



THREE WATERS REFORMS UPDATE

30 June 2022

ROTORUA
LAKES COUNCIL

PURPOSE OF THIS DISCUSSION

- Update elected members on the status of the 3 waters reforms.
- Revisit and highlight key points of the proposed reforms.
- Council note recent Government statements and consider the need for any amendments to its the preliminary position of September 2021.

THE STATED 3 WATERS REFORM DRIVERS

- Achieve improved public health and community wellbeing,
- Achieve improved environmental outcomes,
- To support economic growth and employment,
- To support housing and urban development,
- Adapting critical services to the impacts of climate change; and
- Mitigating the effects of natural hazards on communities' wellbeing.

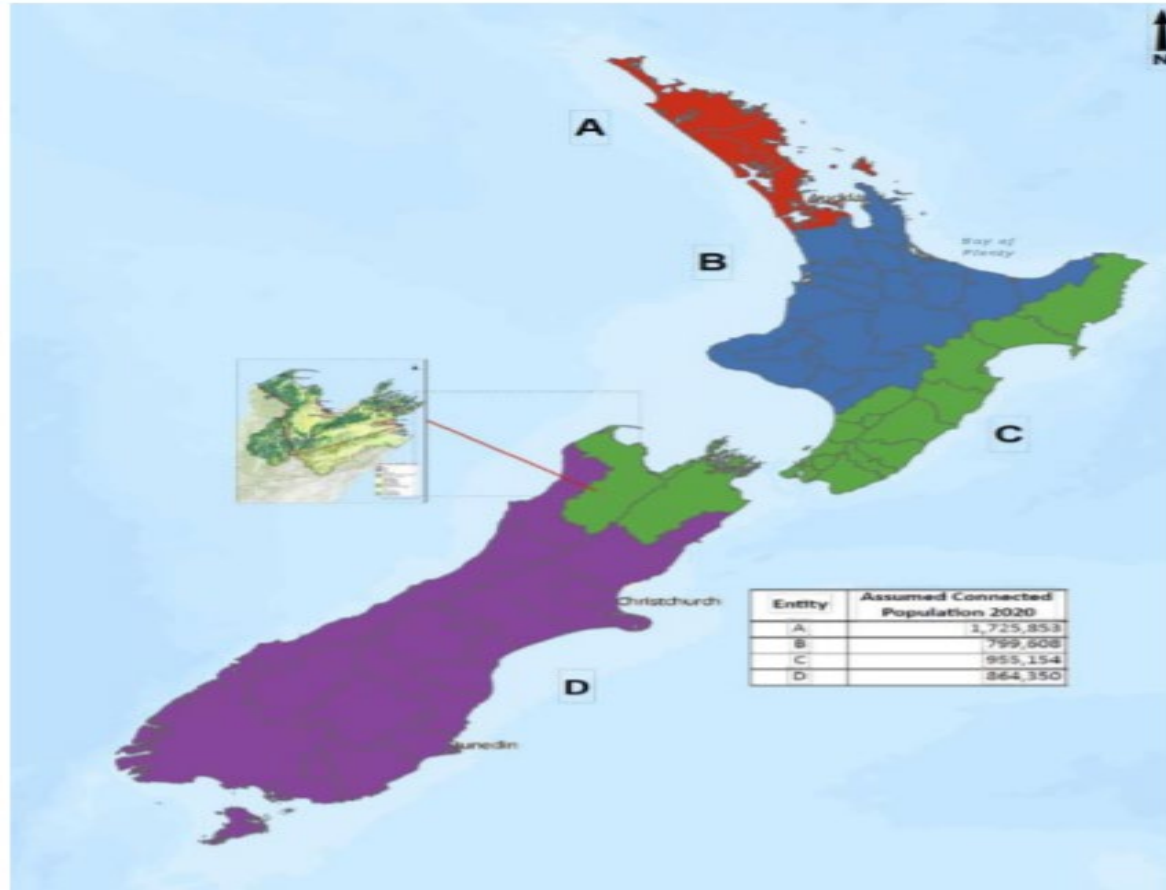
GOVERNMENT PROBLEM DIAGNOSIS

- Safety and quality of drinking water not universally assured.
- The resiliency of three waters services at risk due to deteriorating asset condition.
- Financial sustainability and affordability of the services (Escalating OPEX/CAPEX) and constrained community affordability at local level.
- Current and emerging sector skills and capability scarcity .
- Equitable governance and access to three waters services (*Iwi views and note 15-20,000 private schemes. Only 63 registered today, 8% compliant*).
- Dispersed and sub-optimum coordination of limited national resources currently.
- Inconsistent standards, transparency and community accountability.

GOVERNMENT'S PROPOSED CURE

- Creation of new water services entities (4-WSE) to be responsible for the Three Waters Infrastructure derived services.
- Transfer of existing Council-owned three waters assets and responsibilities to the new WSEs to own, manage, fund and be accountable.
- Local authorities jointly “own” the WSEs and provide strategic direction through appropriate representation (RRGs – Sub Groups).
- Consolidate all relevant human expertise and skills into 4 WSEs. Creating scale efficiencies and critical career paths for development.
- Providing balance sheet separations from Local Authorities to optimise funding strategies options (higher borrowing limits); and
- Services standards assured by an integrated national regulatory system.

4 WSEs PROPOSED –(WSE B 800k/22 TLAs)



Entity	Regions included
A	Auckland and Northland regions.
B	All districts from the Waikato, Bay of Plenty and Taranaki regions and the upper parts of Manawatū-Whanganui region (Ruapehu, Whanganui, and Rangitikei).
C	The districts in the eastern and lower part of the North Island (Gisborne, Hawke’s Bay region, lower parts of the Manawatū-Whanganui region ²⁵ , and Wellington regions); and The local authorities at the top of the South Island (Tasman, Nelson and Marlborough).
D	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. ²⁶

WSEs' GOVERNANCE INITIALLY PROPOSED

- TLAs (22 for WSE B) and mana whenua appoint 5 members each to a Regional Representative Group (RRP)- No more than 12 members.
- TLA representatives would be elected members or appropriately qualified senior officers.
- The RRP will appoint an Independent Selection Panel to appoint and monitor the Entity's Governance Board.
- The Entity Board will govern the Entity and will require relevant competencies – to be set out in legislation – no more than 10 members.
- A Government Policy Statement will provide direction to entities on national policy priorities.
- The Board will be accountable to the Regional Representative Group.

DEVELOPMENTS SINCE Sept 2021

- Representation, Governance, and Accountability Working Group.
- Rural Supplies Technical Working Group
- Planning Interface Technical Working Group
- First piece of legislation introduced to Parliament. Consultation will soon follow.
- Further legislation will be necessary over the coming year; (yet unknown)

NEW LEGISLATION REQUIRED- WSEs

- To provide the functions and required powers relating to service delivery;
- Implement the new arrangements (for example, transfer assets, liabilities and contracts);
- Make any changes to preserve Treaty settlements or other arrangements between mana whenua and councils;
- Establish economic regulation and consumer protection regimes; and
- Make detailed, technical changes to other legislation (for example, the Local Government Act 2002).

Anticipated legislation will be introduced in late-2022 following consideration of the findings of the Planning Interface and Rural Supplies Technical Working Groups (**Pending**)

Representation, Governance, and Accountability Working Group(May 2022)

Cabinet has accepted, and will take forward the majority of the Working Group's recommendations to ensure councils, iwi/Māori and communities have a strong voice in the new entities. The Government will now move to introduce legislation in Parliament shortly (??)

- 47 Recommendations
- 5 Themes (Areas)

The Government will update legislation across five key areas:

The Five Areas

Ownership (public shareholding structure/privatisation protection rules)

Co-governance (co-governance in deciding services & merit-based approach to the WSEs Boards)

Accountability (strengthening and clarifying the role of the RRGs – Sub Groups)

Te Mana o te Wai (embrace Te Mana o te Wai as a korowai)

Strengthening connections

(Strengthen connections to local communities, including sub-groups feeding into the Regional Representative Group, comprised of representatives of local communities to provide community-based **input** into the Board's decision making on investment prioritisation and service standards) – **Is this viable??**

OTHER WORK and TRANSITION UNIT

A National Transition Unit established (NTU) with Local TTs. – Accountable to the Minister

- National Transition Unit (NTU) and Local Establishment Entities (LEEs) Responsible for delivering the transition from councils to water services entities (WSEs).
- Seconding-in Council workers where necessary to advise on the transition.
- Preparation for activities of WSEs after 30 June 2024. Making decisions on transition matters, including undertaking appropriate engagement.
- The NTU is responsible for allocating which transition tasks are undertaken by it and which are undertaken by the LEEs.

TRANSITION WORK DEMANDS ON STAFF

Council staff are also being sought for four Transition Reference Groups. These groups will help inform and advise on the NTU's work in four workstreams:

1. People and Workforce
2. Finance and Corporate Services
3. Commercial and Legal and,
4. Asset Management and Operations.




COUNCIL 3 WATERS ASSETS



THREE WATERS REFORM

ROTORUA
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COUNCIL ASSETS SUMMARY

Activities	Description
Water supply 	Ten defined supply areas including three urban areas Eleven water sources Nine water supply treatment plants Approximately 768km of pipelines 15 water pump stations
Wastewater 	405 km of gravity pipelines and 150km rising mains Services three urban areas of Rotorua (<u>Ngongotahā</u> , city and eastern suburbs) and some rural lakeside communities Two wastewater treatment plants 81 wastewater pump stations
Stormwater 	284km urban reticulated pipelines 153km of open drains Service three urban areas of Rotorua (<u>Ngongotahā</u> , city and eastern suburbs) Reporoa land drainage scheme

3 WATERS ASSETS/LIABILITIES

Asset	Replacement Cost Approx.	Depreciated Replacement Cost Fair Value Approx.
Water Supply	\$260 M	\$125 M
Wastewater	\$420 M	\$198 M
Stormwater	\$230 M	\$110 M
TOTAL	\$910M	\$433 M

DIAGNOSIS Vs CURE RISKS

- Agree with the challenges diagnosis (RLC's 30Y IS Alignment)
- Assets non convertible – means to an objective & changing
- Asset ownership means Liabilities ownership (Perpetuity)
- Who sets the local context and Objective?? (Key Question!!)
- Meaningful local input or lost in the clutter of 800,000?
- Council's key focus is THE SERVICE not Asset Management

ALIGNMENT IN THESE PROPOSALS

- Achieving scale advantage (cost absorption spread larger population) ✓
- Rationalisation and Harmonisation of plans/standards ✓
- Leveraging services based revenue streams for growth investment ✓
- Critical mass to attract, retain and develop competent staff ✓
- Risk based focus and consequence on intervention protocols ✓

ASPECTS OF CONCERN (1)

- Potential loss of ability to lead and define local community outcomes through elected mandate.
- Potential for narrow focus onto assets management which becomes unresponsive to local communities' needs as they evolve.
- Potential disconnection between city planning objectives and enabling infrastructure planning.
- Overhyped efficiencies from reforms.

ASPECTS OF CONCERN (2)

- The efficiencies model unbalanced. RLC from \$1250 to \$3400 p.a. funding demand if no change over 30 years. (WICS/DIA)
- WSEs to achieve 3% efficiencies of funding NOT costs (Debt levels)
- Current CGPI runs at 11-13% - Future?
- RLC ability to fund by 3% p.a. 3Ws can triple revenue – Still affordable.
- Affordability linked to economy. No targeted infrastructure investment to enable economy no growth low affordability.

THE KEY MESSAGES OF THE GOVERNMENT

- No confidence in TLAs to make balanced decisions – The evidence!
- Local short term politics override prudence (asset/services risks)
- Three waters services too critical to be left in the **poor stewardship** of TLAs

A CURIOUS RATIONALE

- Concern by Government on future affordability. However proposed entities will transfer all related costs to the same communities for which affordability is seen as a risk.
- Government/TLAs will not override WSEs liabilities – user cost burden
- Funding streams for WSEs remain based on rates, fees and borrowings
- Rates normalized and debt ceiling lift – why not for TLAs?
- Assumed efficiencies by WSEs a matter of reasonable credibility gap

LEVELS of SERVICE FUNDING DRIVER

Assuming reasonable management competence the key cost/funding drivers in the future for three waters are;

- Meeting baseline regulations - (Government GPS driven)
- What LOS local communities want over/above baseline regulations?
- Same funding/revenue streams for the WSEs – user cost.
- To-date “Governance” focus for WSEs only a small element and appears complex with questions on true effectiveness and efficiency.

ARE WE READY FOR COMMUNITY VIEWS?

A significant body of work is still required to arrive with confidence in a transition;

- Legal separation of liabilities and risks
- Agreements, Relationship Protocols, Contracts and Consents novation system
- Assets transfer/values basis
- Debt transfer clarity
- Stranded TLA costs treatment
- Fees and charges enabling legislation
- Staffing and employment security risk
- Plus

THREE WATERS REFORM PROPOSED

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MAJOR DISRUPTION RISKS FOR RLC

Transition demand on limited staff resources. Disruption risks;

1. New entities struggle to achieve promised benefits (worse off)
2. Staff unable to focus onto RLC strategic priorities (fail to deliver)
3. Potential for abortive effort (in a changed government)

WHAT WE SHOULD EXPECT TO SEE ?

- Reform can demonstrably give effect to community developed 3 Waters Strategy for our District (recognizing a place based approach not a utility based approach).
- That Council/Community receive the levels of service that meet its community agreed priorities.
- Performance reporting to Council focused upon evidence that target efficiencies are achieved and cost burden on the community is minimized and fully aligned with the levels of service required.

QUESTIONS/DIRECTION

- Note the September 2021 preliminary position adopted
- Has this position materially changed? (Reasons)
- Noting that with still significant outstanding clarity remaining on a number of important workstreams is it prudent to seek community input at this stage?
- Your views??