us that previous estimates were conservative. Note that these figures represent preliminary analysis and are subject to change as we undertake more detailed analysis
- We anticipate the investment needed to maintain and enhance infrastructure, and meet requirements of growth, could be **in the order of \$50-\$90 billion**.
- The total investment required once maintenance and renewals are factored in, could be in the order of **\$110 to \$170 billion over the next 30 to 40 years**.
- This will exacerbate the impacts on costs to households and businesses.
- We anticipate the final RFI analysis to be completed over the coming months, and shared with you shortly after.

How reform can help meet investment needs

- Service delivery reform can help reduce the extent to which costs need to increase and reverse the infrastructure deficit more quickly.
- **Greater sharing of costs** across larger populations can ensure access to affordable services of a minimum standard across the country.
- Analysis suggests that entities require between 500,000 and 1,000,000 customers/connections in order to fully realise these efficiencies.
- Entities are expected to have greater debt capacity than councils to share the costs of long-term assets over longer timeframes.

WICS Phase One: Indicative real cost per household in current prices*



*figures based on Water Industry Commission of Scotland initial analysis of publicly available data and subject to change as part of further analysis using more detailed data collected from local authorities

The degree to which efficiencies can be realised is related to the number and scale of entities

Key issues to consider when developing reform proposals

- **Number of entities and their boundaries**
- **Ownership structures and governance arrangements for new water services entities**
- **Retaining local voice and influence in larger entities**
- **Māori rights and interests throughout the new service delivery system**
- **Will the water services entities provide 2 or 3 waters (Stormwater)**
- **Mechanism for protecting consumers**
- **What will be the impact on councils?**
- **Transition arrangements**

Establishment and Transition



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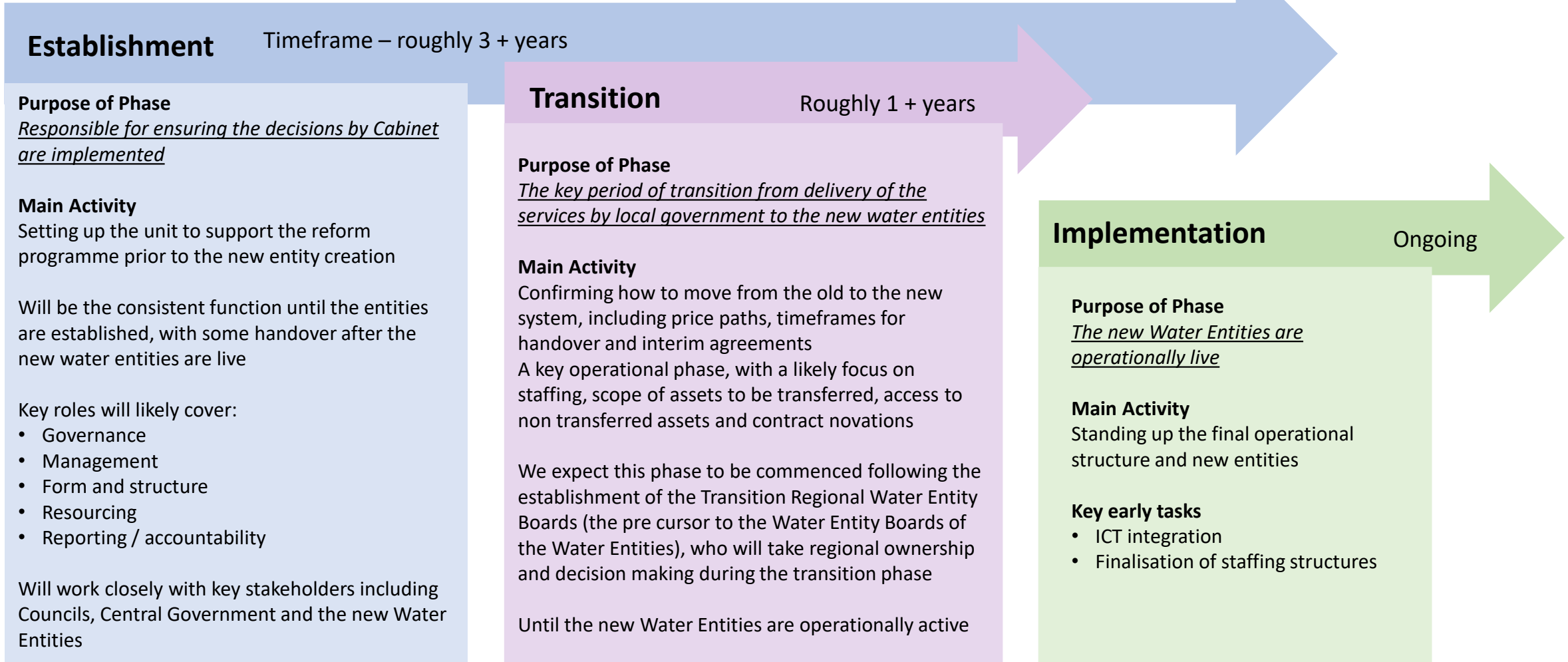
High Level Overview – Establishment and Transition

The key objectives of a transition work programme, should the reforms proceed, are:

- To advance the Government’s reform objectives with the sector in a way that successfully supports adoption of the reform with stakeholders.
- To ensure that the reform objectives are supported by a smooth transition and implementation approach that is efficient, effective and minimises disruption to communities and consumers.

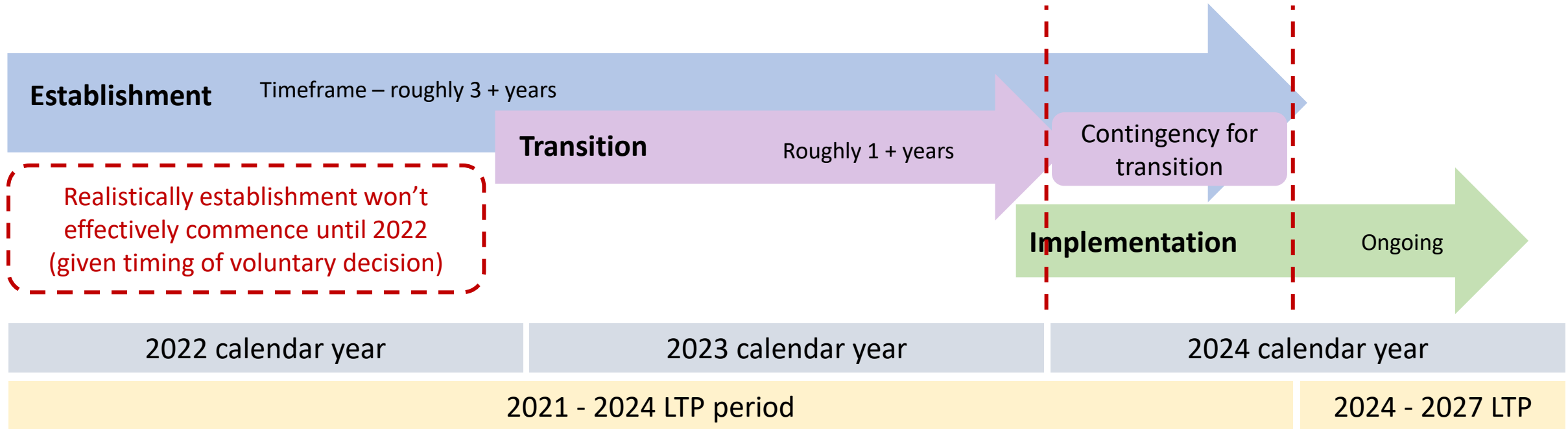
While subject to Cabinet decisions, the transition to new entities will need a considered and long-term programme of work to ensure we set the entities up for success on day one, and into the future.

Emerging thinking – indicative only



Please Note: This mahi is entirely dependent on the decisions made by Cabinet, therefore, the phases are subject to material change.

Emerging thinking – what this would mean



What this means for councils and their staff (who do not opt-out of reform):

- Councils will continue to be delivering water services until at least early 2024
- Council involvement in transition will be required during 2022 and 2023. Some funding will be set aside to support back filling of staff
- Working assumption that the 2024 – 2027 LTP will no longer include water services. Assistance is likely to be required to develop the initial asset management plan of the Water Service Entities. *This is to be worked through*

We are targeting all Water Service Entities to be operationally live by June 2024 for administrative ease

Early feedback from the March engagement

- During March the Department, in Partnership with the Steering Committee held 8 workshops across NZ. During these workshops we held a number of polls. The transition results of note are below.

What activities are most important to get right through the transition/ establishment period?*

- **ensuring the current three waters services and programme of works within councils continues to be delivered (and improved) through the transition period;**
- **supporting, retaining and training the local workforce and giving them certainty as soon as possible;**
- **getting I.T. and data management systems standardised and in place early;**
- further data and analysis on what the reform will mean for a council and their ratepayers;
- understanding the future of local government;
- gaining clarity on how assets (and associated debt) will be valued and transferred;
- ensuring the governance structures and Board membership is in place, and Board members have the right skills and representation to uphold Te Tiriti and Te Mana o Te Wai;
- good communications, engagement and consultation with iwi/hapū/whānau, councils, and the public.

What activity is most important to ensure your workforce is best supported through establishment/transition?

3 2 8



*Responses are not in order of frequency of response, this is illustrative for today's audience

Next steps

- **Completion of analysis to support advice on number and boundaries of water services entities – February to April**
- **Development of advice on other aspects of the reforms** - Commercial and financial analysis is occurring in parallel, informed by advice from Standard & Poor's
- **Summarise and report on March 2021 engagement – Early May**
- **Progression of legislation to amend LGA02 consultation and decision-making provisions – February to September**
- **Cabinet decisions on detailed reform proposals – Mid-2021**
- **Legislation to create new water services entities – drafted for introduction in late 2021 and enactment mid-2022**
- **Council decisions on 'opt out' – last quarter of 2021**
- **Entities 'Go Live' - 1 July 2024**

Ngā mihi, Thank you

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