

Three Waters Reform Programme

IPWEA – 13 August 2021

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

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Te Tari Taiwhenua
Internal Affairs

Welcome house keeping

- 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
- Select to “All Panelists” when you are posting your questions
- The recording and slide pack from today’s webinar will be made available after this session

In this presentation

- Recap of recent announcements:
 - National-level case for change and evidence base
 - Reform proposals
 - Entity design
 - The financial support package
 - August and September engagement
- Transition and Establishment
 - Building on our last engagement
 - Workforce – what this means for you
- Q & A

Reform Recap



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Three pillars of reform in three waters

- 1. *Regulatory reform.*** The Water Services Bill is expected to be enacted by the end of 2021
 - This provides the ‘teeth’ to hold suppliers to account for **current** drinking water standards (as set by the WHO) to ensure all suppliers meet these standards
 - Stronger environmental regulation of wastewater and stormwater by regional councils
- 2. *Establishment of Taumata Arowai.*** Taumata Arowai will ‘go live’ alongside the above regulations as a dedicated water services regulator to administer the regulatory regime and ‘shine a light’ on performance
 - Taumata Arowai will enforce current drinking water standards and have oversight of compliance with wastewater and stormwater regulations, including setting wastewater infrastructure performance standards
- 3. *Service delivery reform.*** To ensure communities have access to more affordable and reliable water services that meet these and other community expectations now and into the future
 - Introduction of an economic regulator to drive efficiencies and investment for consumers

The national case for change

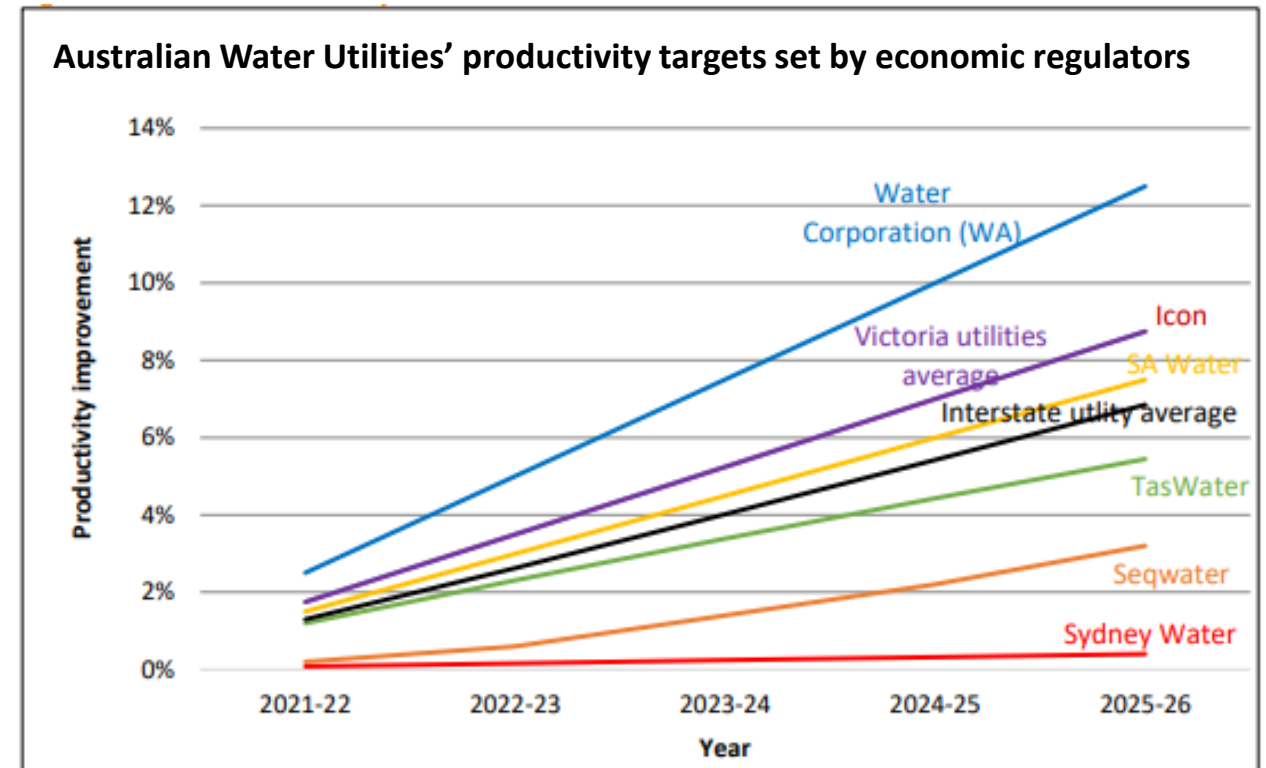
- Historically, there has been a poor information base about New Zealand's three waters infrastructure, assets and operations
- In recent years a substantial body of analysis and evidence on the sector has been developing
- On 2 June DIA released information to advance our understanding of these essential 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 15-30 years** 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
- Since then, DIA has released council-level analysis and modelling

About efficiencies

- WICS have found that New Zealand has the potential to achieve efficiencies in the realm of 45% through the reforms – **equivalent to 2% annual improvement in operating efficiency over 30 years or 3.9% per annum over 15 years**
- The benefits of scale are not primarily the result of more joined up networks. They come from:
 - Greater borrowing capability and improved access to capital markets
 - Strengthened governance and workforce capabilities
 - Procurement efficiencies
 - Smarter asset management and strategic planning/investment
 - A more predictable pipeline of investment
 - Economic regulation to drive improved performance
- These efficiencies are not available under current arrangements. E.g. even Watercare suffers financing challenges while it is tied to Auckland Council's borrowing constraints, **preventing it from investing to save**

2-4% per-year efficiency in context

- A 2-4% efficiency target per year for our new entities is conservative
- International experience in Australia, the UK and Scotland shows these efficiencies are gained through:
 - the use of data capture, storage and analytics technologies to improve water and sewerage maintenance activities;
 - digital automation/transformation and investment in data and predictive analysis
 - improving business processes and savings from better contract management
 - savings from strategic procurement and sourcing in collaboration with industry, improved management of contractors
 - optimised asset management
 - improved procurement practices, operational processes / business activities



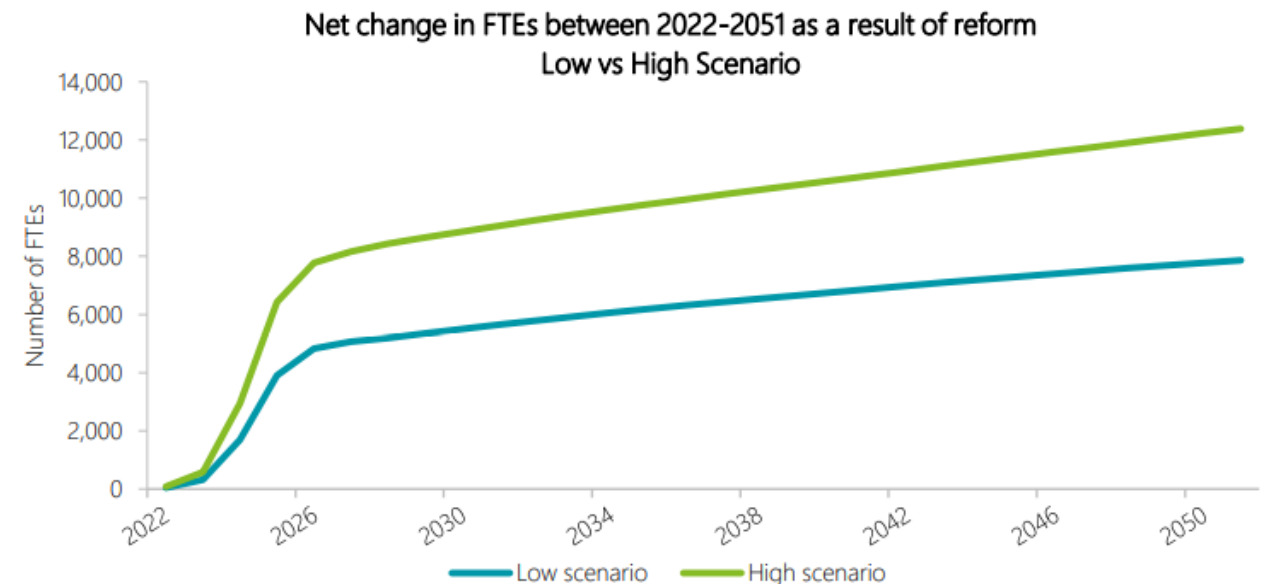
Impact on employment

- Deloitte found reform is expected to support significant job creation across the economy
- Reform could result in **5,800 to 9,300 new jobs**
- The **water sector workforce** is anticipated to **grow by up to 80%** between now and 2051

National impact on employment, relative to the counterfactual, 2022-2051

Scenario	Average additional FTEs pa	Average increase in FTEs pa	% of the current size of the workforce	% of the current full-time equivalent jobs
Low	5,849	0.19%	0.26%	0.36%
High	9,260	0.30%	0.41%	0.57%

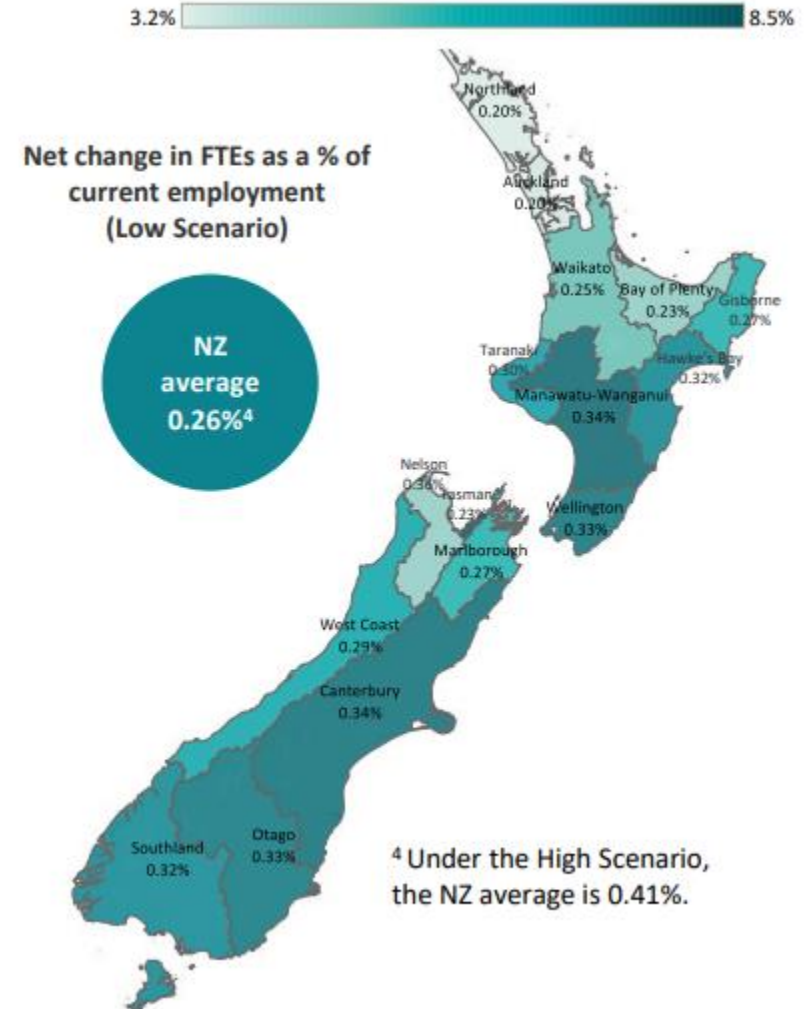
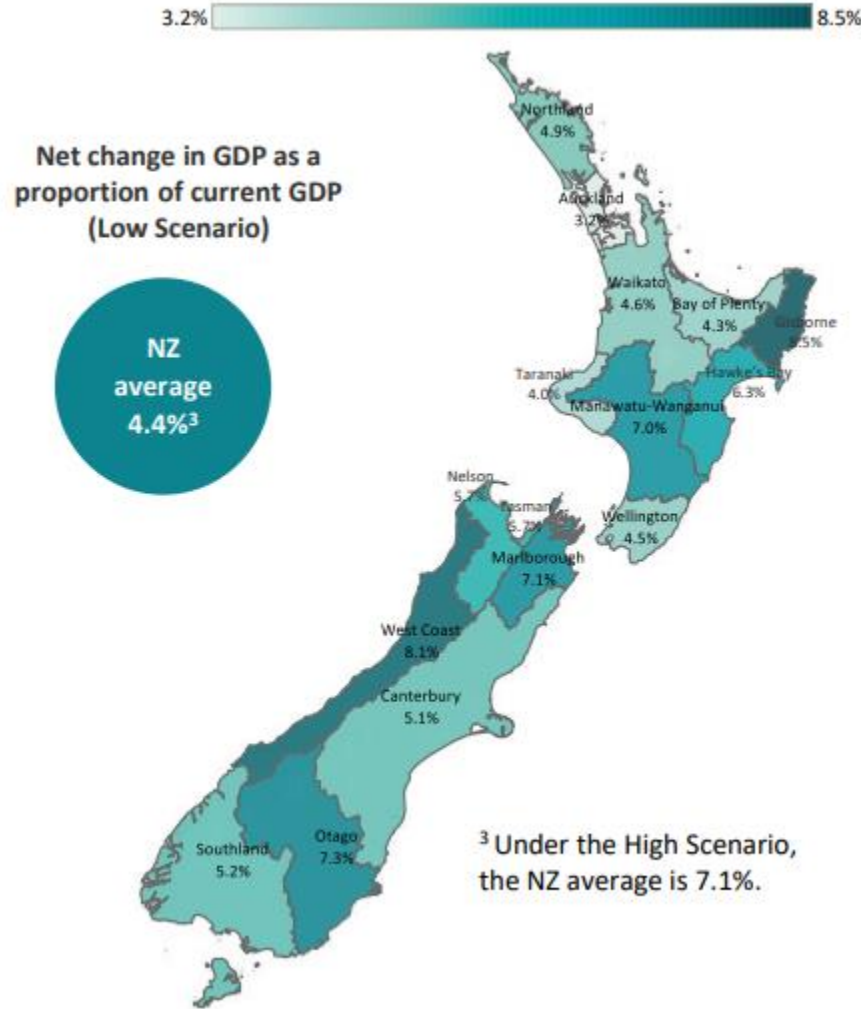
Source: Deloitte Access Economics (2021)



Source: Deloitte Access Economics (2021)

Impact on employment

Every region is expected to be positively impacted by reform in terms of GDP and employment growth



Summary of the reform proposals

The Government proposed an integrated and extensive package of reform. The package includes 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 and associated debt
- 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 investment and performance
- stewardship arrangements for the new system to ensure it adapts to shifts in national objectives and priorities and remains fit for purpose

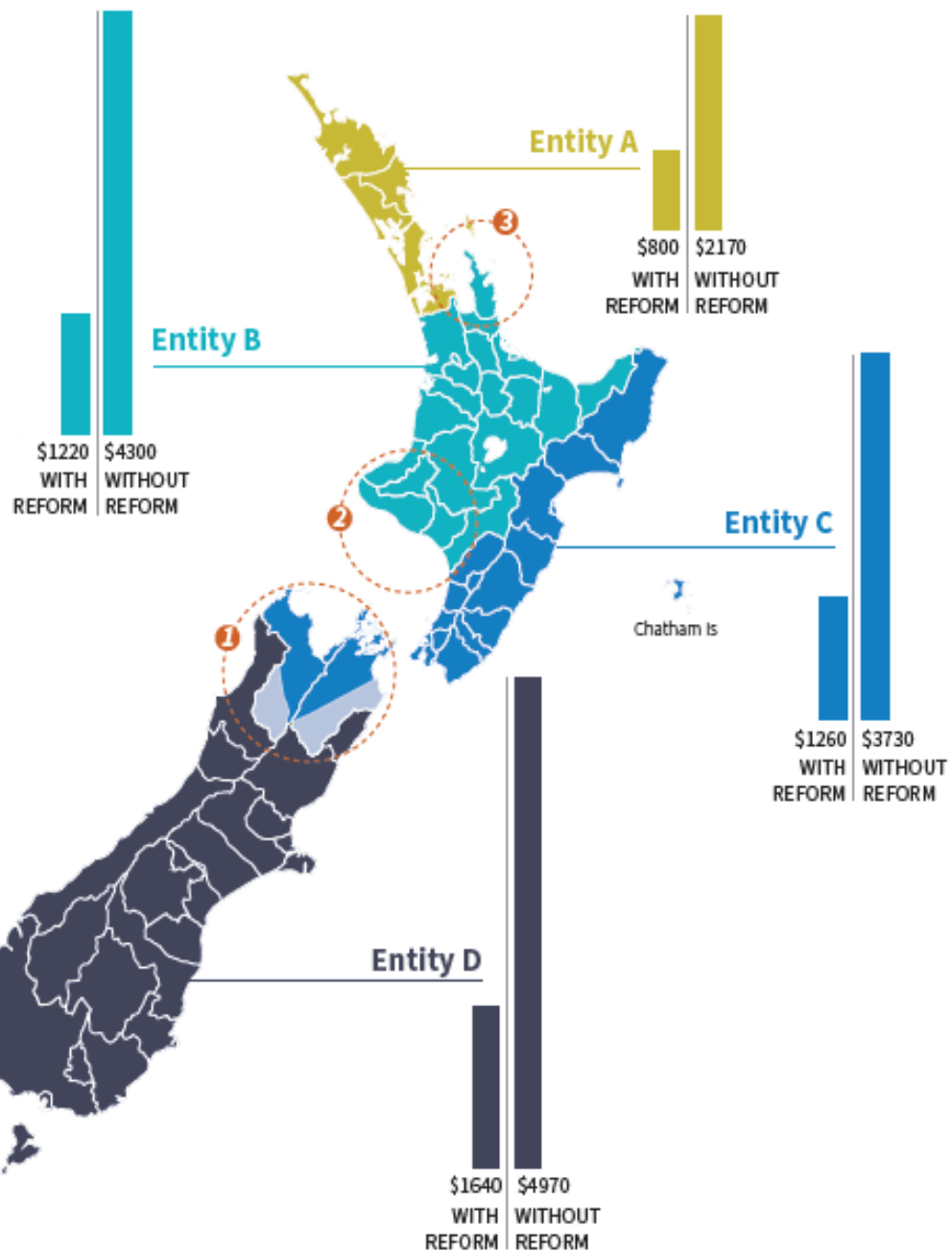
Purpose and objectives of the entities

- 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

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 oversight and strategic direction** 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

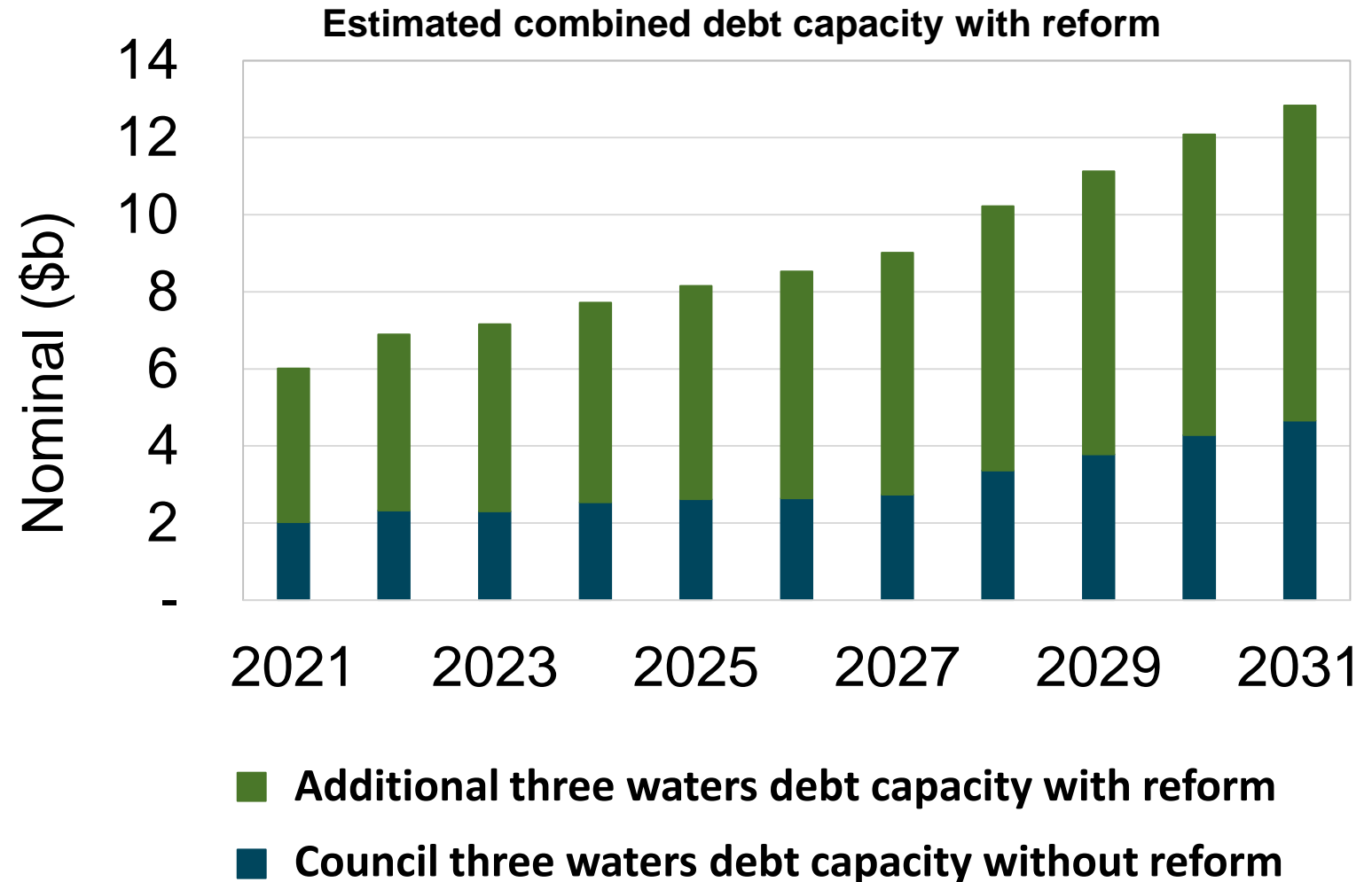
Proposed boundaries



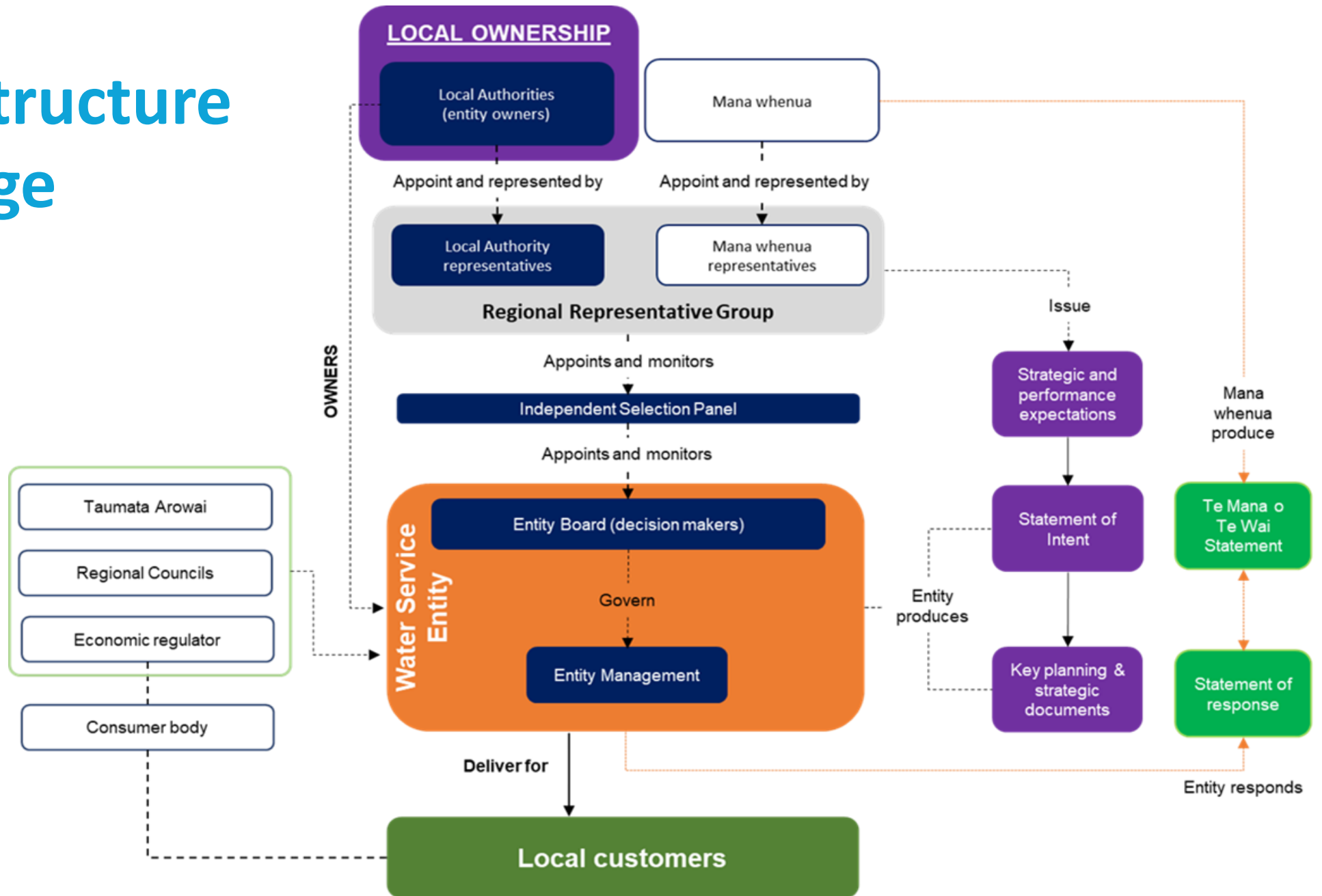
Entity and connected population	Regions included
A. 1,725,853	Auckland and Northland regions
B. 799,608	All districts from the Waikato, Bay of Plenty and Taranaki regions and the upper parts of Manawatū-Whanganui region (Ruapehu, Whanganui, and Rangitikei)
C. 955,154	<ul style="list-style-type: none"> The districts in the eastern and lower part of the North Island Gisborne, Hawke's Bay region, lower parts of the Manawatū-Whanganui region (Horowhenua, Manawatu, 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 the Ngāi Tahu takiwā

Estimated debt capacity of Entities

Entities will have greater debt capacity to invest in these services than councils would



Entity structure on a page



Ownership and protections against privatisation

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

Maintaining community influence

- Each entity will have a regional **Representative Group** that provides for proportionate representation of local government and mana whenua
 - Representative Group will issue a Statement of **Strategic and Performance Expectations** to inform the entity's planning
 - Entities will produce a **Statement of Intent** in response to the Statement of Expectations
- The entities will also be subject to:
 - **consultation requirements** on their strategic direction, investment plans, and prices/charges, water metering
 - mechanisms that enable communities and consumers to participate in entities' decision-making processes – **including a consumer forum**
 - **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 and the public on this
- As a 'last resort', an intervention framework with a risk-based approach, will be introduced

LG planning influence and responding to growth

- The ***purpose and objectives*** of the entities would be set in legislation – including:
 - delivering water services and infrastructure, in an **efficient and financially sustainable** manner
 - supporting and **enabling housing and urban development**
- Entities will be required to **engage in a meaningful and effective manner on** key documents, including the investment prioritisation methodology
 - this would allow for communities to comment on how investment should be prioritised
 - entities will need to balance growth requirements, Strategic Expectations, and any directions provided in a Government Policy Statement
 - entities will be required to take this feedback into account before finalising the documents and to report on how consumer and community feedback was incorporated into decision making
- **Local government would continue to have primary accountability for urban and land-use planning.**
 - The entities will be required to identify and make provision for infrastructure to support growth and development identified in relevant plans
 - Entities will have much stronger balance sheets to be respond to growth and community needs

Financial support package

- In July 2020 the Government announced **\$761m** stimulus funding for waters infrastructure and partnership to progress the reforms
- In Budget 2021 a package of **\$296 million** was announced to assist with the costs of transitioning to the new three waters arrangements, including provision for certain council costs of transition
- In July 2021 the Government announced a further **\$2.5bn** package to support transition to the new three waters system and position the local government sector for the future. The package comprises:
 - **A ‘better off’ element:** an investment of **\$2 billion** into the future for local government and community wellbeing, not tied to investment in water infrastructure
 - **A ‘no council worse off’ element:** an allocation of around **\$500 million** to ensure that no local authority is in a materially worse position financially to continue to provide services to its community as a direct result of the reform
 - the vast majority of councils are likely to be financially better off through the reforms – councils likely to need the most support are those with a low level of water debt to revenue and a high level of non-water debt to revenue

8-week LG engagement on proposals

- LGNZ will work directly with councils over 8 weeks in August and September to help councils consider their local case for change and the reform proposals
- The purpose of this period is to provide time for all local authorities to:
 - **engage with and understand the 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
 - **take advantage of the range of engagement opportunities** to fully understand the proposal and how it affects your local authority and your community
 - **identify issues of local concern and provide feedback to LGNZ** on what these are and suggestions for how the proposal could be strengthened.
- **Councils are not expected to make any formal decisions regarding the reform through this period**
- **Following this 8-week window, the Government will take further decisions on the next steps of the reform pathway**

Changes to the wider system

- We are cognisant the service delivery reform programme does not exist in isolation
- While we are not here to discuss this mahi in detail today we acknowledge parallel reforms including:
 - Resource Management Reforms
 - The Future for Local Government
 - The establishment of Taumata Arowai and the Water Services Bill
 - The National Environmental Standard for Sources of Human Drinking Water

Establishment and Transition

Early 'no regrets' work



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Establishment and transition overview

- Transition planning is being undertaken on a ‘no regrets’ basis and do not pre-empt decisions on whether the reforms will proceed as proposed
- 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.
- We also will look to leverage the transition for strategic transformation opportunities

Transition – How will it be delivered?

- National Unit and Local Establishment Entities
- Working more closely with Councils/representative groups
- Establishing more structured engagement with the water industry
- Methods and regularity of engagement

Supporting the workforce through transition

- A major focus of both central and local government is ensuring reform does not result in a loss of current staff - but creates a platform to attract, develop and retain talent and enhance local expertise
- We know the workforce is highly diligent, motivated and competent - we want to provide these staff with certainty, noting there is still more work to be done in this space
- Any member of staff who works primarily on water will be guaranteed a role at the new entities that retains key features of their current role:
 - **Title**
 - **Salary**
 - **Location**
 - **Leave**
 - **Hours/days of work**
- A more bespoke approach is required for senior executives (e.g. ELT members), other staff and contractors. We will work with councils, staff, and unions further on this through the transition

Key Principles

- Workers should be assured that their wellbeing is a critical objective for both central and local government through the reforms. Key principles we are applying are:
 - All employees to be treated fairly and equitably across the country
 - All employees to have the right to a reasonable opportunity to seek independent representation and advice throughout the process with employees encouraged to access support and advice from unions, other representatives and support people
 - All employees will have access to Employee Assistance Programme services
 - All employees will be regularly updated on the progress on employment related matters throughout the transition period
 - Employee wellbeing will be prioritised
- It is recognized that a number of employees will perform both water and non-water related functions for their Local Authorities. Principles on how to manage these situations will need to be developed in partnership with councils

Transition vs. Transformation



Transition is making sure the lights stay on

- 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



Transformation is about making the lights shine brighter

- Developing an aspirational, yet pragmatic and implementable, blue-print for success over a long-term horizon



Opportunities for firms to scale up to meet the investment requirement



Opportunities to address current workforce shortages

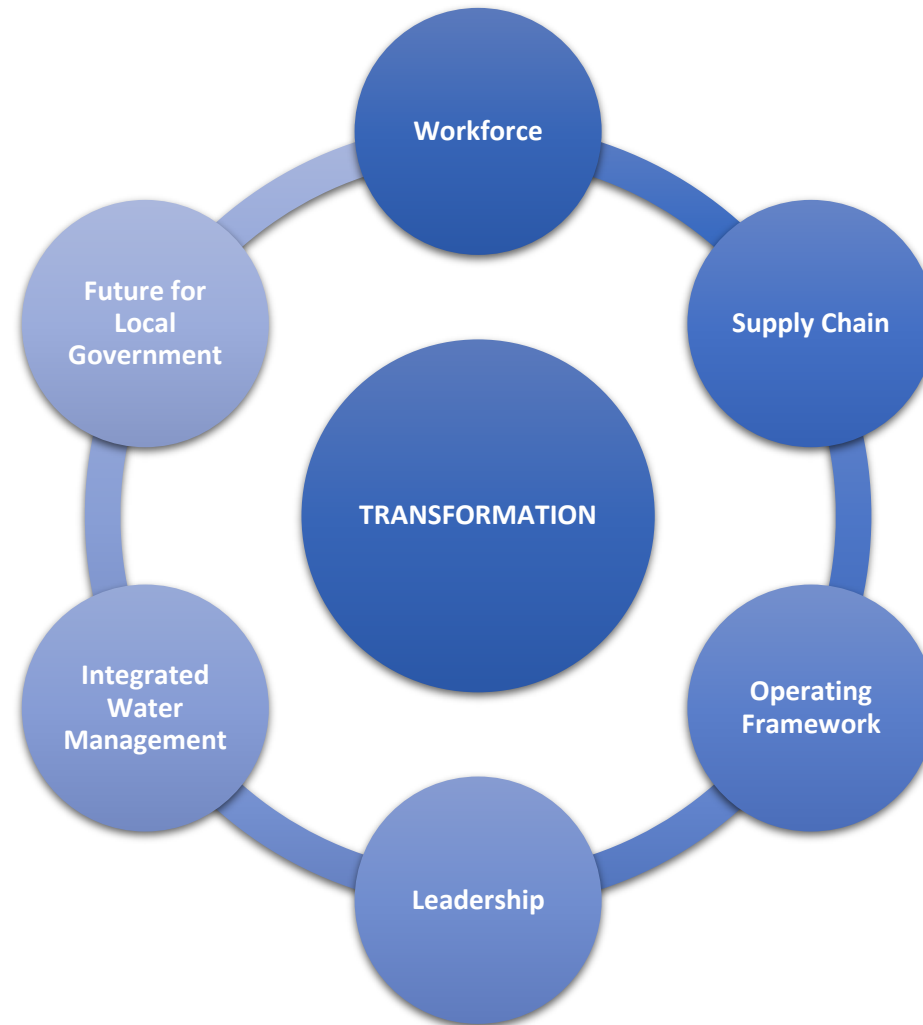


Opportunities for improved productivity and innovation



Easier access to capital to fund water infrastructure

Transformation Workstreams



Ngā mihi, Thank you

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