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Sent: Wednesday, 21 July 2021 2:11 PM
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Cc: Paul Blair; Dean Kimpton; Andy Matthews; Brent Manning; 'Mubashir Mukhtar'; 'Kaine Thompson'; karynstillwell5@gmail.com; Karl Ferguson; Shaun Jones; Rachel Beck
Subject: Weekly Update on Water Reform
Attachments: COUNCIL IMPACT ASSESSMENT_CONSIDERATION CRITERIA TEMPLATE_v_8.pdf; Draft 3W Council Decision Framework_v8 detailed assessment.pdf; Draft 3W Council Decision Framework_v8 draft dashboard.pdf; RotoruaOverallPresentation.pdf; WBOPContractDeliverables.pdf

Hi everyone,

A former British Prime Minister once famously said "a week is a long time in politics." How true that is! Last week was momentous for water reform and there is a lot to digest. Events continue to move at pace too. There is a planned Entity B Hui on 5th August in Taupo and the Government have announced an 8 week window for getting Council feedback on the reform package before any decisions are taken. This is likely to begin on 2 August.

I attach the slides that we presented at the Rotorua Workshop on 7th July plus the updated work on the balanced scorecard.

We are meeting on Friday. I am recommending the following as an agenda:

1. Reflections on the Government's announcements
2. The 8 week engagement programme
3. LGNZ/DIA support for Councils, including the balanced scorecard/impact assessment matrix
4. The 5th August Hui for Mayors, CEOs and Water Leads
5. Internal communications with examples from Waikato District and Hamilton
6. Any Other Business

As always, feel free to suggest any additional topics for discussion.

As you know we are supporting LGNZ on water reform. We have developed an impact matrix to help councils assess the pros and cons of joining the new water service entities. It uses a balanced scorecard approach to examine all of the relevant issues - service and environment, people and supply chain, social and economic well-being as well as finance and funding. The tool is intended for Mayors and councillors. We are able to work with councils to apply the matrix to their circumstances. This work will be funded by DIA. We are working with Waipa to test the approach. We are also talking to those councils in Entity B that are not part of this Consortium. We can discuss the application of the matrix to Consortium members on Friday.

On a personal note I have formally joined up with Dean Kimpton to form Tūhura and Partners. This is my new email address. I am on the same mobile (021-227-8356) but am no longer using the Taituarā email address.

Dean and I have established a five-year partnership with Taituarā called Hei Taituarā. The partnership was launched on the 8 July and details can be found on the Taituarā website. The objective is to provide executive support to local government leaders. Hei Taituarā is a niche service focused on mentoring, rapid response, interim executive placement and supporting leaders to prepare for upcoming reform programmes. The work we are doing on water reform is a good example of what Hei Taituarā is all about. We have assembled a high quality and experienced team of consultants, coaches and interims. We are first and foremost experienced practitioners. Our Team includes former CEOs, COOs, CFOs and comms, change management and asset management specialists. We are from the sector for the sector and we are keen to help councils make change happen on the ground, rather than just consult. Do bear us in mind if you need help to overcome a challenge or to prepare for the changes heading our way.

These are exciting times and we look forward to working with you under the banner of Hei Taituarā.

Best wishes,

Kevin

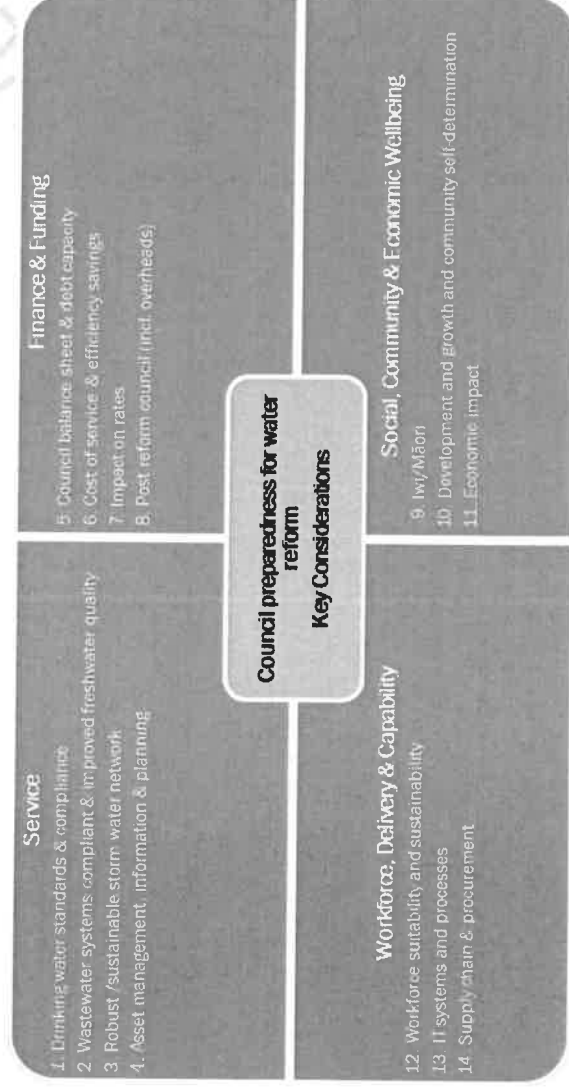
Three Waters Reform – Considerations and Criteria for Council Impact Assessment - Version 8: 19-07-2021

The purpose of the 'balanced scorecard' impact assessment framework is to provide a structure through which Councils can consider a range of factors which may impact on Three Waters reform decision-making.

The assessment is divided into four quadrants, with each incorporating a range of considerations. A range of criteria have been developed to assess Councils current three waters position and risks compared to those of the Reform proposal.

The criteria use council's current (without reform) position as a Base, with a RAG status (Red, Amber, Green) assessment to be completed for each criteria. For some data driven criteria an assessment can be made for both "current/without reform" and for the "with reform" scenario. For others where the criteria is based on the assessing a risk to Council, a RAG assessment is to be completed for "without reform", with either a default "light green" assessment (where reduced risk to Council is expected under reform but it cannot be quantified) or a "yellow" assessment, where the criteria is "non-binary" (i.e. it is not possible to make a comparative assessment under Reform. This will become evident as you progress through the assessment.

The assessment worksheet and summary will allow Councils to develop a graphic representation based on relative RAG status comparing "Without Reform" and "With Reform". Weighting of various criteria can be considered on a council-by-council basis, but should not be necessary to provide a comparative assessment.



1. Drinking Water Standards & compliance																
Rationale	The Drinking Water Standards for New Zealand (DWSNZ) set and provide the compliance criteria to be met by all public water supplies (including for small community schemes and private suppliers). Compliance with the DWSNZ requires appropriately built and installed infrastructure (capex) and operational (opex) activities with management oversight and compliance reporting and review, including appropriately qualified and competent operators. Achievement per supply with the DWSNZ, demonstrates a responsible attitude by the Supplier to public health, along with significantly reduced risk for consumers.															
Reform assumptions	<ul style="list-style-type: none"> It is presumed where a Council has achieved DWSNZ compliance for a particular supply then they will continue to maintain that compliance. This makes no allowance for the changing nature of the Standards. It is assumed that some (if not all) private supplies/schemes will default to local councils once the supplier(s) recognise the burden of future compliance. A 2018 national report by Beca identified the national cost to upgrade all known and registered water supplies for DWSNZ compliance, which can be used to estimate upgrade costs per scheme on a population (per person supplied) basis 															
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1(a) 2020 Level of compliance with DWSNZ (per 2019/20 published results)																
1(b) Intended level of compliance with DWSNZ (per Infrastructure Strategy)																
1(c) Water Safety Plans (WSP) are a required feature per scheme for DWSNZ compliance (and a means of identifying and managing operational risk)																
1(d) Compliance risk of future liability for non-council supplies (as at 2020)																
Other considerations:																
	<ul style="list-style-type: none"> Taumata Arowai is set to become the regulator for Drinking Water in NZ from late 2021. Marae water supplies are in many cases to be identified and prioritised for upgrade and compliance – the Crown has allocated a \$30M capex fund for a pilot Growth impacts to be separately considered 															

2. Wastewater systems compliance, and improved freshwater quality																						
Rationale	Upgrading wastewater treatment plants (wwtp) & discharges to meet current and future standards is a major investment challenge. Major components of this challenge are that the Resource Management Act (RMA) reforms and subsequent consenting regimes, the implementation of the National Policy Statement for Freshwater Management (NPS-FM) by Regional and District Councils, and the elevation of Te Mana O Te Wai. This creates uncertainty around acceptable future discharge characteristics, from which appropriate treatment processes, and the necessary capex investment and operating practices, may be determined. To mitigate this uncertainty, responsible water entities will anticipate these challenges at a pan region level, then work with their communities, stakeholders, industry and service providers to appropriately consent their wastewater discharges. They will also look for shared opportunities. Note: The NPS-FM applies to freshwater bodies, i.e. all inland rivers, lakes and waterways.																					
Assumptions	<ul style="list-style-type: none"> Regional Councils to have National Policy Statement – Freshwater Management (NPS-FM) provisions in place by 2025 – to inform future consent discharge limits – this will apply to all discharges to inland waterways. Marine (Sea) discharges by ocean outfall are likely to come under greater scrutiny/more stringent limits and conditions on discharges Resource Management (RM) consenting regime set to change within next few years – expected to result in more stringent environmental conditions All of the above is expected to add input costs over and above the current settings Opportunities and optioneering for combined plants and discharges pan-region are unlikely to have been explored or costed in any detail 																					
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Other considerations

- In future Taumata Arowai expected to also have a role in oversight of wastewater system performance and compliance (over and above the existing regional council role). To this end Taumata Arowai have indicated that they will seek to institute some form of national performance standard pertaining to wastewater infrastructure for expectations on discharge quality
- Growth impacts to be separately considered

INDICATIVE ONLY

3. Robust, sustainable stormwater network			
Rationale	Stormwater is emerging as a significant future investment challenge, driven primarily by growth and environmental quality improvement requirements. Are you confident you have sufficient investment in your long-term plan and are fully funding costs, including depreciation? The reform generates stormwater benefits that reduce statutory and regulatory complexity, address funding constraints, increase existing and future capacity and capability, enable urban growth, improve water quality, and respond to climate change. There is a growing trend towards stormwater quality management. The number of service providers with stormwater quality management plans has increased by 43% in the last three years (Water NZ NPR)		
Criteria	RAG Classification		
	Green	Amber	Red
3(a) Stormwater asset valuation using Optimised Replacement Cost (ORC) where soft assets are defined as land attenuation, swales, ponds, wetlands etc	Revalued with ORC including all hard and soft assets and/or Confidence rating in completeness and accuracy of asset data at A (high confidence)	ORC does not include soft assets and/or Confidence rating in completeness and accuracy of asset data at B or C (medium confidence)	ORC does not include all hard assets and no soft assets and/or Confidence rating in completeness and accuracy of asset data at D (low confidence)
3(b) Economic depreciation and renewals funding (per 10-year period of LTP 2021-31)	Long run renewals <u>funded</u> budget matches accrued depreciation for stormwater	Long run renewals <u>funded</u> budget <100%>50% accrued depreciation for stormwater	Long run renewals <u>funded</u> budget <50% accrued depreciation for stormwater
3(c) Climate change impacts on Levels of Service (LoS)	Future LoS determined taking into account changed rainfall patterns, and sea level rise impacts quantified	Future LoS unchanged from current LoS (which do incorporate some impacts of climate change)	Current LoS don't take into account climate change impacts
3(d) Service providers with stormwater quality and catchment management plans	Catchment management plans in place, implemented with active stormwater quality monitoring	Most or some catchment management plans in place, and some or no quality monitoring	No catchment management plans in place, and no quality monitoring
3(e) Discharge water quality – means to manage and improve discharge quality e.g. incorporation of Sensitive Urban Design (SUD) and Low Impact Design (LID) standards in design and operation of networks	Have discharge standards and practices to remove contaminants (may be tailored to sensitivity of receiving catchment)	Some discharge standards and practices to remove contaminants, but not applied across whole network	No discharge standards and practices to remove contaminants
Other considerations			
<ul style="list-style-type: none"> • Yet to incorporate Iwi and Hapu views, and community and Regional Councils aspirations as to the quality of local water bodies (per the NPS-FM framework) • Growth impacts to be separately considered 			

4. Asset Management and Infrastructure Planning

Rationale

Things might look alright now but what are the implications for the future? Some councils have invested heavily recently in upgrading 3 waters assets, where for others this will be required in the next 10-30 years. Where are your assets in their lifecycle? The expected increased level of service will require a step change in standardised and enhanced asset information and operating systems. Are you confident that your Council with its current systems could deliver this?

Criteria

RAG Classification

	Green	Amber	Red
4(a) Asset Management Maturity index (for organisation) (per International Infrastructure Management Manual [IIMM])	D or E average rating across all facets (Intermediate to Advanced) Assessment score >80%	C average rating across all facets (Core) Assessment score <80%>50%	A – B average or some facets rated A or B (Aware - Basic) Assessment <50% or not undertaken
4(b) Asset meta-data quality (based on relevant assessment tool, i.e. BIP & RATA etc)	>50% (by length) of all pipe networks and >50% of above ground assets condition rated	<50% >20% of all pipe networks and <50% of above ground assets condition rated	<20% of all pipe networks and/or none of above ground assets condition rated
4(c) Knowledge about assets – completeness and condition rating. Quantum of 3 waters assets that have been condition-rated (and may be triaged based on criticality)	AMS are integrated with corporate finance, billing, CRM and GIS systems in real time or regularly automated	AMS partly integrated with other enterprise systems e.g. occasional data transfer for alignment	AMS is stand-alone i.e. no integration with other enterprise systems and/or transfer of data is manual
4(d) Systems – integration. Asset Management Systems (AMS) are central to enterprise planning and operational management This may include analytical operational and planning tools such as hydraulic models – working in real time, and sensors inputs from smart meters			

Other considerations

- There are many factors essential to good practice Asset Management, as covered in the IIMM, which should be treated as a primary reference for NZ context
- Good practice, which has transformed utilities elsewhere, includes integration of such tools as working hydraulic models, overlaid with asset criticality, SCADA and Programmable Logic Control (PLCs) etc. for full analytical capability and future progression to artificial (programmed) intelligence in automating operational decision-making.

5. Council balance sheets and debt capacity	
Rationale	Debt is prudent way for Councils to finance asset investment. This especially true of 3 Waters assets because they have very long lives over several generations. Users of asset then fund the asset through mechanisms such as development contributions where the investment is for growth; or by rates where the investment is to upgrade existing assets or service – with users paying as they receive the benefit of the investment over generations. But many Councils are reaching their maximum debt capacity. This has or will in future, put significant limitations on the ability for Councils to borrow to fund the required improvement in service levels in 3 waters activities and/or the investment required to respond to growth. In many cases the levels of borrowing attributable to 3 waters (reflected through a debt-to-income ratio) is significantly higher than that for the balance of Council activities. Separating the assets and debt relating to 3 waters activities (balance sheet separation) and consolidating this into a combined water entity with increased borrowing capacity than that afforded to Councils will increase the capacity for 3 waters investment, and lower the debt-to-income ratio of the residual Council entities, enabling greater borrowing capacity for other Council activities.
Reform Assumptions	<ul style="list-style-type: none"> The ability to incur debt is a critical enabler to the environmental and social outcomes desired through 3 waters reform The new 3 waters entities will acquire the 3 waters assets of each Council (excluding land?) and assume responsibility for these assets and service levels (some specific exceptions re Storm-water assets) The outstanding balance of external debt incurred by Councils investing in improvement to 3 waters infrastructure will transfer to the new Water Entity. Outstanding debt balances arising from asset investment, for which repayment provisions are incorporated in a Council Development Contributions Policy will also transfer. While, not yet confirmed it is assumed that where a Council has zero 3 waters debt, any cash/investment reserves held by Councils will either not transfer to the new WSE, or alternatively if transferred an equivalent reimbursement be made to the Council. The level of council debt that is transferred to the new WSE, will, when combined with future investment requirements must be sustainable i.e. will enable the entity to meet both its credit and economic regulation obligations.
Criteria	RAG Classification
5(a) 2020 Debt to Income ratio for 3 waters activities 2020	Green Debt to Income <100%
5(b) 2031 Debt to Income ratio forecast for 3 waters activities	Amber Debt to Income ratio 100%-250%
5(c) Debt to income ratio for 3 waters divided by debt-to-income ratio for balance of Council	Red Debt to Income ratio >250%
5(d) Development Contributions are used as an external funding source to offset rates burden. There is a challenge in how this will be managed by WSE due to the complexities associated with managing and forecasting growth. Proportion of 2021 3 waters debt balances, currently forecast to be repayable via Development Contributions reflecting that less reliance on DC's represents less risk to Council.	Debt to Income ratio >250% A negative variance ratio More than 30%
5(e) The removal of debt from Council balance sheet will generate additional headroom for borrowing in the future. Is the creation of additional Council debt capacity for non-three waters debt viewed by your Council positively or a negatively considering it will result in potentially higher operating cost/ funding requirements but improved levels of service?	A variance ratio between 0% and positive 100% 10% - 30% Viewed positively Neutral Viewed negatively
Other considerations	

- Some Councils have low debt levels. This may relate to the lower level of investment made in recent years. Councils should consider not only their current position but what debt requirements may be over the next 30 years. Councils with lower debt levels, may be likely to incur significant costs to upgrade 3 waters infrastructure in the future. With asset and balance separation this investment and borrowing that goes with it would become the responsibility of the new entity.
- Decision makers will need to ensure that under the new entity structure, there is a mechanism that ensures that investment prioritisation is given to meeting compliance with service level standards and that the relative needs of a smaller geographical areas are prioritised equally with larger ones.
- The Councils with highest debt are generally Councils that have experienced the highest population growth in recent years. This debt reflects a portion of the investment needed to meet the necessary infrastructure requirement.
- To ensure a continuation of investment Government could consider setting the level of 'Base' borrowing to be transferred as at 1 July 2022 and then require Councils to gain approval from the 'Interim Entity' for subsequent 3 waters capex projects to be funded by debt, up until formal debt transfer on 30 June 2024.
- Three waters balance sheet separation will increase investment capacity for the remaining activities of Councils. While generally viewed as a positive some may consider that the effective resetting of Council debt caps will encumber Council and their ratepayers. Is there a risk it may also shift investment from longer life (i.e., 3 waters infrastructure) towards shorter life assets with higher depreciation rates and proportionally higher funding requirements.

INDICATIVE ONLY

6. Cost of service & efficiency savings																
Rationale	The current cost of service varies significantly between councils, both regionally and nationally. This is caused by a range of factors including variable level of service, concentration of population & scale and physical /environmental factors. Increases in service levels requirements resulting in increased capital investment and operating costs are expected to place significant upward and potentially unsustainable upward pressure on 3 waters costs unless significant efficiencies can be achieved. For many Councils obtaining cost efficiency is limited by scale and having a small, generalist workforce. For capital projects pricing efficiency can also be limited by the one-off nature of projects and the lack of a delivery pipeline for contractors. For some Councils efficiency limitations extend to being able to access the right labour resources at the right time to meet work demands.															
Reform Assumptions	<ul style="list-style-type: none"> Evidence from UK and Scotland (see WICS reports) indicates significant efficiencies can be achieved through agglomeration of water service provision into larger entities. WICS suggest that efficiency potential can only be maximised within water service organisations serving in excess of 800,000 people. WICS identify a range of other factors that enable efficiencies to be achieved, including 'clarity of policy priority', 'robust water quality and environmental regulation' and 'excellence in management'. It is assumed these are all achieved under the reform scenario. WICS modelling assumes costs are scaled up to account for existing service level gaps and then discounted by an efficiency factor, with greater comparative efficiencies assumed achievable in a consolidated entity for those Councils currently serving smaller populations. While there is no certainty that 40% - 50% efficiencies are achievable in the New Zealand context, it is realistic to expect significant gains by taking advantage of economies of scale and shared expertise, improving procurement co-ordination & pipeline, standardising operating environments, and utilising technology advancement. 															
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6(a) WICS modelling assumes significantly greater opportunity for efficiency savings with scale. What population will be served with and without reform.																
6(b) Many Councils will find it difficult to manage future cost pressures. WICS modelling forecasts that reform will create efficiencies that significantly reduce the impact of increasing costs. What change in forecast operating costs per household (incl. Depreciation & in real terms) is expected over the next 10 years based on your 2021-2031 LTP.																
6(c) Responding to the infrastructure requirements to support /population & housing growth has been a significant challenge for some Councils. Do your 2021-2031 LTP forecasts fully cover your growth expectations for your city/district.																
6(d) Councils with low current renewal requirements may face a bow-wave of expenditure in future. What																

<p>proportion of depreciation expense funding is built into current revenue forecasts?</p>	<p>address the decline in service potential of its three waters asset base and account for any underestimation of asset values</p>	<p>address decline in service potential, but risks shortfalls if assets are undervalued or asset lives are shorter than expected.</p>	<p>to address the decline in service potential or undervaluation of assets.</p>
<p>Other considerations</p>			

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7. Impact on rates / charges for 3 Waters

<p>Rationale</p>	<p>There are some significant differences between Councils both regionally and nationally in”</p> <ul style="list-style-type: none"> - the level of rates currently levied to pay for 3 waters services - the degree to which costs are targeted to those that benefit specifically (targeted rates, water metered etc) - how rates balances & reserves are recorded and managed <p>We can also not presume that because three waters rates are currently low relative to other Councils, that they will be so in future. Current rates levels can be heavily influenced by service levels and the degree to which the cost of these waters services is fully funded.</p>						
<p>Reform assumptions</p>	<ul style="list-style-type: none"> • It is assumed that water charges will be harmonised across a ‘Water Services Entity’ (WSE) region over a period of 5 – 10 years from 1 July 2024. • It is assumed a mechanism will be identified and implemented to address differences in funding contributions (i.e. for capital investment) made between ratepayers within a particular targeted rating scheme. • The new entities will temporarily use debt to manage transition costs (i.e. to fund some operating costs until efficiencies are realised), but that after 5 years receivers of 3 waters services will be fully funding the cost of service, including economic depreciation. 						
<p>Criteria</p>	<p style="text-align: center;">RAG Classification</p>						
<p>7(a) Compared to other Councils in the proposed Water Services Entity area current average residential rates for your council are:</p>	<table border="1"> <thead> <tr> <th data-bbox="798 150 853 728">Green</th> <th data-bbox="798 728 853 1108">Amber</th> <th data-bbox="798 1108 853 1848">Red</th> </tr> </thead> <tbody> <tr> <td data-bbox="853 150 1013 728"> <p>About the same or lower so there is likely to be a perception that ratepayers are paying less than others in the region.</p> </td> <td data-bbox="853 728 1013 1108"> <p>Slightly higher so there may be a perception that ratepayers are paying more than others in the region.</p> </td> <td data-bbox="853 1108 1013 1848"> <p>Significantly higher (>20% higher than average) so there may be a perception that ratepayers are paying much more than others in the region.</p> </td> </tr> </tbody> </table>	Green	Amber	Red	<p>About the same or lower so there is likely to be a perception that ratepayers are paying less than others in the region.</p>	<p>Slightly higher so there may be a perception that ratepayers are paying more than others in the region.</p>	<p>Significantly higher (>20% higher than average) so there may be a perception that ratepayers are paying much more than others in the region.</p>
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<p>7(b) Some Councils do not currently fully fund the cost of 3 waters services (e.g. depreciation). It is expected that under the economic regulator will require WSE’s will address this issue. Annual Report Funding Impact Statements (FIS), provide an indication of the level of under-funding to be addressed. The last 5 years 3 waters FIS’s show the combined ‘surplus/deficit’ of operating funding for 3 waters activities is:</p>	<table border="1"> <tbody> <tr> <td data-bbox="1013 150 1337 728"> <p>Equal to or greater than 3 waters annual depreciation, indicating there is little or no funding gap to be addressed by reform.</p> </td> <td data-bbox="1013 728 1337 1108"> <p>80% to 100% of three waters annual depreciation, indicating there some funding gap that will need to be addressed.</p> </td> <td data-bbox="1013 1108 1337 1848"> <p>Less than 80% of three waters annual depreciation, indicating a potentially significant funding gap to be addressed. <i>reform.</i></p> </td> </tr> </tbody> </table>	<p>Equal to or greater than 3 waters annual depreciation, indicating there is little or no funding gap to be addressed by reform.</p>	<p>80% to 100% of three waters annual depreciation, indicating there some funding gap that will need to be addressed.</p>	<p>Less than 80% of three waters annual depreciation, indicating a potentially significant funding gap to be addressed. <i>reform.</i></p>			
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<p>7(c) As reform aims to secure water services for the next 30 years and beyond, future rating impacts are an important consideration. Under</p>	<table border="1"> <tbody> <tr> <td data-bbox="1337 150 1455 728"> <p>Increasing by less than 50%, so not a lot of benefit will be achieved through</p> </td> <td data-bbox="1337 728 1455 1108"> <p>Increasing between 50% and 150% so medium benefit achieved by harmonisation.</p> </td> <td data-bbox="1337 1108 1455 1848"> <p>Increasing by more than 150% so significant benefit to gained through reform efficiency and rates harmonisation.</p> </td> </tr> </tbody> </table>	<p>Increasing by less than 50%, so not a lot of benefit will be achieved through</p>	<p>Increasing between 50% and 150% so medium benefit achieved by harmonisation.</p>	<p>Increasing by more than 150% so significant benefit to gained through reform efficiency and rates harmonisation.</p>			
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<p>reform these impacts will be reduced by both efficiency and rates harmonisation across the region, Council LTP forecasts show rate increasing over the next 10 years: (note: include the impact of fully funding depreciation)</p>	<p>rates harmonisation, based on LTP forecasts</p>		
<p>7(d) The analysis completed by WICS & incorporated in the DIA dashboard shows an estimated relative 30-year (i.e. 2051 forecast) cost per household for 3 waters services under the status quo vs a reform scenario. What does this indicate for your Council?</p>	<p>Council costs without reform are forecast to be lower than cost with reform</p>	<p>Council costs without reform are forecast to be 0-100% higher than cost with reform</p>	<p>Council costs without reform are forecast to be >100% higher than cost with reform</p>
<p>Other considerations:</p>			
<ul style="list-style-type: none"> ● Note that the quality of information in criteria (b) will be limited by the accuracy of asset value data i.e. if assets are undervalued, depreciation will be under-estimated and the under-lying funding gap may be greater than indicated. ● The application of rating differentials varies considerably between Councils. Some Councils have higher relative rates requirements on their business sector. It is important that the impact on businesses from reform and rates harmonisation is also considered. ● The WICS modelling assumes 70% of funding will come from households. More work is required to assess the accuracy and impact of this assumption in each proposed water service entity area. 			

8. Post reform council viability (including overheads)															
Rationale:	A key consideration for Councils is the impact of three waters reform and the separation of debt, asset, and service operations on the remaining Council during transition and post reform. Three waters activities make up between a quarter and third council costs, so most Councils allocate a significant proportion of their corporate overhead costs to three waters activities. Unless these costs can be removed, they risk becoming 'stranded' costs that ratepayers will still need to fund.														
Reform assumptions:	<ul style="list-style-type: none"> The report prepared for the government by WICS does not make specific provision for stranded overheads, preferring to assume that these costs will be managed out by Councils through resizing their organisations. Overhead costs that risk become stranded in post reform Councils include salaries & wages in Finance, HR, contracted services & asset ownership costs such as IT, some of which will still be needed to service the balance of the organisation post-reform. Some costs such as building space may be to be managed out over time, but this will be subject to lease commitments. It is reasonable to expect that Councils receive financial support from central government to cover a period of transition over which the organisation can be re-sized to manage stranded overheads. No consideration has yet been made of the Local Government Review considering the broader future form and function of local government. While it is possible that Local Government may acquire more functions as a result of this review, it is not possible to assess the degree to which stranded overheads may be reallocated to support new Council functions. 														
Criteria:	<table border="1"> <thead> <tr> <th colspan="2">RAG Classification</th> </tr> <tr> <th>Green</th> <th>Amber</th> <th>Red</th> </tr> </thead> <tbody> <tr> <td>3W overhead allocation less than 3% of non-3waters operating income</td> <td>3W overhead allocation between 3% and 6% of non-3waters operating income</td> <td>3W overhead allocation more than 6% of non-3waters operating income</td> </tr> <tr> <td>3 waters opex < 20% of total Council opex and Council opex > than \$100M</td> <td>3 waters opex between 20% - 30% Council opex or total Council opex between \$50M - \$100M</td> <td>3 waters opex more than 30% of total Council opex or total Council opex less than \$50M</td> </tr> <tr> <td>Our Council will easily adjust to the changes brought about by reform</td> <td>Our Council will be moderately impacted by the changes brought about by reform</td> <td>Our Council will have significant difficulty adjusting to the changes brought about by reform</td> </tr> </tbody> </table>	RAG Classification		Green	Amber	Red	3W overhead allocation less than 3% of non-3waters operating income	3W overhead allocation between 3% and 6% of non-3waters operating income	3W overhead allocation more than 6% of non-3waters operating income	3 waters opex < 20% of total Council opex and Council opex > than \$100M	3 waters opex between 20% - 30% Council opex or total Council opex between \$50M - \$100M	3 waters opex more than 30% of total Council opex or total Council opex less than \$50M	Our Council will easily adjust to the changes brought about by reform	Our Council will be moderately impacted by the changes brought about by reform	Our Council will have significant difficulty adjusting to the changes brought about by reform
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Other considerations:	<p>A number of other factors impacting on the Council entities that will remain post-reform a covered under other consideration areas. These include:</p> <ul style="list-style-type: none"> Debt capacity – covered under Balance Sheet & Debt capacity consideration Staff factors are covered under Workforce suitability & sustainability considerations 														

9. Iwi/Māori																
Rationale	The Government has stated that a key outcome of water reform will be co-governance with iwi/Māori, as required by the Treaty of Waitangi. Implementing Te Mana o Te Wai, the national freshwater framework which incorporates tikanga Māori values, is also expected to be a key outcome of system reform. The Waikato and Bay of Plenty regions have an estimated 47 iwi and population of almost 200,000 Māori, being 25% of the region's population. Critical success factors for Māori include partners in decision making, developing management & governance capability, protection of rights & obligations, addressing inequality, protecting traditional boundaries and water catchment areas and structural longevity.															
Reform Assumptions	<ul style="list-style-type: none"> • Iwi/ Māori timeframes are intergenerational which will bring longer term sustainability thinking to the fore • Iwi/ Māori rights and interests are matters which central government will need to manage, not local government • This process is not meant to 'put a price on water', however equity and allocation decisions are likely to raise economic value considerations • Social procurement will be a feature of a new water entity, with consequent opportunities for iwi/ Māori 															
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9(a) Extent to which iwi co-governance is embedded in water delivery																
9(b) Extent to which te ao Māori values, key outcomes, and close working relationships (as opposed to governance) are embedded within water delivery																
9(c) Iwi/ Māori access to training, employment and investment opportunities related to the water																
9(d) Extent to which marae and papakainga have access to clean, compliant drinking water (wastewater hasn't been chosen – harder to measure)																
Other considerations	<ul style="list-style-type: none"> • Governance representation mechanisms will need to bridge between '1 iwi, 1 vote' across 47 iwi and the traditional Institute of Directors approach where somewhere between 6-8 directors is considered best practise 															
	# New Government social procurement guidance rules for iwi (if this measure is unable to be calculated at present across all categories, assume 'Red')															

10. Development, growth & community self-determination	
Rationale	Councillors are responsible under the Local Government Act for delivering the wellbeing outcomes that matter most to their ratepayers. Councils (currently) and any future water service entity have to meet the requirements of the National Policy Statement on Urban Development, monitored through the <u>Urban Development Dashboard</u> . Water services touch the lives of all residents, and are a critical enabler of urban form, housing and business growth, jobs, environmental outcomes and many others. The proposed reform will remove the ability of councillors to directly control this element of wellbeing, raising concerns that the new larger entity will fail to appreciate, ignore or not deliver on local needs in the same manner as existing councils can. There are two criteria in this scenario 'reacting to' development and growth (arguably this is the state in many higher growth TLA's where there is an infrastructure deficit) and 'strategic planning' – a state where a TLA or new water body is able to plan and invest ahead of growth, reducing supply side constraints.
Reform assumptions	<ul style="list-style-type: none"> The cumulative effect of reform of the Resource Management Act, the Zero Carbon Act, DHB reform, and the Future of Local Government review will all impact on an individual council's ability to shape and respond to development & growth. Uncertainty due to the reforms listed above will also impact on Council's decision making around water reform Water infrastructure is not the sole driver of development & growth, but it is a critical enabler, and without it house prices generally increase faster than the rate of inflation and business growth is constrained below its full potential Any new water entity will have more powers and funding tools to help in meeting NPS-UD requirements
Criteria	RAG Classification
	Green
10(a) For Tier 1 & Tier 2 councils, use the Housing & Business Development Capacity Assessment recently provided to Ministry for Environment on compliance with NPS-UD. For other councils, qualitative assessment of development capacity & capability for housing & business land.	Green Sufficient housing and business land capacity exists (planned, and with funding allocated) for short, medium and long-term demand
10(b) Representation and timely delivery of local community concerns in regard to three waters decision making	Amber Housing and business land capacity may not meet short, medium or long-term demand
10(c) Extent to which a council or water entity can strategically plan and invest in water infrastructure ahead of demand (giving effect to council spatial plans), thus lowering costs and improving certainty for households and businesses	Red Insufficient housing and business land capacity exists (planned, and with funding allocated) for short, medium and long-term demand
Other considerations	Reduced representation and timely delivery On a 10-year (LTP) view, water entity is unable to meet future regulatory and consumer demands

- Councillors and ratepayers will need to weigh up any loss of community representation and prospects of speedy delivery with the prospects of unlocking new investment from reform and the mechanisms proposed to ensure that focus on local issues, investment and outcomes is not lost in a larger scale entity
- Water investment is critical for unlocking infrastructure-serviced and, however water investment alone may not unlock land. Transport is the other primary investment consideration, with secondary focus on social infrastructure, telco and electricity investments.
- For some councils the level of growth included in the LTP may not be sufficient to meet the unconstrained needs of ratepayers

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11. Economic impact	
Rationale	Water is an input into every business and household, driving widely distributed economic impact. The Government, regional and local economies including ratepayers all benefit from both additional investment itself s and as a basis for improving standards of living. A core driver of reform is to obtain productivity gains (up to 45% drop in operating costs) which drive a substantial increase in ability to fund capex, which will drive additional GDP. Beyond the boost to GDP from additional investment, businesses and households should benefit from increased certainty of high-quality water supply and water investment ahead of demand.
Reform assumptions	<ul style="list-style-type: none"> Provincial and rural councils will enjoy the highest economic impact relative to existing GDP, while metros will have the smallest relative gains nationally (but highest absolute gains). W/BoP is modelled as a metro by Deloitte Deloitte models WAIBOP mid-point additional capex of \$15.4bn, GDP of +4.4%, 839 jobs, Removing or substantially mitigating constrained funding for water investment should have second order benefits (reduced cost/uncertainty) for businesses and households Organisational design of the new entity and a detailed transition plan will be required so councils can understand the distribution, timing and local impact of regional economic impacts
Criteria:	
RAG Classification	
	Green
11(a) Waters infrastructure investment creates local benefits (GDP & direct jobs) from initial capex and opex, and second order multiplier effects from local indirect jobs, supply chain, local businesses and productivity effects.	<p>Status quo: Impacts are known and controllable by council</p> <p>Reform: Regional benefits of reform (see assumptions) are known, allocation to local level is known, and allocation improves local economic impacts</p>
	Amber
	<p>Status quo: Impacts are controllable by council</p> <p>Reform: Regional benefits of reform (see assumptions) are known, allocation to local level is unknown</p>
	Red
	<p>Status quo: N/A</p> <p>Reform: Regional benefits of reform (see assumptions) are known, allocation to local level is known, and allocation reduces local economic impacts</p>
11(b) DIA has assessed the relative benefits of reform on the economy (Deloitte) primarily driven by increased investment in 3 waters infrastructure. Can this level of investment and resulting economic benefit be achieved without reform?	<p>Status quo: Yes</p> <p>Reform: Doubtful</p>
11(c) Constraints on the ability to invest in three waters infrastructure impacts negatively on the local economy, jobs and GDP	<p>Status quo: Very little</p> <p>Reform: Some</p>
Other considerations:	

- Increased GDP does not necessarily translate into more money directly available for local investment (e.g. water rates are not linked to GDP, they are a cost-recovery for local government today). Taxes on economic outputs will flow primarily to central government, but local areas will benefit through additional jobs and potentially investment
- There data available from central government focusses on households, but perhaps 30% of revenue is from businesses. There is little information on business rates, trade waste customers and impacts on these businesses of reform and rates standardisation
- 30% of NZers are small business owners, hence the economic impact on businesses may need further detail

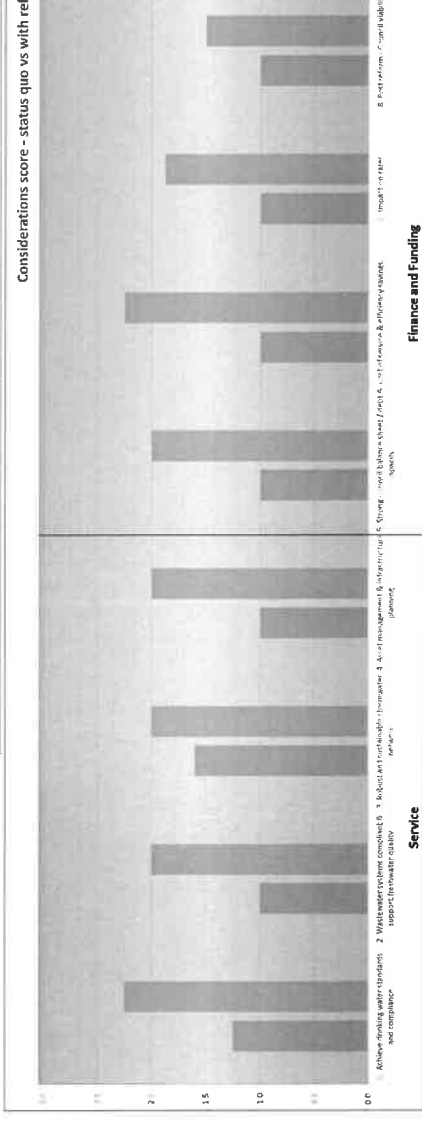
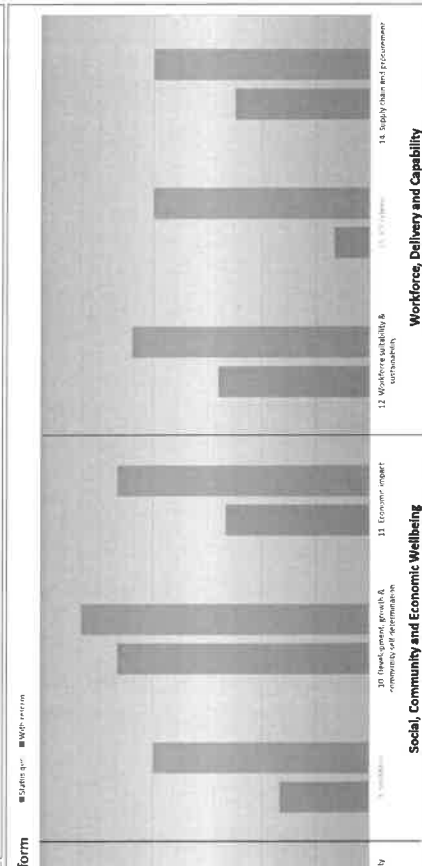
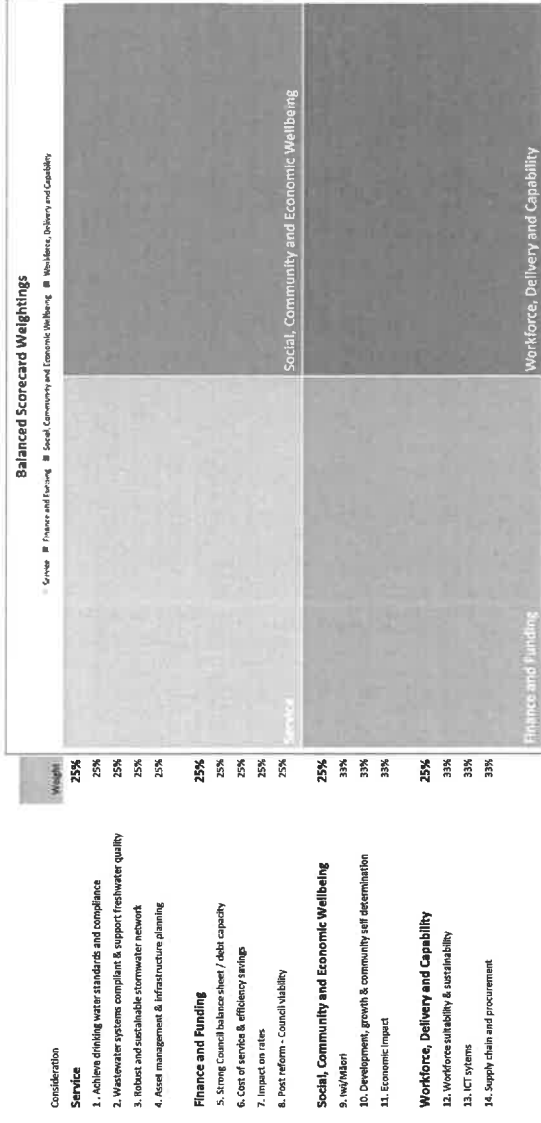
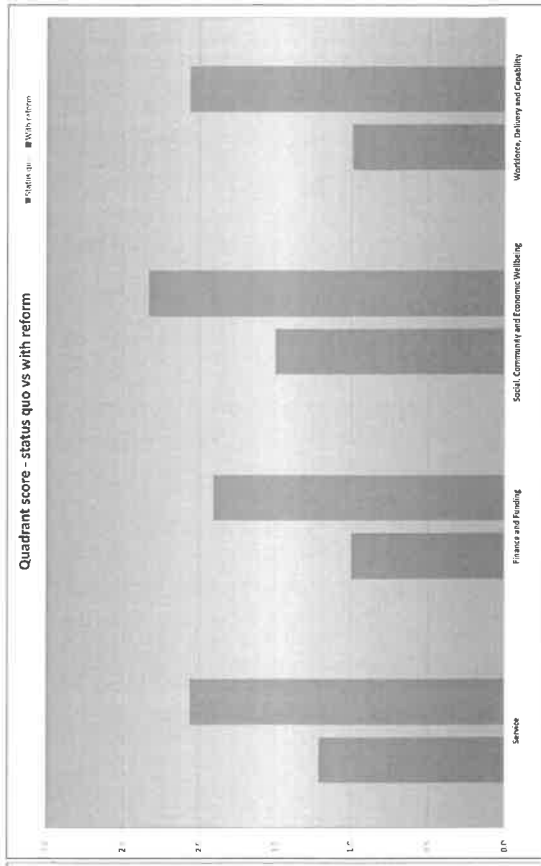
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12. Workforce suitability and sustainability	
Rationale	The 3 Waters workforce in WBOP has an average age of approximately 50, and a lot of critical information is held with older employees holding critical roles such as procurement and asset management. Staff are stretched delivering business as usual, so the potential stress of organisational change, maintaining business as usual standards and also delivering the new projects that additional capex will enable could be a 'perfect storm' for retaining key talent. Direct water employees may enjoy new and increased opportunities. However indirect / support staff may feel threatened by the change. Councils and any new water entities will need to have strong change management and innovation approaches to solving for the employee satisfaction, attraction, retention and training of staff for new ways of working, and potentially a new culture. In some areas, contractors are a critical extension to direct council staff, and are a key consideration
Reform Assumptions	<ul style="list-style-type: none"> Existing staff terms and conditions will be protected Care will be taken to avoid triggering redundancy during the transition process The new entities will have more specialist workforce structure and defined career pathways providing staff with many opportunities for promotion and career advancement There will need to be a re-sizing of support services which will mean job reductions
Criteria	
	RAG Classification
	Green
12(a) Direct water staff – perception of local job availability	More roles and opportunities
12(b) Direct water staff – perception of working conditions (ability to make decisions, specialist staff, team morale)	Improved
12(c) Well designed pathways for career development and training including graduate and apprenticeship programmes that are integrated with the sector supply chain	Opportunities are clear and integrated within business. Active participation with supply chain.
12(d) Indirect staff – perception of job availability	More roles and opportunities
12(e) Impact on contractors, consultants and local businesses in the supply chain	More contract value and employment for local businesses
	Amber
	Red
	Same roles and opportunities
	Same
	Limited career opportunities to progress and obtain a range of experience.
	Less roles and opportunities
	Reduced
	Little to no career development opportunities.
	Less roles and opportunities
	Less contract value and employment for local businesses
Other considerations	
	<ul style="list-style-type: none"> The timeframe for any transition and therefore impact on jobs is critical to give clarity to employees Technology and systems may be a critical way to mitigate knowledge loss, automate certain functions and improve employee experience Procurement (including social procurement policies) and partnering will be key to accessing long term capability outside the water entity – multi-year contracts may be required Leadership and cultural transformation programmes will be critical to unlock efficiencies and employee satisfaction. This includes diversity and inclusion that will drive more diverse workforce including leadership.

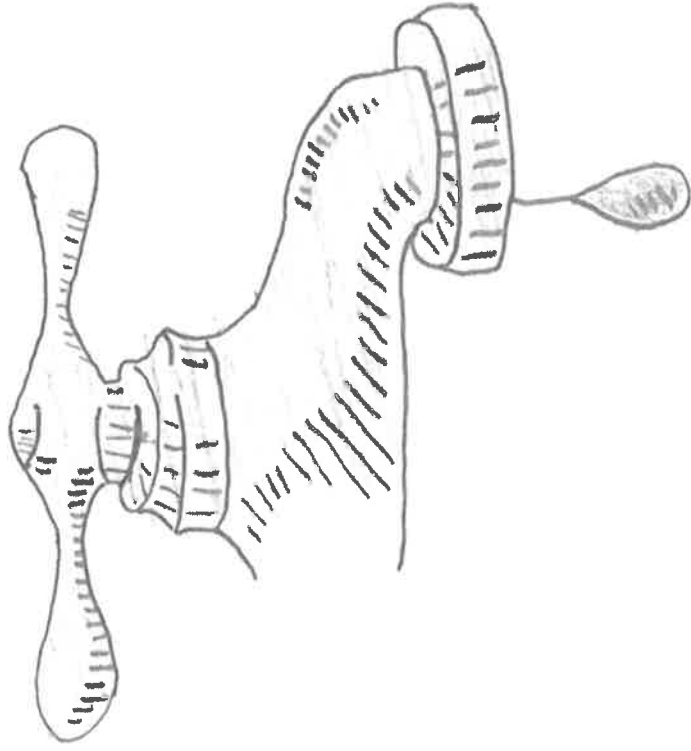
13. Information & Communications Technology (ICT) Systems	
Rationale:	Internationally the ICT maturity levels for high performing water entities are much further advanced than in New Zealand. Even New Zealand's most advanced water utility operators are only beginning to develop the capabilities seen in the more advanced water operators. Technologies such as machine learning, data science, digital twins, data lakes and IOT deployment play a critical role in the future water entity capability. To achieve the step change efficiencies that are anticipated by reform these capabilities need to be developed and matured. A matured ICT system will enable optimised and prioritised decision making and create an immersive and holistic user experience. Cyber security threats are understood and the associated risks well managed.
Reform assumptions:	The ICT capabilities post reform will be fully integrated from a data and asset management perspective enabling informed decision making and visibility for consumers. The scale associated with the new water entity will mean specialist capabilities can be secured to deliver the advanced system requirements.
Criteria:	RAG Classification
	Green
13(a) Do you have a modern underlying ICT platform that is scalable to deal with the challenges and opportunities of the future?	<p>Amber</p> <p>An ICT platform that is suitable for the scale of operation but is not scalable and basic ICT road map developed.</p> <p>Stage 1 maturity assessment rating 16-25</p>
13(b) Do you have advanced technological capabilities to transform service delivery and achieve the efficiency savings?	<p>Amber</p> <p>Has less than ideal integration but sufficient to carry out core requirements. The ICT platform lacks intelligence in decision making.</p> <p>Stage 1 maturity assessment rating 26-40</p>
13(c) Does your ICT system provide a rich customer experience including access to all relevant information?	<p>Amber</p> <p>A marginally improved experience but with limitations that create contention for the customer</p>
	Red
	<p>No roadmap and disjointed systems.</p> <p>Stage 1 maturity assessment rating 8-15</p>
	<p>Little to no system integration. The tools and technology required to make informed and optimised decisions are not in place.</p> <p>diminish in the short to medium term as the customer currently has a high level of service.</p>
Other considerations:	ICT transition can take many years to fully integrate. The important considerations will be alignment & commonality during transition (to obtain efficiencies), the future state, and the roadmap time frames. International good practice has a clear separation ('demilitarised zone') between IT and OT to manage cyber security threats.

14. Supply Chain and Procurement	
Rationale:	<p>A strong supply chain is critical to mitigate the risk of inflation and to support a thriving economy. Further, local businesses are at the heart of many smaller rural economies and maintaining/ enhancing these through this significant supply chain transformation will be crucial in creating a sustainable economy long term.</p> <p>It is also important that the benefits of scale procurement can be achieved. To do this there is a need to leverage best practice, engage and inform the supply chain, and facilitate the upscaling of contracts where efficiency gains are able to be realised (i.e. O&M contracts, large scale CAPEX programmes etc). In addition to scale there is a need to support social procurement outcomes. This is achieved through implementing a Broader Outcomes framework and ensuring the opportunities are integrated to procurement and the market place is informed.</p>
Reform assumptions:	<p>Broader Outcomes framework will be a foundation to the procurement strategy meaning that there will be a balance between efficiency buying and achieving wider social and community benefits.</p> <p>A full and complete pipeline will be developed as a priority and the platform for access is readily and freely available.</p>
Criteria:	RAG Classification
	Green
14(a) World class procurement	<p>Procurement prioritises more strategic partnering, utilises a range of commercial models to create optimal value and have dedicated specialist procurement staff. A healthy and competitive environment is facilitated.</p>
14(b) Supplier relationships – local flexibility and responsiveness	<p>Prioritises buy local and proactively supports (including how to improve) local suppliers. Local suppliers are flexible and responsive to the needs of Council.</p>
14(c) Procurement approach to supply chain	<p>We have regular engagement with the supply chain and they are well informed on the strategy and future pipeline of works.</p>
14(d) Implementing Broader Outcomes	<p>Broader Outcomes framework embedded in procurement strategy and is being implemented successfully. The social and environmental outcomes that we can achieve in and for our local community are significant and measurable. Contributions to a circular economy are clear and measurable.</p>
Other considerations:	
	Utilities Act requires a 'do minimum' of annual presentation to the market of infrastructure pipeline.
	Amber
	<p>Procurement undertakes limited strategic partnering and is limited to traditional contract models (NZS3910 etc).</p>
	Red
	<p>Procurement is limited in scope and scale primarily due to the limited budgets available.</p>
	<p>Local buying is not a priority due to either current buying trends (scale contracts etc) or insufficient capability in the local market.</p>
	<p>The only engagement that occurs with our supply chain is during the formal LTP period or during tendering.</p>
	<p>We do not have plans to delivery Broader Outcomes framework in our procurement function.</p>

Consideration	Ref	Criteria	Weighting	EXAMPLE COUNCIL		
				STATUS QUO / WITHOUT REFORM	EXAMPLE COUNCIL WITH REFORM	
1. Achieve drinking water standards and compliance	1 (a)	2020 Drinking Water Standard compliance	0.25			
	1 (b)	2024 Intended DWS compliance - per Infrastructure Strategy	0.25			
	1 (c)	Water safety plans	0.25			
	2 (a)	Risk relating to non-council water supplies	0.25			
	2 (b)	System performance - consent compliance DIA mandatory measures	0.20			
	2 (c)	Discharges to inland waterways	0.20			
	2 (d)	Expired or expiring (in next 5 years) treatment plant consents	0.20			
	2 (e)	Are costs of compliance fully recognised in IS and LTP	0.20			
	3 (a)	Asset valuation completeness & confidence rating	0.20			
	3 (c)	IS & LTP account for future climate change impacts	0.20			
2. Wastewater systems compliant & support freshwater quality	3 (d)	SW catchment management plans in place	0.20			
	3 (e)	Evidence of SW discharge standards to improve water quality	0.20			
	4 (a)	Asset management maturity index score	0.25			
	4 (b)	Asset metadata quality assessment score	0.25			
	4 (c)	Asset information - completeness & condition rating	0.25			
	4 (d)	Asset management system integration	0.25			
	5 (a)	Three waters debt-to-income ratio 2020	0.20			
	5 (b)	Three waters debt-to-income ratio 2031 (per LTP)	0.20			
	5 (c)	Three water debt-to-income / Balance of Council debt-to-income	0.20			
	5 (d)	Proportion of 3 waters debt related to Development Contributions	0.20			
3. Robust and sustainable stormwater network	5 (e)	Perception of additional council debt capacity	0.20			
	6 (a)	Population served - as an indicator of efficiency potential	0.25			
	6 (b)	Change in three waters operating expenditure in next 10 years - LTP forecast	0.25			
	6 (c)	Does 2024/31 LTP include all infrastructure invested required to respond to forecast growth	0.25			
	6 (d)	Proportion of 3W depreciation funding forecast from FIS operating surplus	0.25			
	7 (a)	Three waters rates level compared to other councils in proposed WSE area	0.25			
	7 (b)	Historical Funding Impact Statement operating surplus compared to deprn	0.25			
	7 (c)	Three waters rate increase forecast over next 10 years - LTP	0.25			
	7 (d)	WICS forecast average cost per household - Reform vs No reform	0.25			
	8 (a)	Proportion of overheads currently allocated to three waters activities	0.33			
4. Asset management & infrastructure planning	8 (b)	Dis economies of scope - impact of removing three waters on Council - based on spend	0.33			
	8 (c)	Size of council (number of employees) - indicator of ability to absorb stranded overheads	0.33			
	9 (a)	Extent to which Iwi co-governance is embedded in water delivery	0.33			
	9 (b)	Extent to which Te ao Māori values and outcomes are embedded within water delivery	0.33			
	9 (c)	Iwi/Māori access to training, employment and investment opportunities in 3 waters	0.33			
	10 (a)	Assessment of delivery status on National Policy Statement - Urban Development	0.33			
	10 (b)	Representation of and Delivery in response to local community concerns	0.33			
	10 (c)	Ability to strategically plan and invest ahead of community demand	0.33			
	11 (a)	Water infrastructure investments creates local benefit from GDP & jobs	0.33			
	11 (b)	DIA has invested...	0.33			
5. Strong Council balance sheet / debt capacity	11 (c)	Constraints on ability to invest in 3W impacts negatively on the local economy, jobs and GDP	0.20			
	12 (a)	Direct water staff perception of local job availability - without and with reform	0.20			
	12 (b)	Perception of working conditions (ability to make decisions, specialist staff, team morale)	0.20			
	12 (c)	Pathways for career development	0.20			
	12 (d)	Indirect staff perception of job availability	0.20			
	12 (e)	Impact with and without reform on contractors and local businesses in the supply chain	0.20			
	13 (a)	ICT platform is scalable to deal with the challenges and opportunities of the future	0.33			
	13 (b)	Level of advanced technological capabilities & integration to transform service delivery and achieve efficient	0.33			
	13 (c)	Does your ICT system provide a rich customer experience including access to all relevant information?	0.33			
	6. Cost of service & efficiency savings	14 (a)	World class procurement - strategic partnering, utilises a range of commercial models, dedicated specialist procurement staff	0.25		
14 (b)		Supplier relationships - local flexibility and responsiveness	0.25			
14 (c)		Procurement approach to supply chain - regular engagement, strategic approach & clear pipeline of contracts	0.25			
14 (d)		Implementing broader procurement outcomes - social and environmental outcomes for local community	0.25			
Raw score (0 = red 1=amber 2= yellow)				64.5	114	
Adjusted score / 100				39	69	



OUT OF
SIGHT,
OUT OF
MIND



KEVIN LAVERY, TAITUAKA

THE STARTING POINT

- * WE, NOT ME
- * LEAD, NOT FOLLOW
- * HOLISTIC
- * CO-DESIGN
- * THIS IS GOING TO HAPPEN
- LET'S DO IT WELL



AND NOW

THE GOOD

THE BAD

AND

THE UGLY



"MAKE MY DAY"

FINANCIALLY = NO BRAINER

RETAINING THREE WATERS = MASSIVE RATE INCREASES + /OR UNSUSTAINABLE DEBT

OPTING OUT MAKES YOU DEFAULT PROVIDER

BALANCE SHEET STRONGER WITHOUT THREE WATERS

MASSIVE INVESTMENT PLANNED

BORROWING HEAVILY WEIGHTED TO THREE WATERS

HUGE UNDER-FUNDING OF DEPRECIATION



STORMWATER, THE POOR REACTION

BUT THIS REALLY ABOUT PEOPLE

GOVERNMENT
- do it to them
or with them?

REGIONAL
COUNCILS - do we
help or hinder?

THESE ARE FINE.
WHAT'S IN IT FOR
ME?



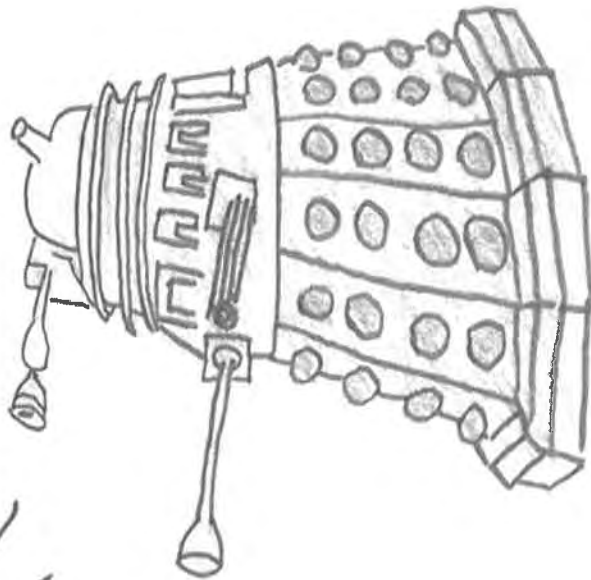
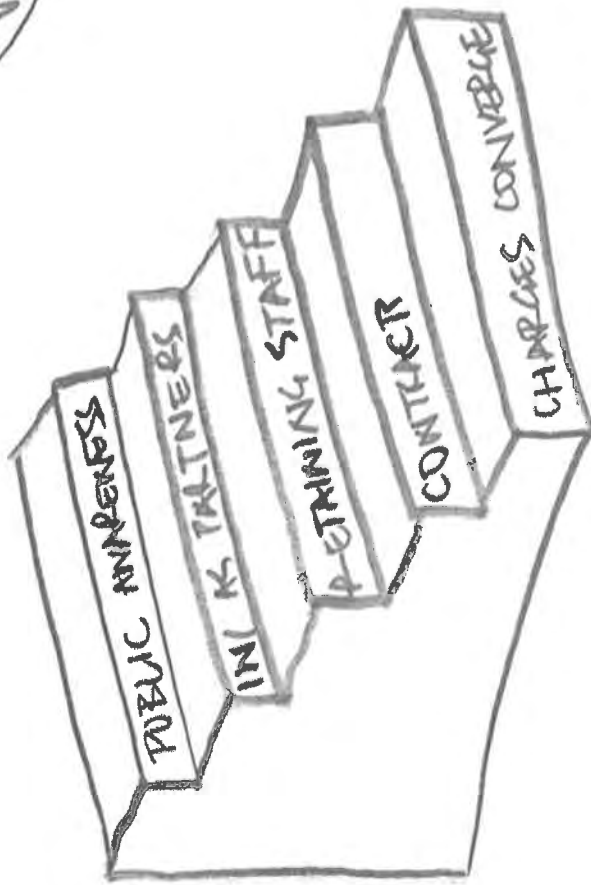
WORKFORCE
- do I have a
job?

COUNCILORS
- do we have a
role?

ini - can we
be involved?

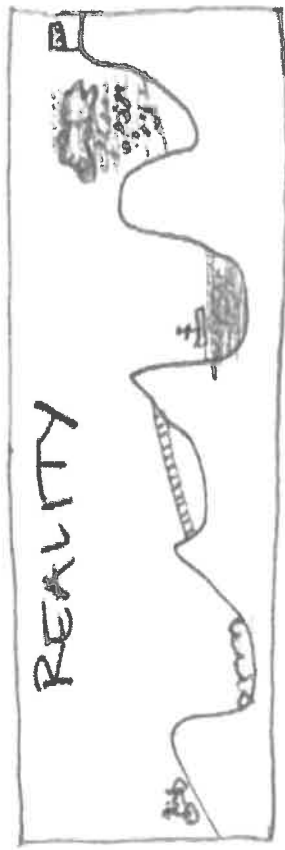
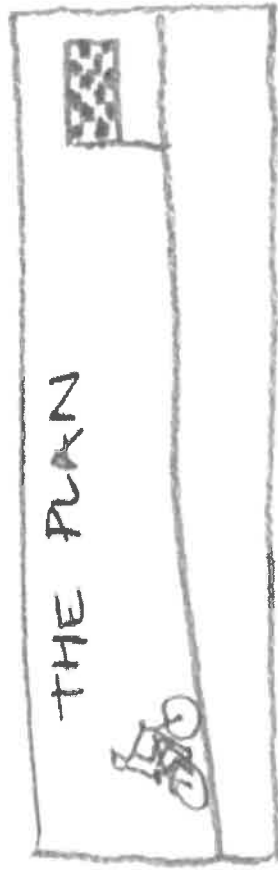
THE EXECUTION ISSUES ARE IMMENSE

"WELL, THIS SCENES UP OUR DOMINATION WORLD"



BEST LAID PLANS

- * DELAYS
- * NORTH CENTRAL
- * PUBLIC INFORMATION PROGRAMME
- * TRANSITION THINKING
- * VOLUNTARY OR "ALL IN"
- * A COMPELLING DEAL?



SOLID FOUNDATIONS

FOR COUNCILS

- * INFLUENCE
- * COMMS PLANS
- * JOINED UP DUE DILIGENCE
- * VALUATIONS
- * BALANCED SCORECARD

NEW ENTITIES

- * EARLY SET-UP OPTION
- * WITH BLENDED TEAM
- * FOCUS ON TRANSITION
- * REAL POTENTIAL FOR SHARED SERVICES



IMMEDIATE PRIORITIES

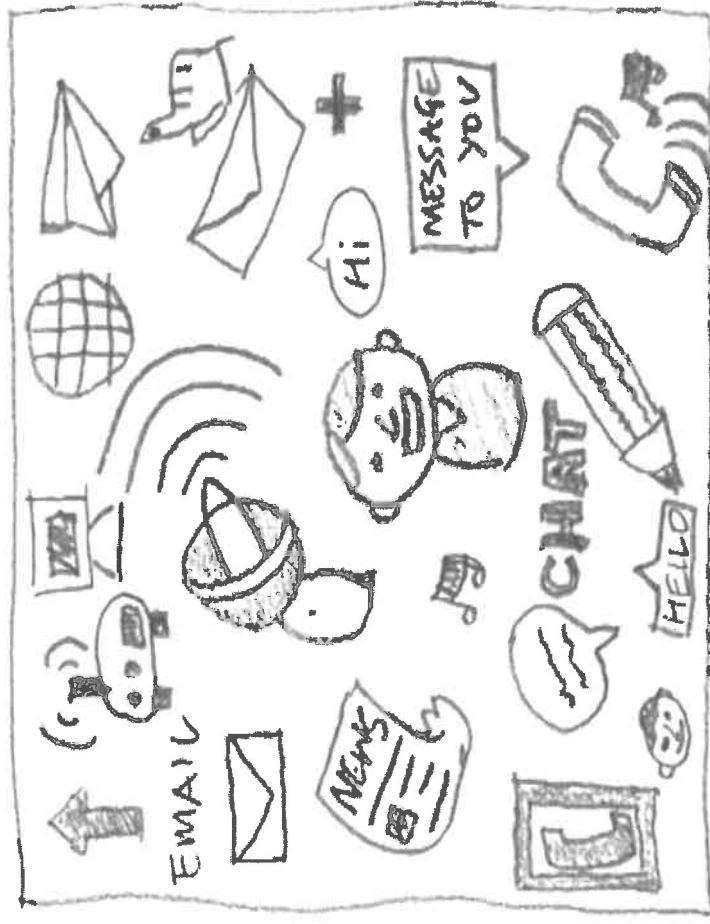
* CALMING TROUBLED WATERS

* FORMING, NORMING
STOPPING, NEW GROUPS

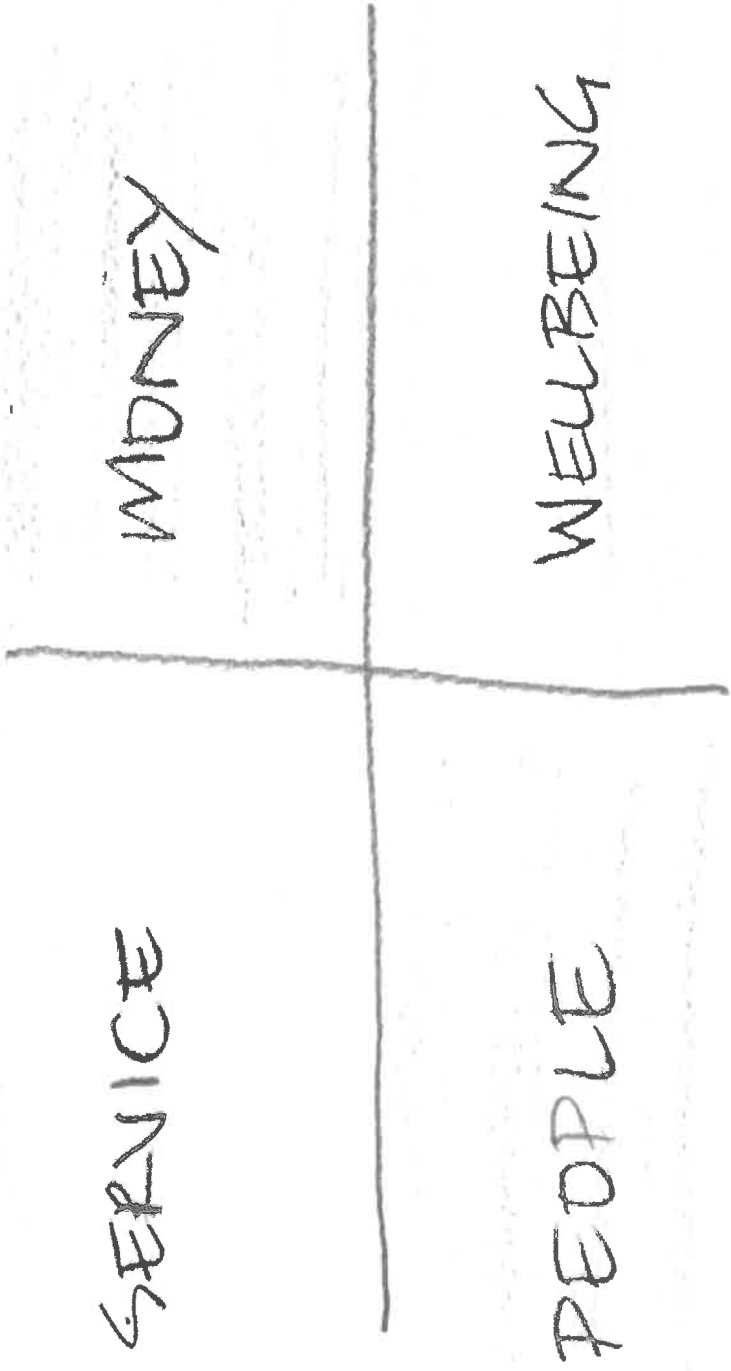
* INI RELATIONSHIPS

* THE WORKFORCE

IN STORT - COMMS, COMMS
+ MORE COMMS



BALANCED SCORECARD



A RESET

* CN BOARDING
TARANAKI + MANAWATU

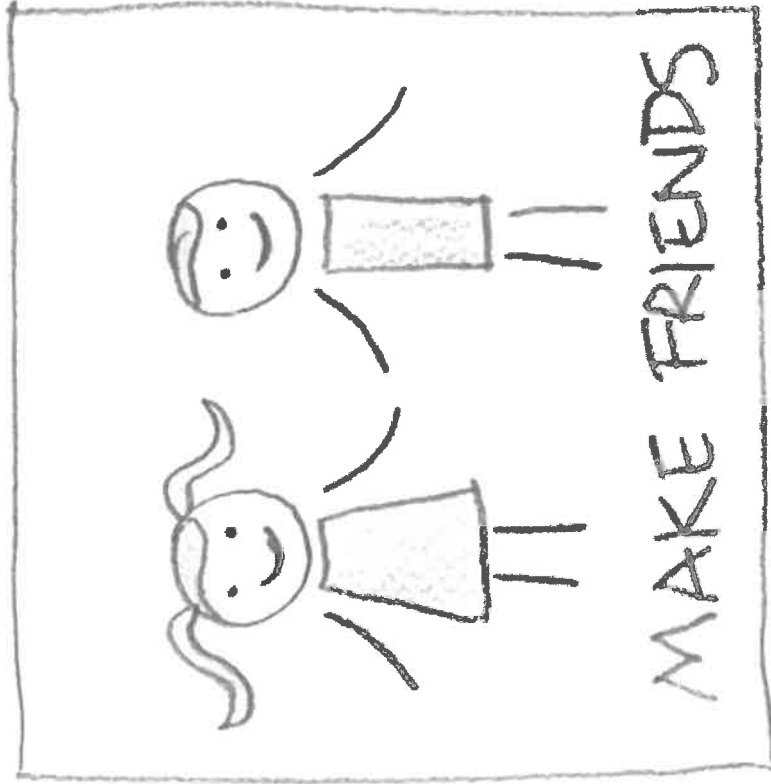
* STARTING AFRESH

* BALANCED SCORECARD

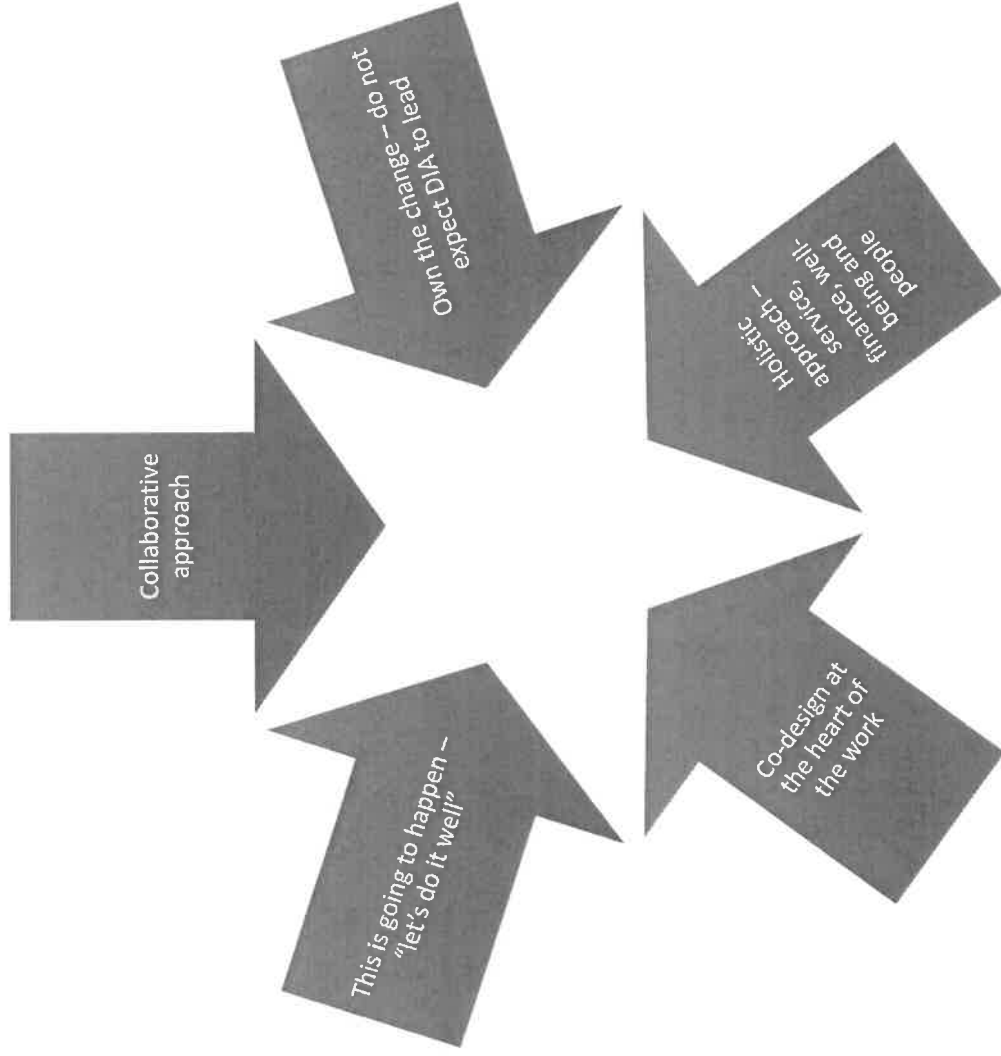
* VIEW OF NEW ENTITY
AREA

* GOVERNANCE

* COMMS FOR STAFF



The starting assumptions



Then and now

In March

- Cabinet decisions in early May and early June
- A voluntary approach
- With Councils leading consultation in local communities
- Looking seriously at Hauraki Gulf being part of Auckland and potentially splitting the Waikato and the Bay
- Transition thinking very centralised and top down

Now

- Cabinet process delayed by a month
- “All in” looking increasingly likely
- DIA comms and public awareness programme is landing badly
- A North Central entity area now favoured
- Transition thinking changing and p more supportive of regional led
- Mood amongst councils become less supportive of reform

Deliverables

Deliverable	Progress	Comments
Comms Plan	On track	All the emphasis has been on Council, the workforce and iwi issues rather than general public and other stakeholder
iwi engagement plan	On track	Proposal to hold a major hui
Workforce programme	Partially on track	Comms dimension well advanced. Other aspects on hold due to delays and lack of clarity over DIA approach to transition
Shadow entity plan	Almost complete	
Procurement and asset management	On track	
Rates and Charges harmonisation	Ceased	Was waiting for LTP adoption but attention has shifted to other more pressing priorities - costing of change management, analysis of winners and losers because of LGNZ negotiations and the balanced scorecard
Data preparedness	Underway	
Case for WBOP	On track	This has been a major focus and has taken up much more time than budgeted
Overall plan and reporting system	On track	
Risks and opportunities register	On track	This has not really been discussed at SG. It will be an item for next meeting.

Changes

Overs

Unders

Additions

Comms

Rates and
charges

Governance
support

Case for
WBOP

Workforce
development

Balanced
scorecard

From: Paul Blair <paul.blair@tuhurapartners.co.nz>
Sent: Wednesday, 21 July 2021 5:35 PM
To: blair.bowcott@hcc.govt.nz; andrew.parsons@hcc.govt.nz; Stephen Halliwell; ian.cathcart@waidc.govt.nz; adrian.delaborde@hauraki-dc.govt.nz; bevan.gray@whakatane.govt.nz; andrea.houlihan@waitomo.govt.nz; Brent Sinclair; bruce.hinson@tcdc.govt.nz; david.bewley@whakatane.govt.nz; Dawn Inglis; martin.mould@waipadc.govt.nz; hanno.vandermerwe@kaweraudc.govt.nz; Karl.pavlovich@mpdc.govt.nz; kstrongman@taupo.govt.nz; kumaren.perumal@westernbay.govt.nz; roger@otodc.govt.nz; mark@otodc.govt.nz; stephen.burton@tauranga.govt.nz; ted.anderson@southwaikato.govt.nz; Stavros Michael; tony.hale@waitomo.govt.nz; nigel.ward@hcc.govt.nz; david.locke@waitomo.govt.nz; sarah.omundsen@boprc.govt.nz
Cc: Dean Kimpton; Andy Matthews; Brent Manning; Shaun Jones; Rachel Beck; Kevin Lavery
Subject: Hamilton City Council internal comms - for Friday's 3W Steering Group meeting
Attachments: Staff update - reform announcements 15 July.docx; Water reform internal engagement - June 2021.pdf

Hi all

Following on from Kevin's note earlier about the proposed agenda for Friday's steering group meeting, Hamilton City Council have been kind enough to share their internal comms as a basis for discussion. If this is useful, please consider sharing with your own internal comms teams as a potential template, but use your discretion/hear from Nigel Ward (Hamilton CC) on Friday first.

On Friday 9 July we had a Comms & Engagement reference group meeting in Hamilton with 5 WBOP councils attending – we hope to get this draft comms & engagement plan out to Steering Group members next week after we get feedback from the reference group.

We also held our first balance scorecard/impact assessment matrix discussion with Waipa this afternoon, so hopefully Dawn may be able to share her insights from that discussion with you as well.

If you have any questions please give me a call.

Regards
Paul



Paul Blair
Tuhura Partners
Mobile s7(2)(a)
Email paul.blair@tuhurapartners.co.nz

From: Nigel Ward <Nigel.Ward@hcc.govt.nz>
Sent: Wednesday, 21 July 2021 11:29 am
To: Paul Blair <paul.blair@tuhurapartners.co.nz>; Kevin Lavery <Kevin.Lavery@taituara.org.nz>

Cc: Andrew Parsons <Andrew.Parsons@hcc.govt.nz>

Subject: Water Reform - Hamilton City Council internal comms

Hi Paul and Kevin, further to chat yesterday, here's a quick overview of our internal comms approach.

I have attached a copy of our current staff presentation and an example of one of our staff email updates which went out a couple of hours after Government announcement last week.

We also do an elected member update which includes latest information, links to relevant releases, our public position and key messaging. We have recently introduced a summary of national and regional media coverage and are working with a media company to develop a regional media dashboard so we can analyse and understand media coverage/public sentiment on an entity by entity basis.

Happy to talk further to this on Friday or provide further info if you need.

Key points:

- We are fortunate to have a dedicated team working on this, which enables comms to be reviewed, checked and signed off quickly by subject matter experts.
- This also provides a 'one source of truth' for staff and elected members.
- This is a luxury we know some other councils don't have but working towards it in some way is very helpful.
- Our approach is 'internal first' for all milestones and ensuring no surprises for staff.
- We cascade a summary to EM, MM, SLT and then a key staff email to waters business delivered via their GM and UMs.
- We have an internal staff website which links directly to DIA – (this still needs some work which has been impacted by me being away)
- We have now done six internal presentations directly to staff, consistent and with opportunities to ask questions.
- We have a dedicated internal water reform email for staff/manager queries.
- We have now established dedicated HR support as part of the team and presently reviewing our staff engagement from a change-management perspective over what will be a three year journey.

- From a public and internal perspective we have a great structure to establish a benchmark of our position.
- We reiterate previous councils decisions to EM in our summaries.
- The LGNZ feedback was formally adopted by Council which underpins our comms with some certainty for us and for EM.

- We have established a fortnightly touchpoint with EM – alternating between a formally-established political reference group and reporting to full Council.

- We also have an established weekly catchup with the Mayor's chief of staff and media liaison.
- This enables some agility in our comms development.

- The information flow from various Government and other sources to various leaders within Council has occasionally been problematic.
- Excellent relationships between the team, CE and Office of the Mayor has assisted with ensuring the right information is shared with the right people.
- We recommend understanding where the various info is coming from and who it needs to go to.

- We have been absolutely open with our neighbouring and other councils in our communications and happy to share any collateral we develop.

- The rest of it is comms 101 – understand your message and repeat relentlessly.

Nigel Ward

Communication and Relationships Manager - Three Waters Reform | Communication and Engagement

DDI: [078386666](tel:078386666) | Mob: [57\(2\)\(a\)66111](tel:57(2)(a)66111) | Email: nigel.ward@hcc.govt.nz

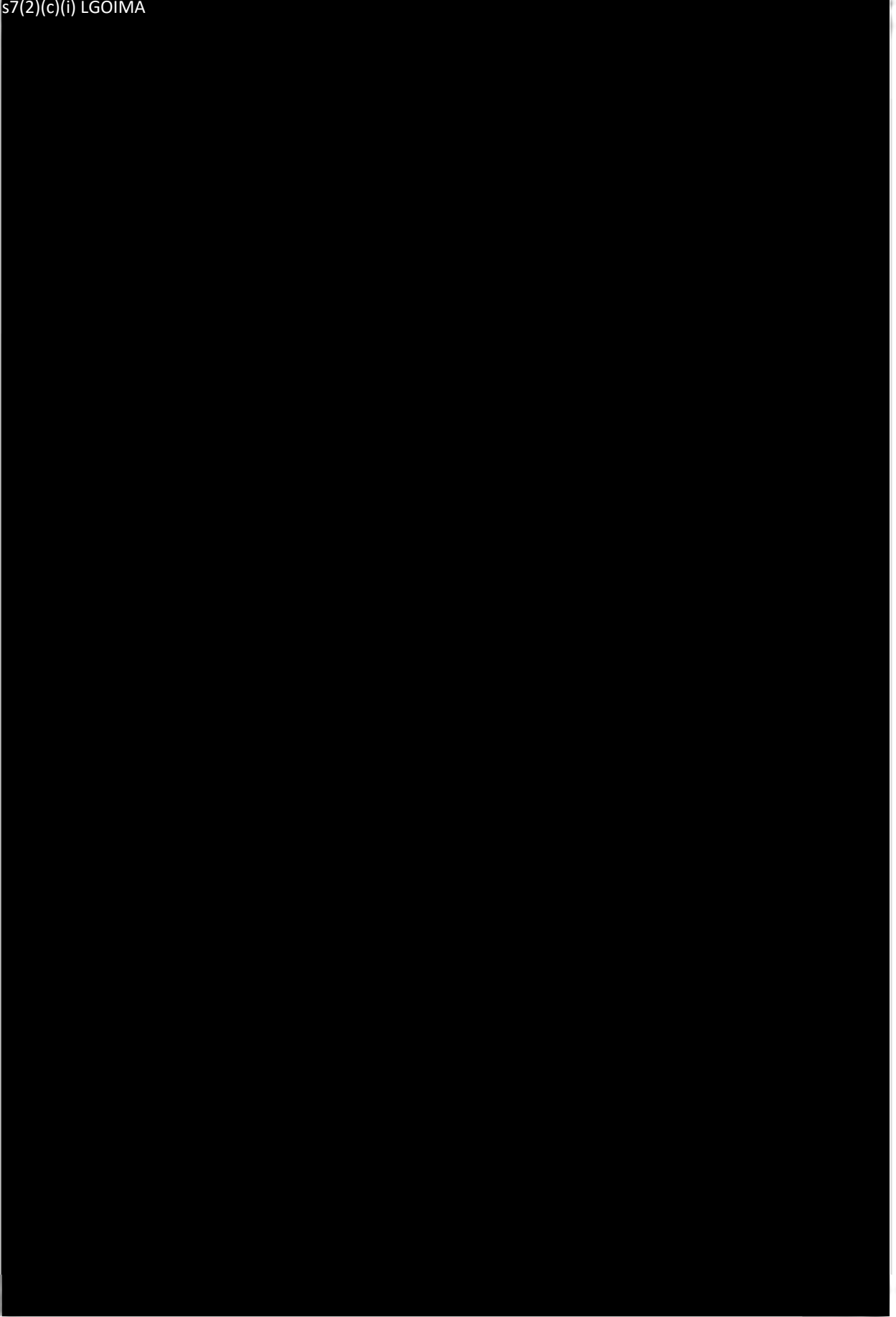


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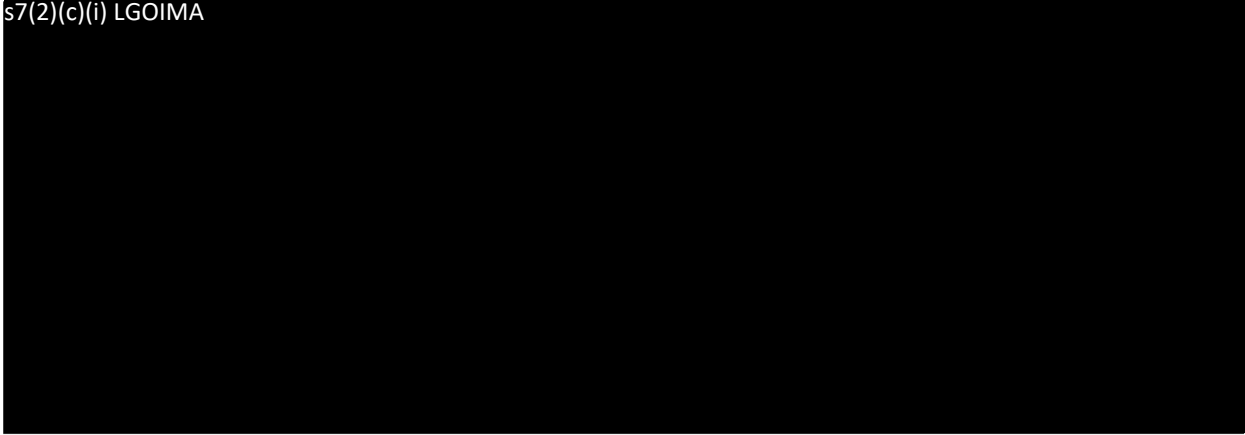
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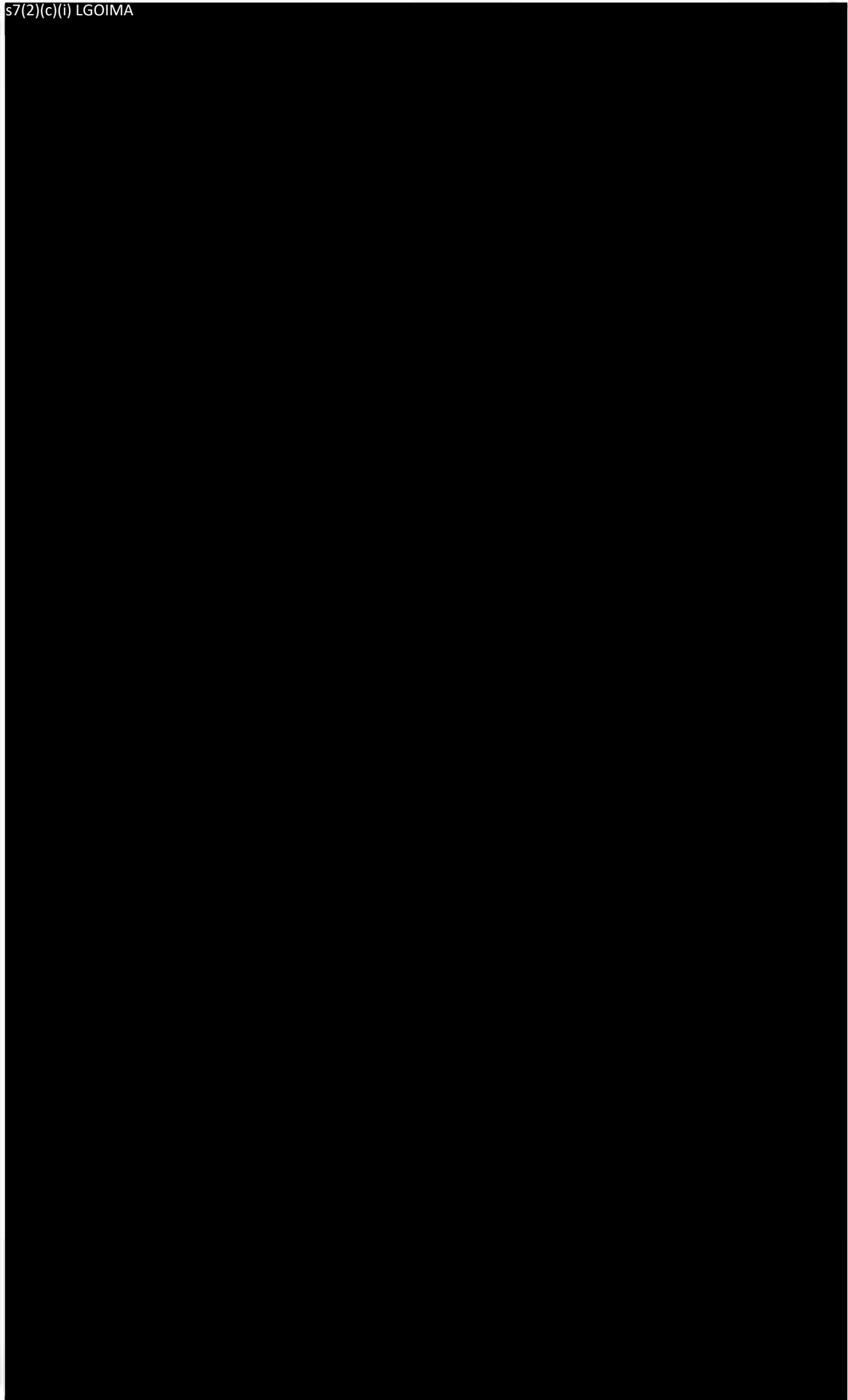
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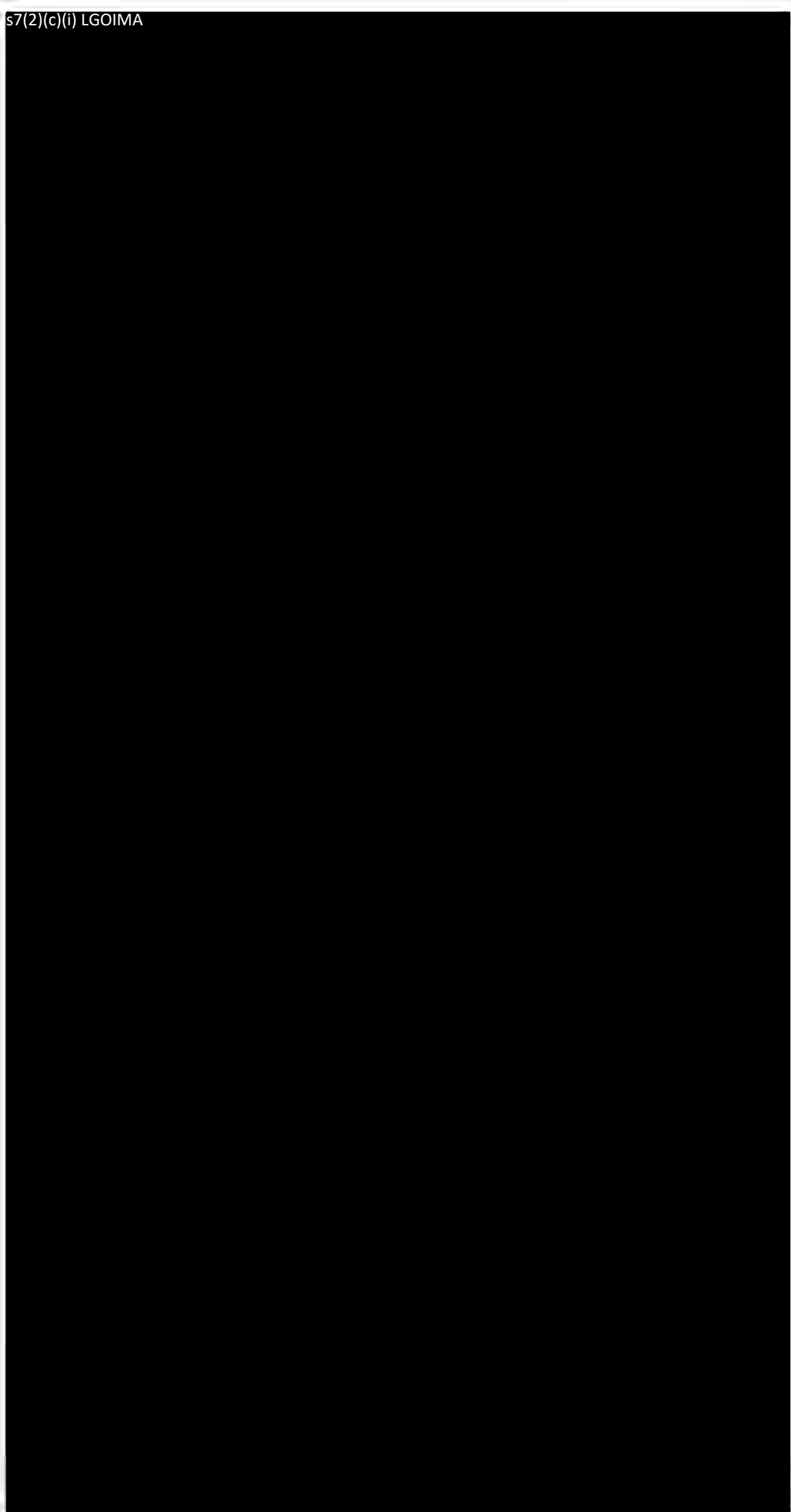
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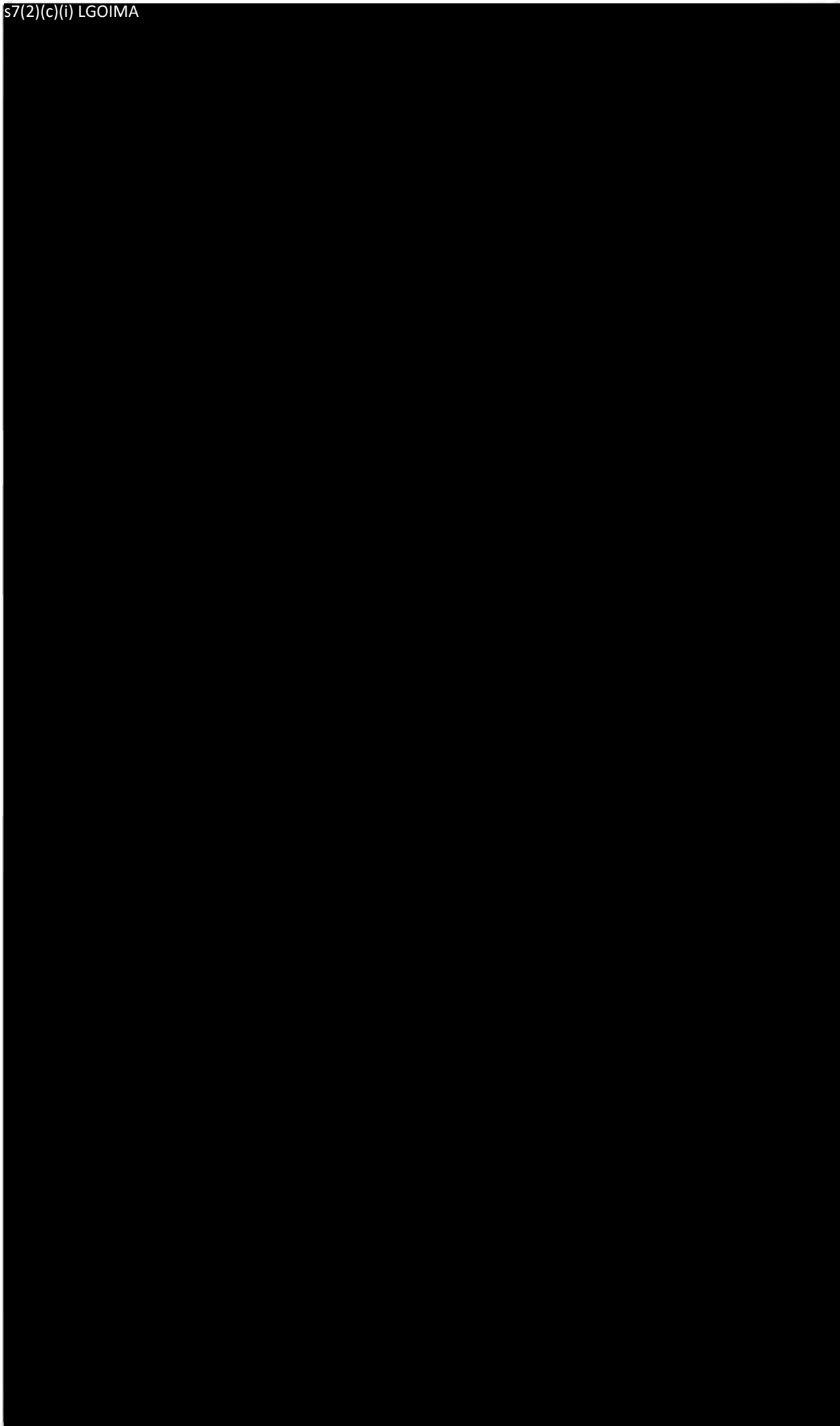


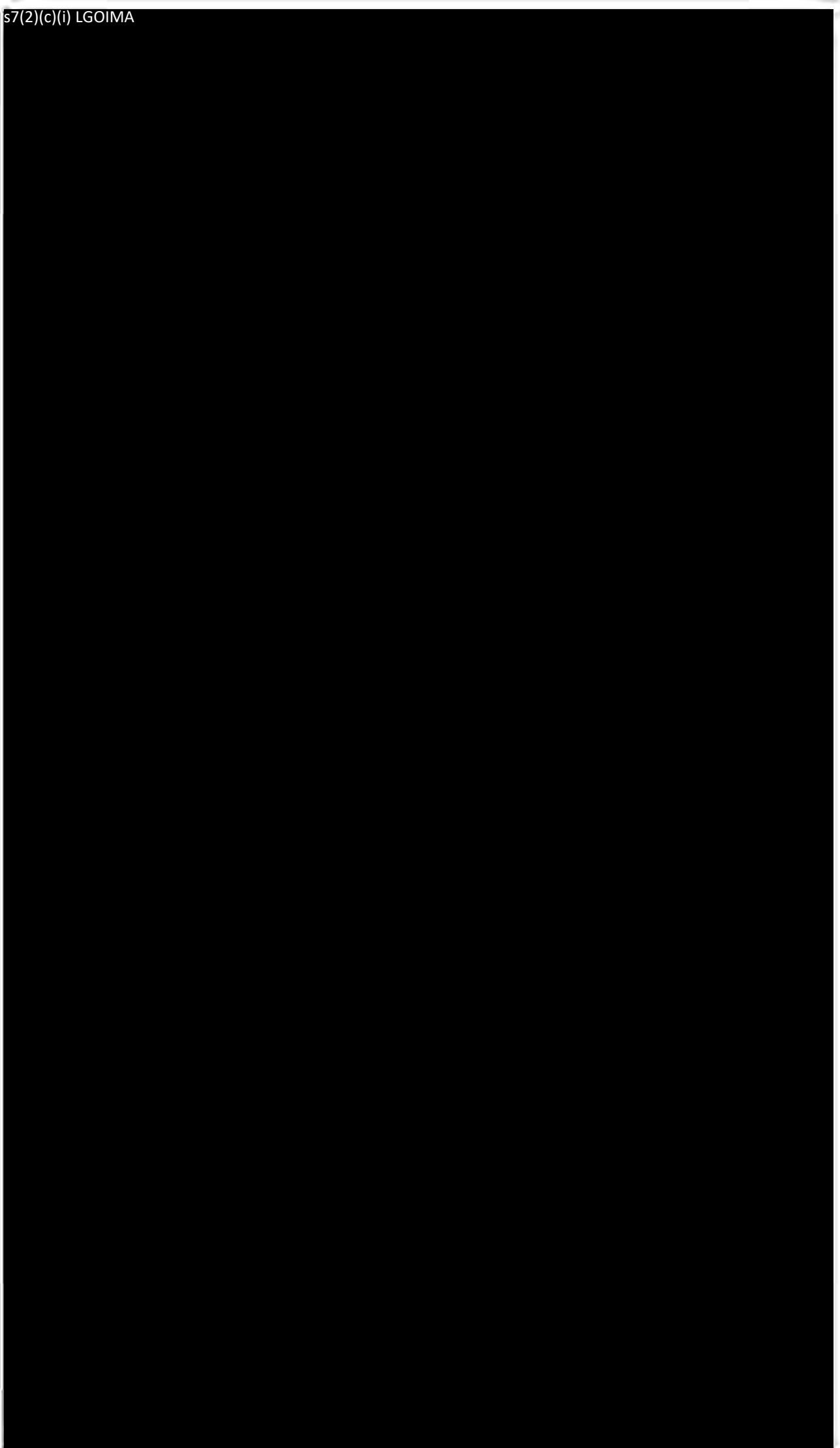
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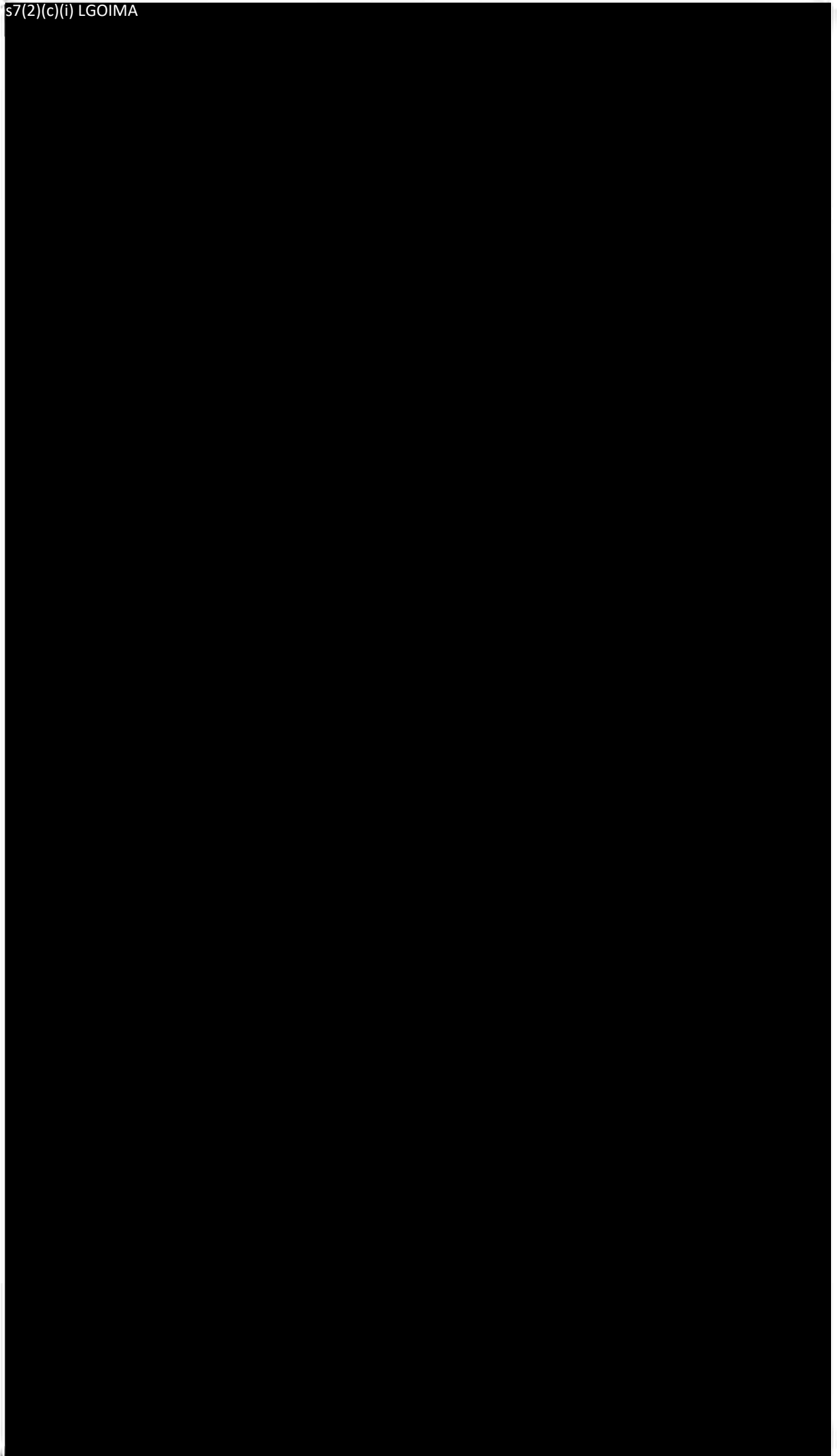


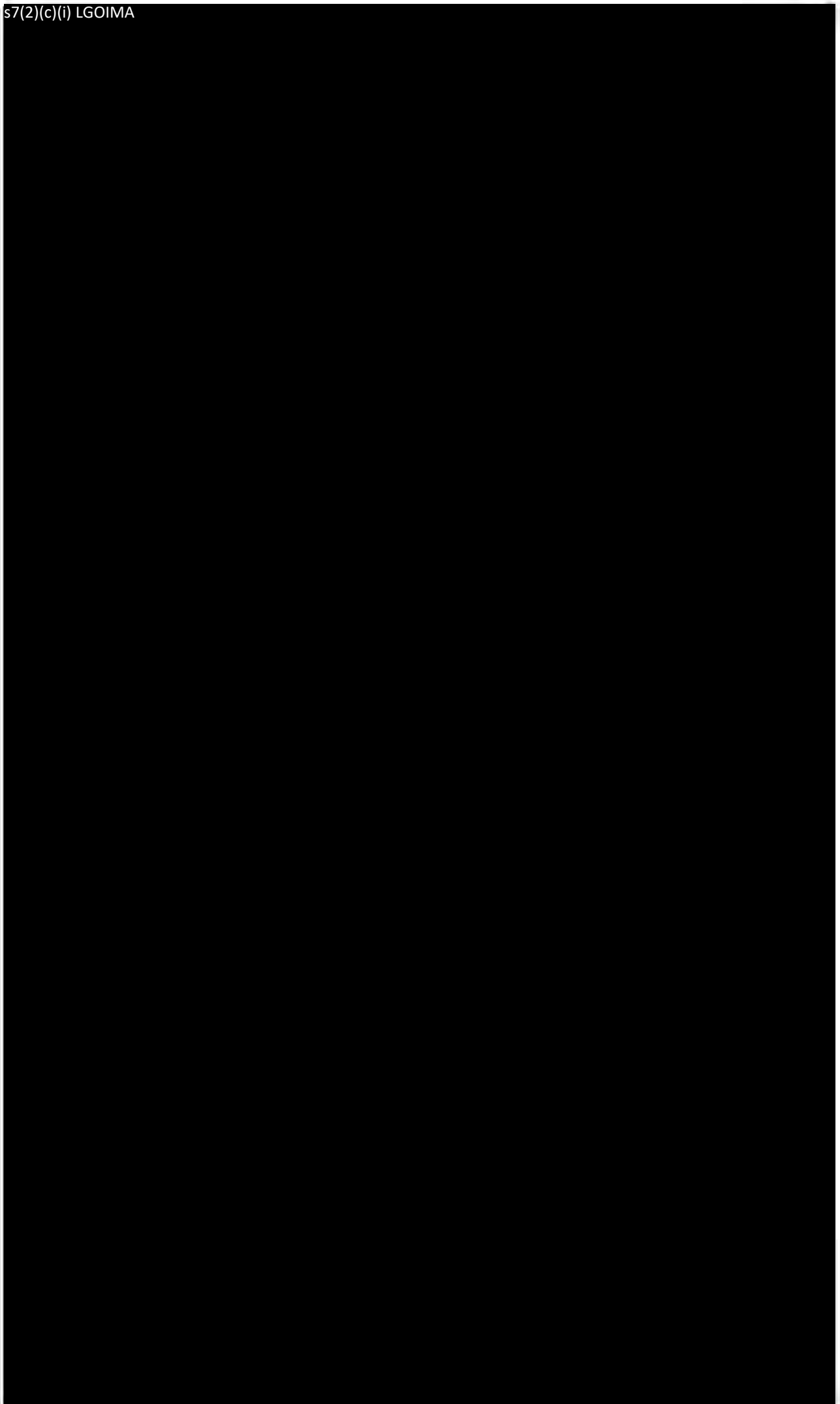


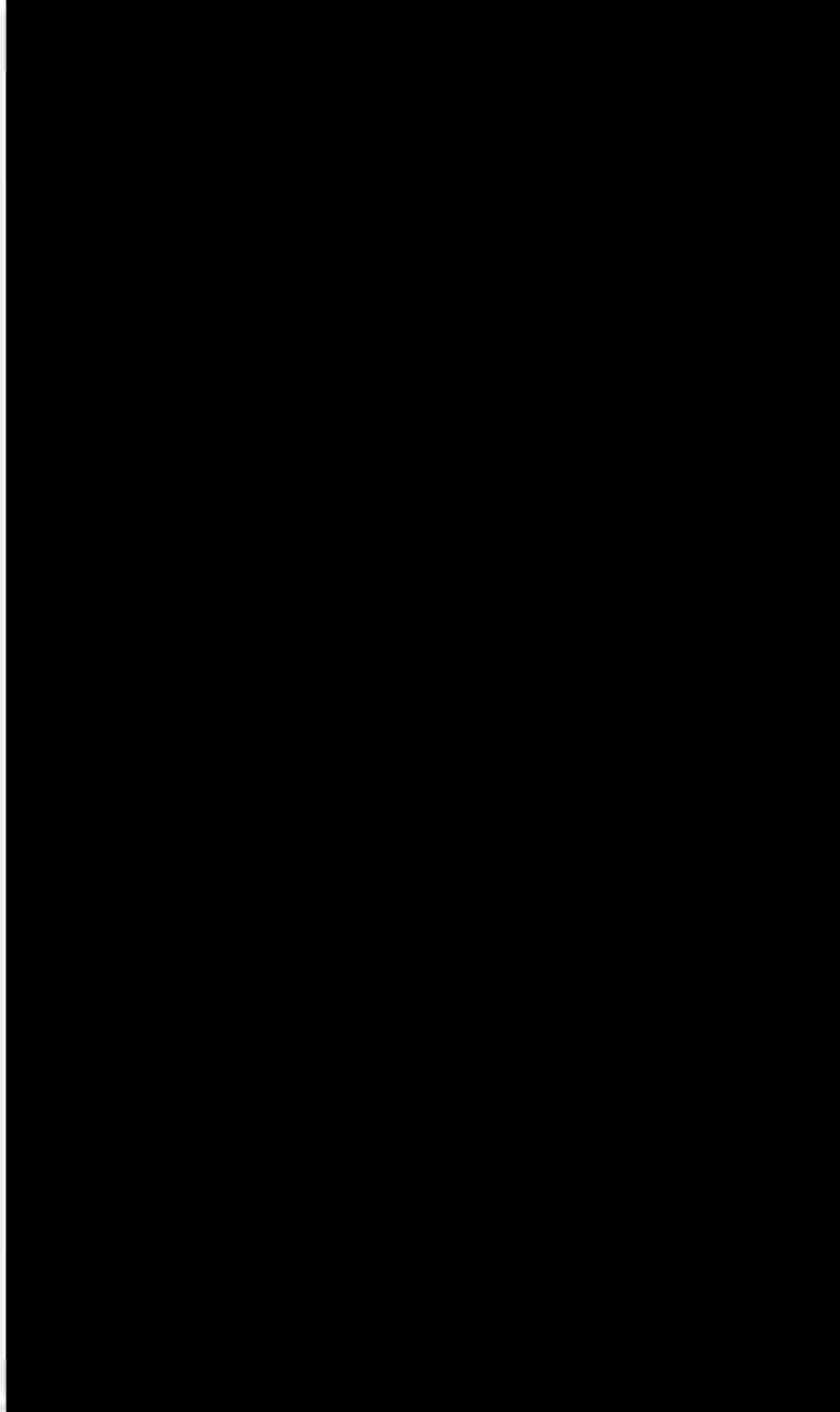


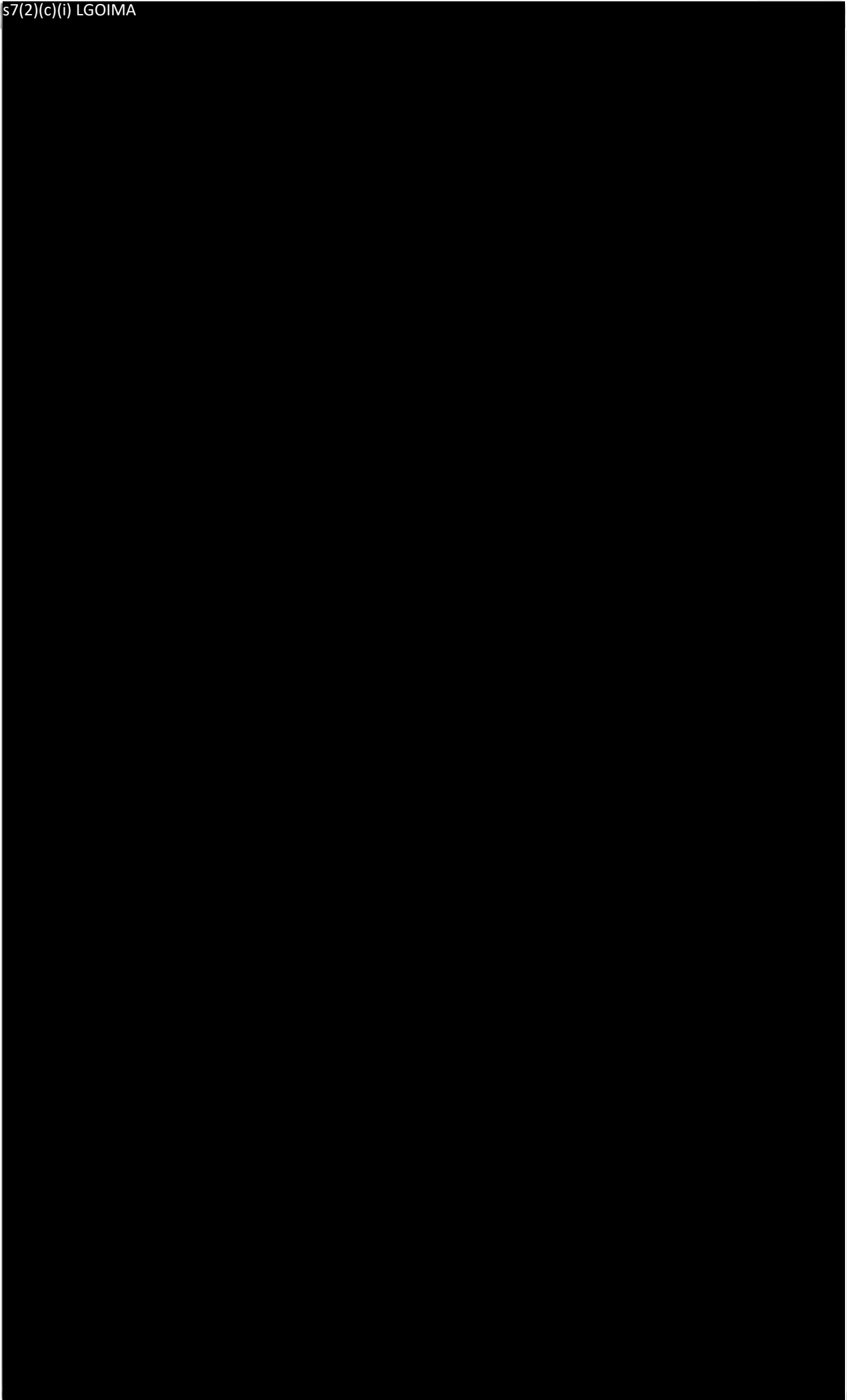


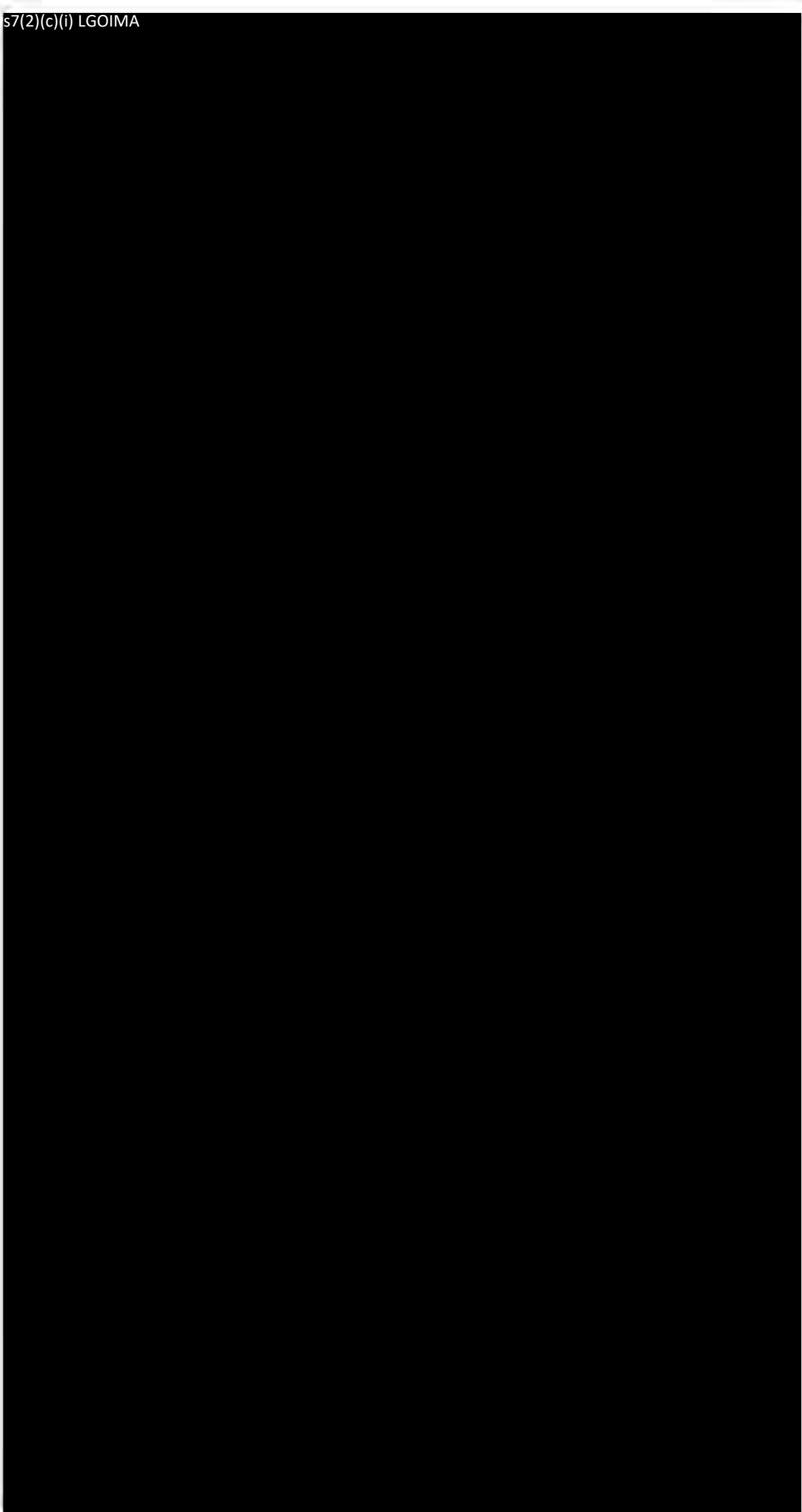


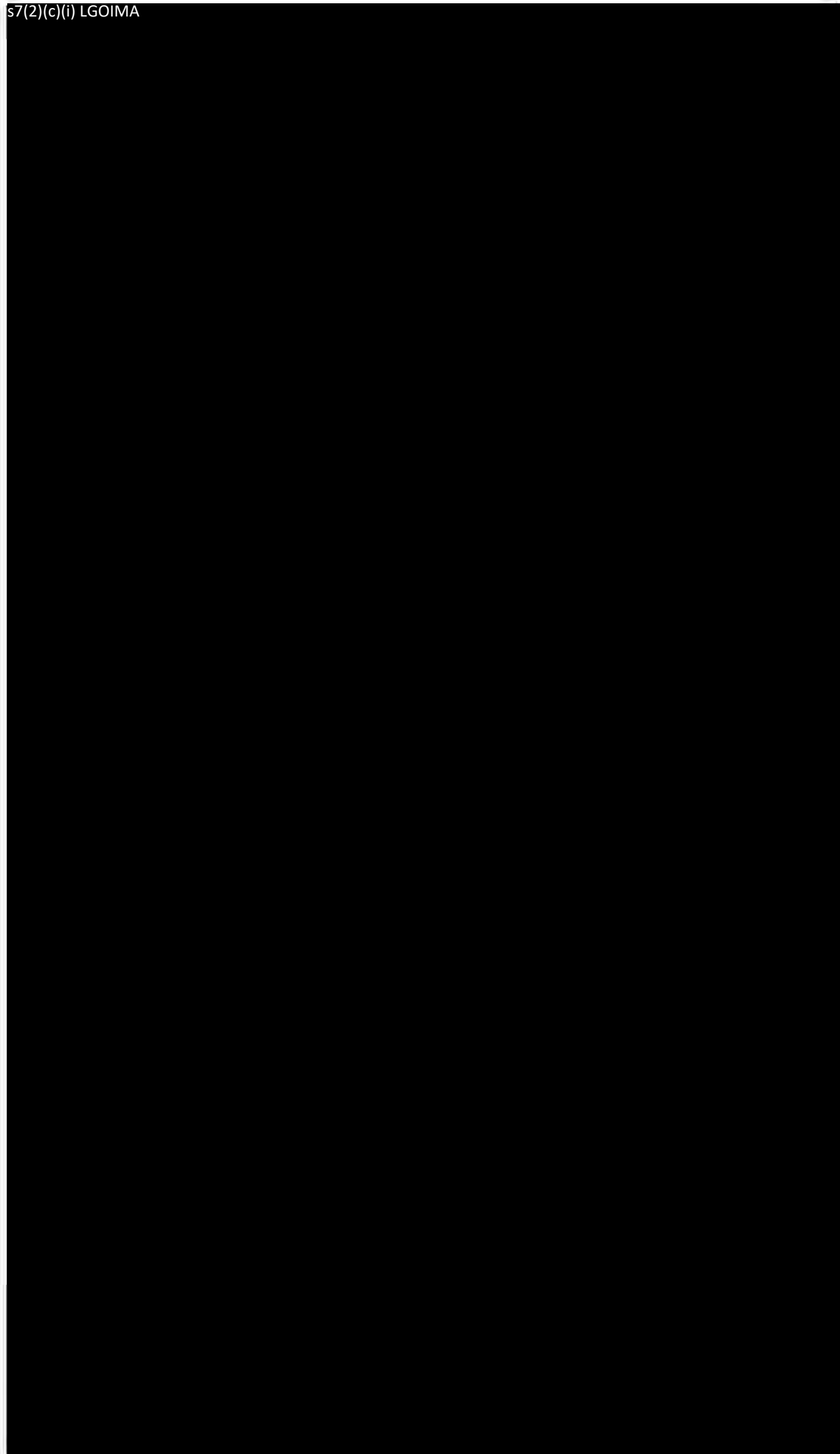


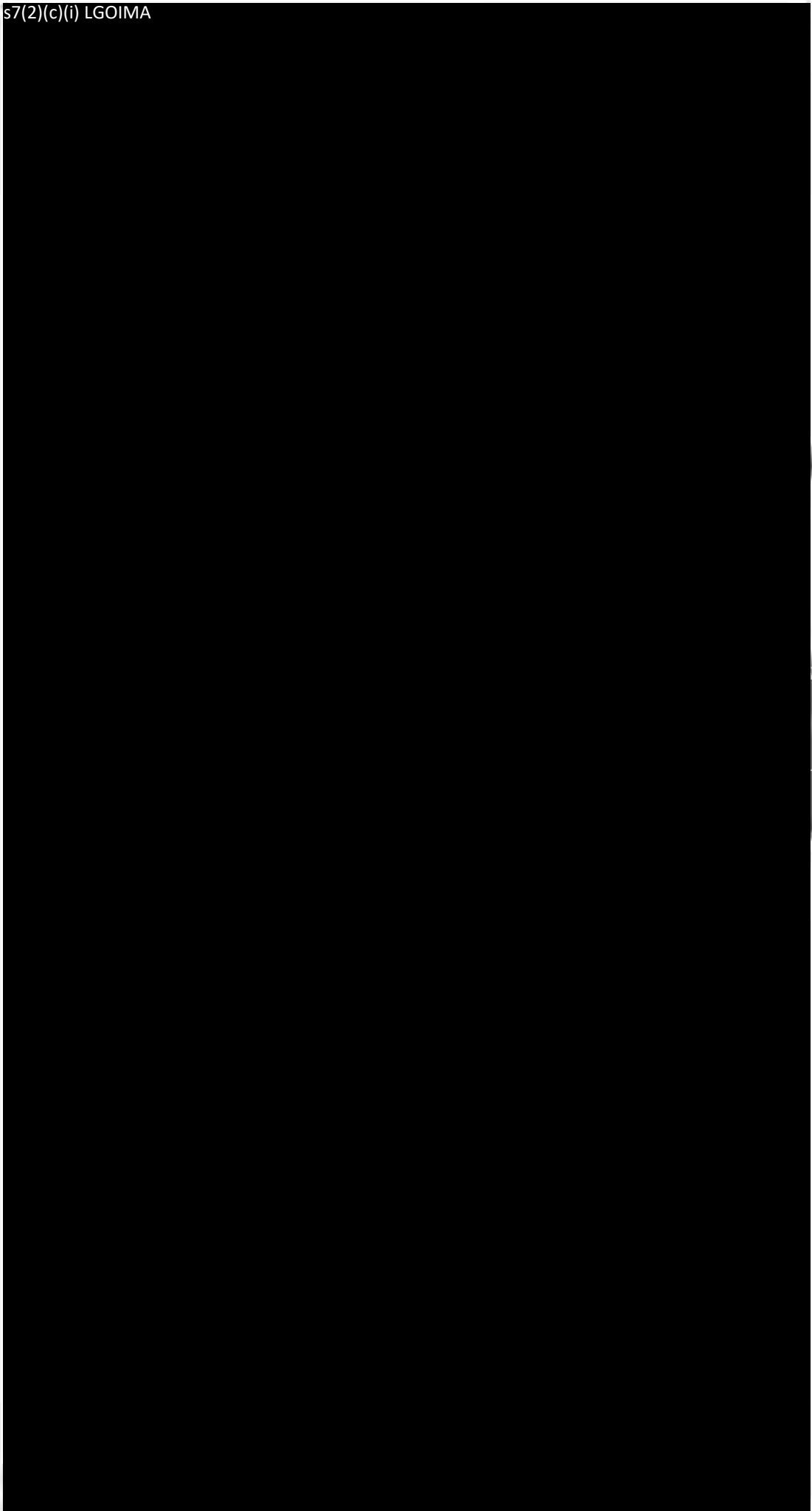


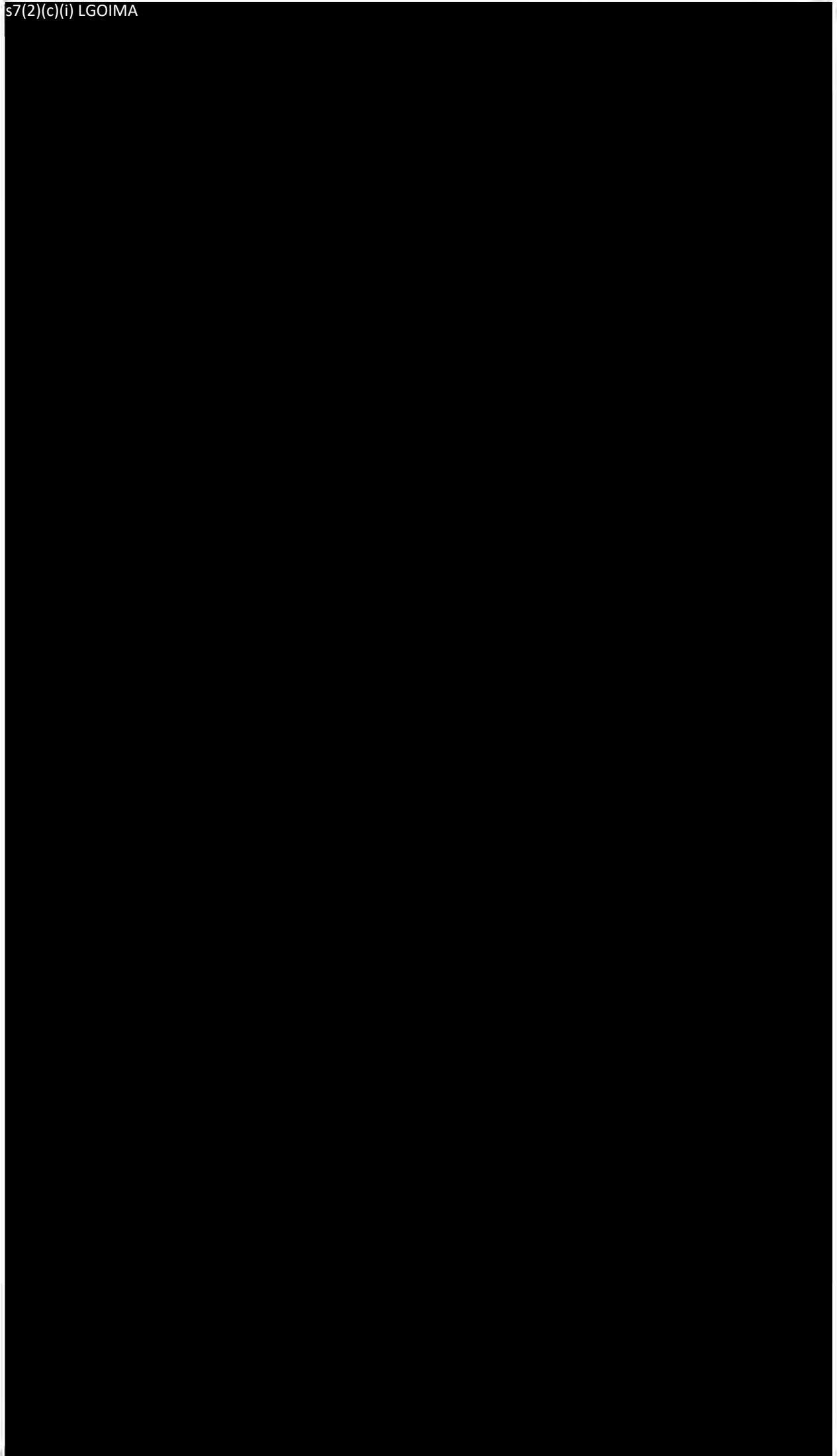


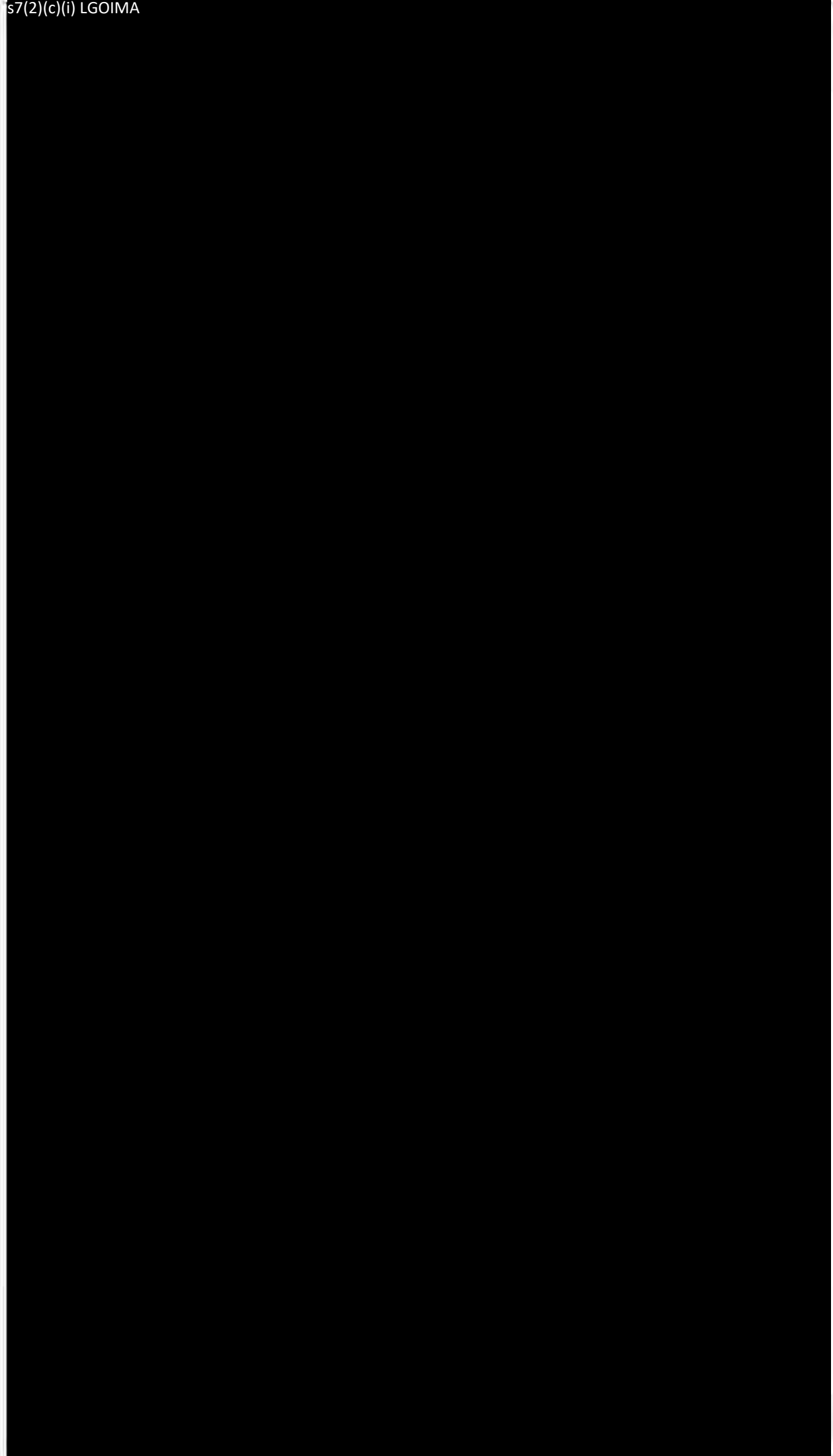


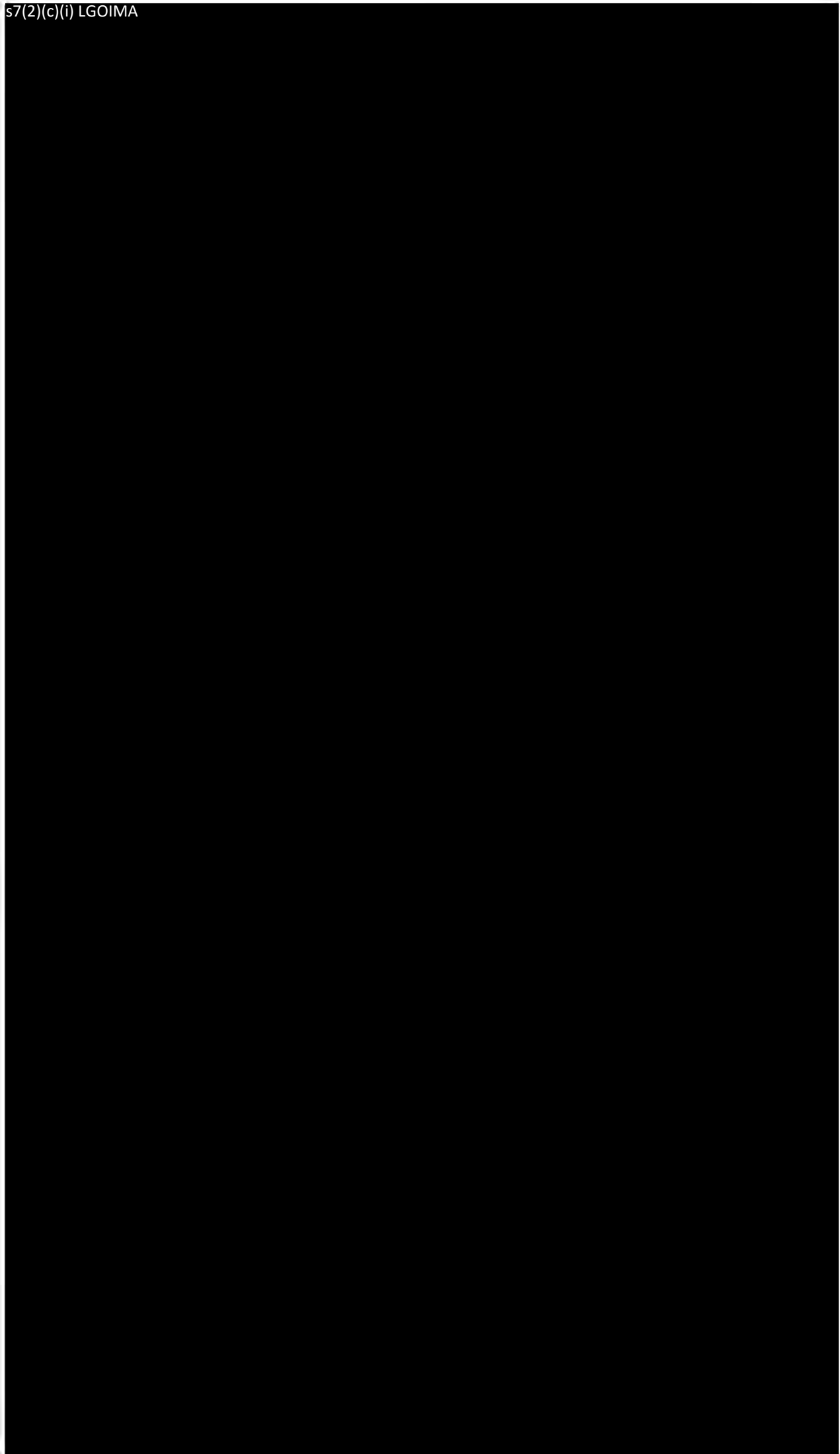


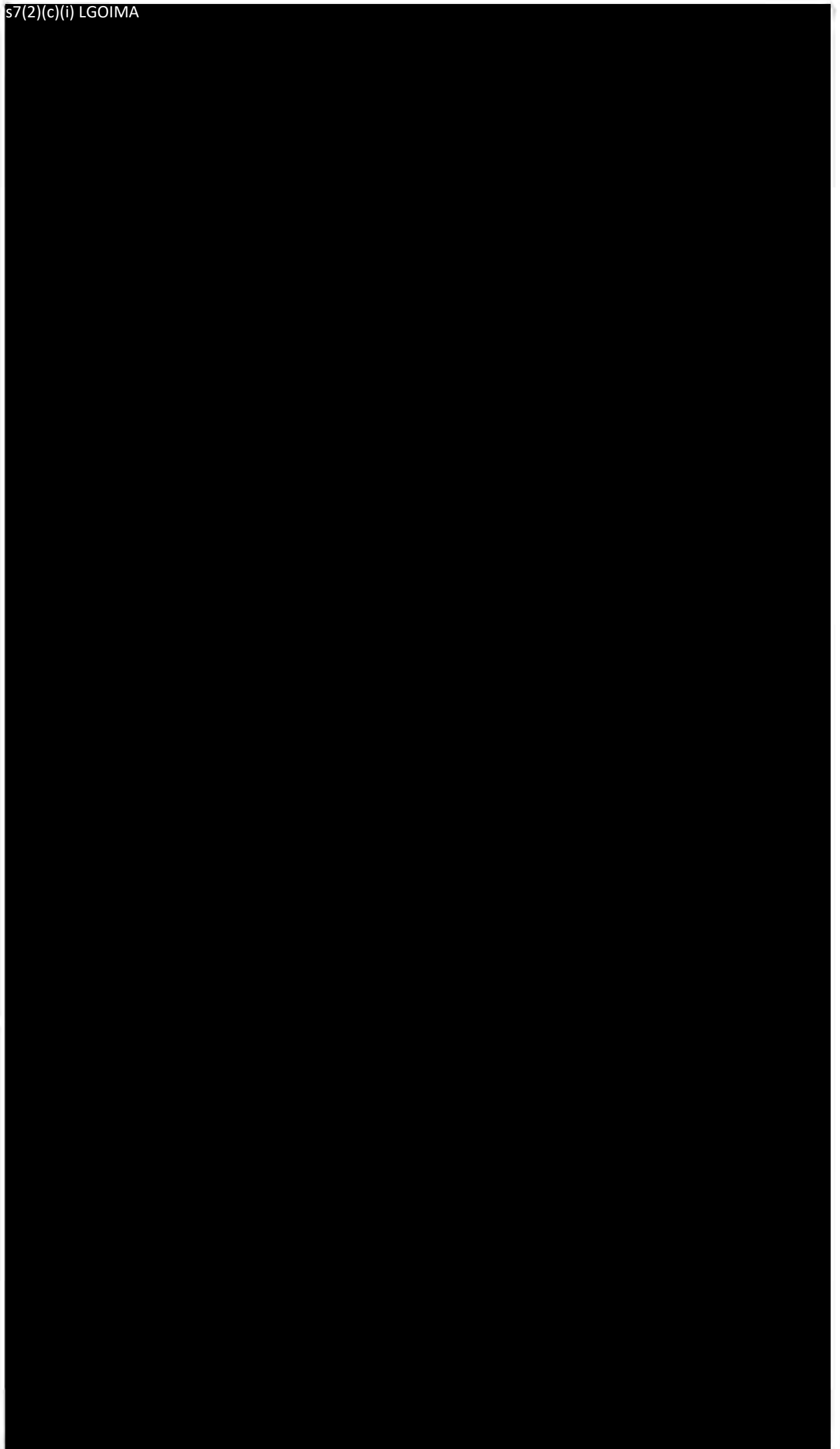




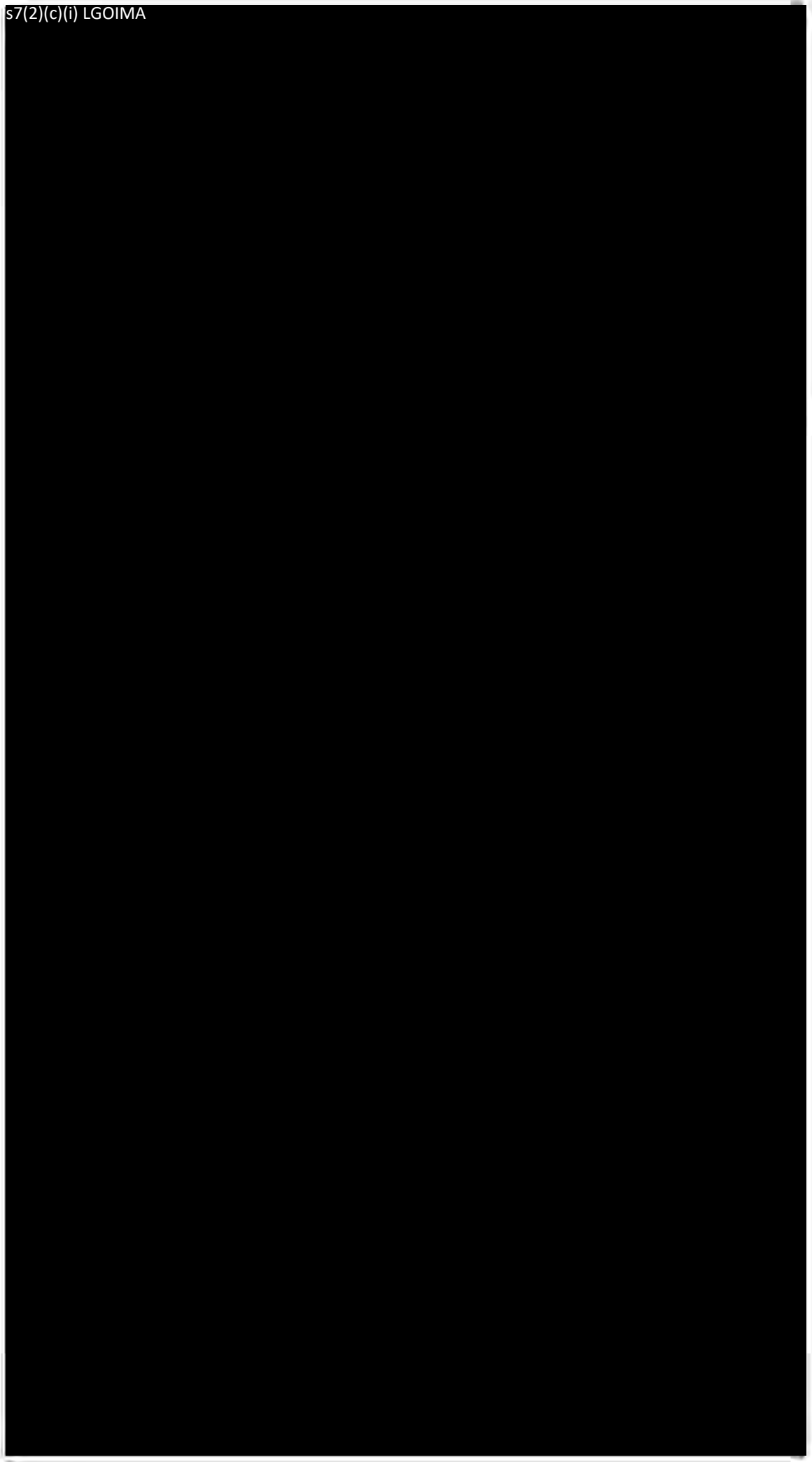


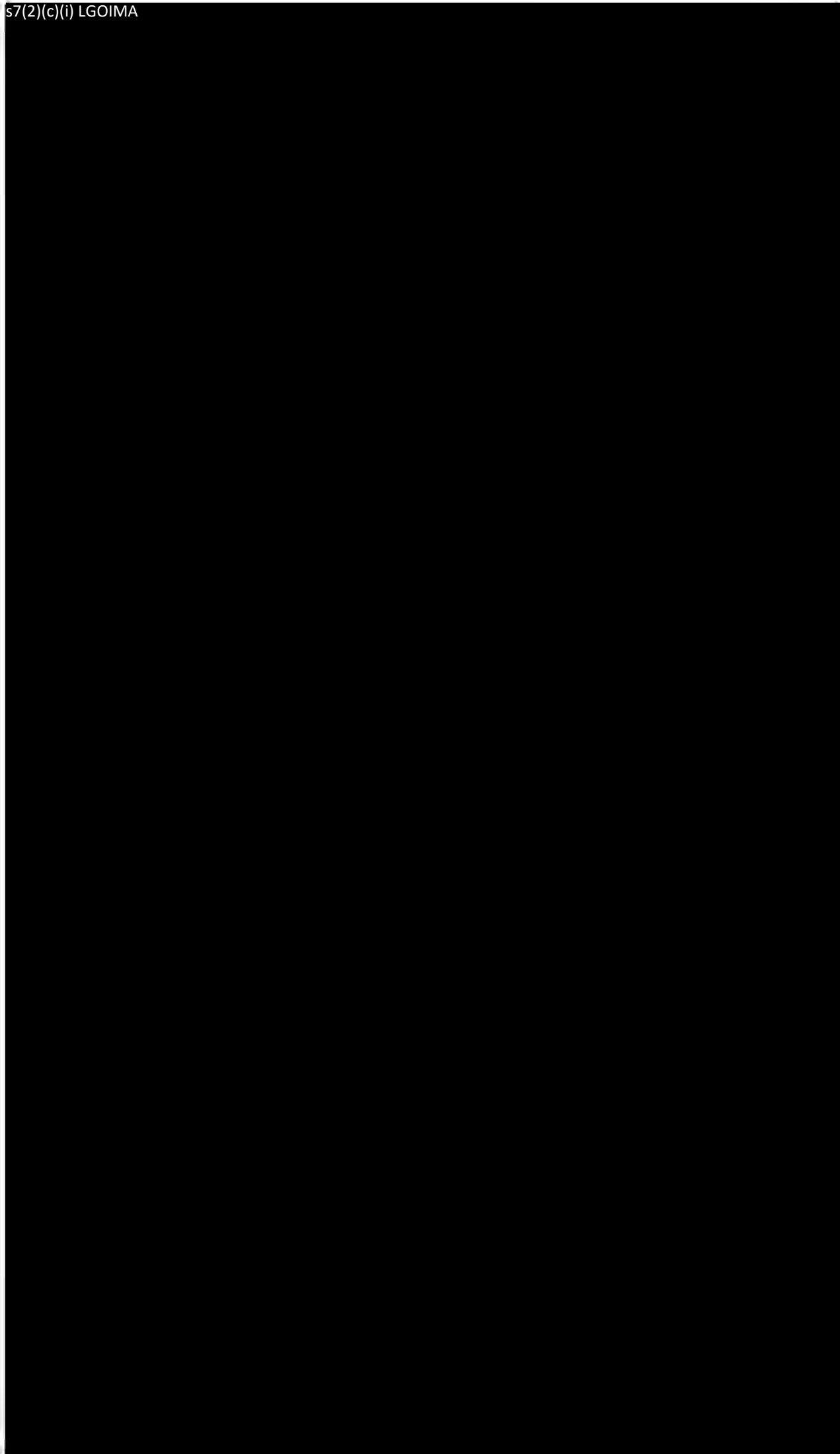


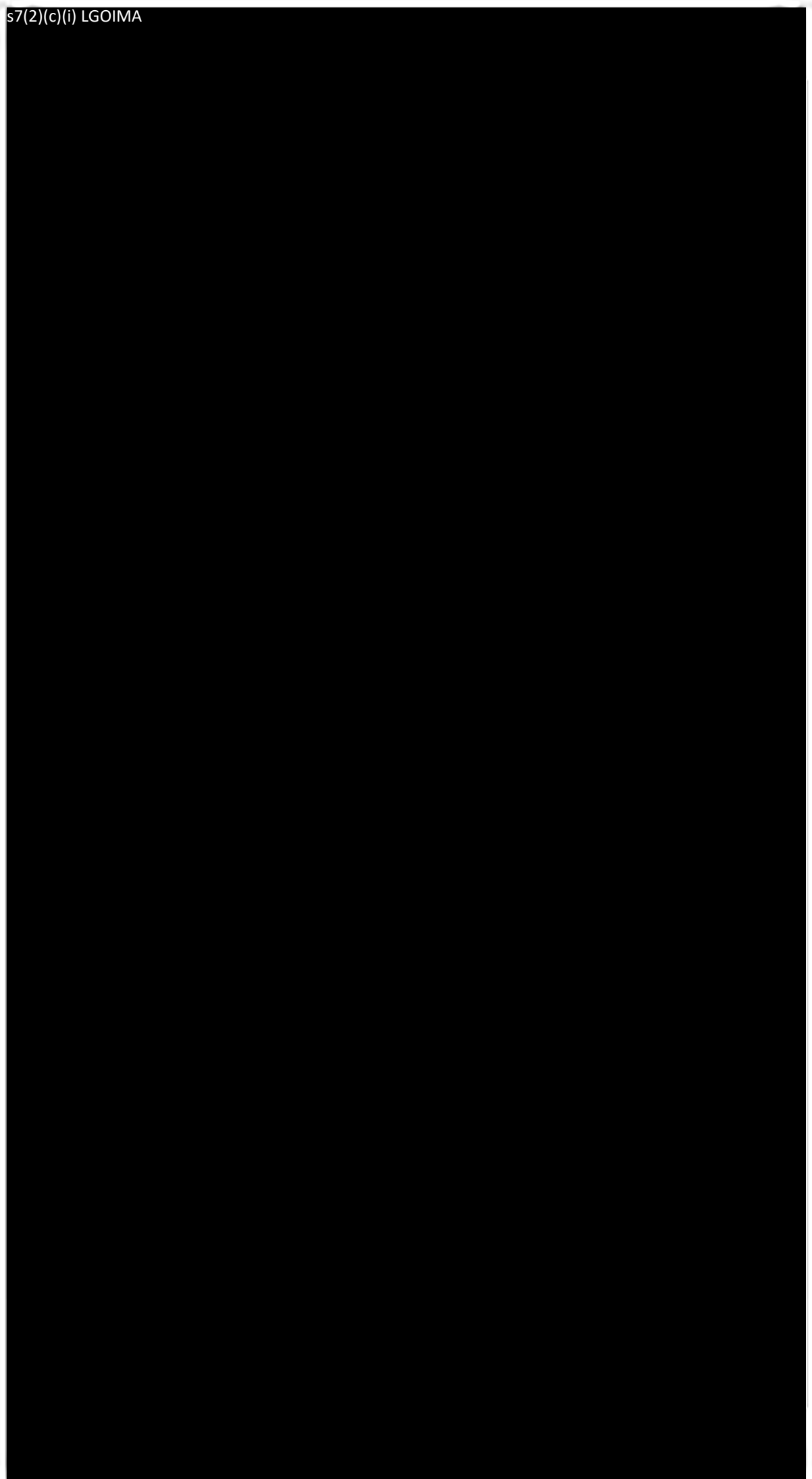












From: Stavros Michael
Sent: Friday, 30 July 2021 8:58 AM
To: Ingrid Tiriana; Oonagh Hopkins; Vicki Cawte
Cc: Regan Fraser; Craig Tiriana; Gina Rangī
Subject: Comms & Engagement Plan for Three Waters Reform
Attachments: WBOP Water Reform communications and engagement plan_final.docx

Hombres this is a draft comms framework for the three waters reforms progression. We all had a lot of discussions about it. Now in Draft form.

So can you please familiarise with this and we gradually develop our angle (which I think should not be at any significant variance to this) so we have both consistency and avoid reinventing the wheel sort of speak.

Talk to me about any matter here that you think is not clear or needs a local angle.

O theos mazi sas - Kalimera

s

Stavros Michael *DCE Infrastructure & Environment & Primary CDEM Controller – Manahautū: Tūāpapa me te Rākau Whakamarumarū*
P: 07 351 8148 | M: 027 807 3847
E: stavros.michael@rotorualc.nz | W: rotorualakescouncil.nz
A: 1061 Haupapa St, Private Bag 3029, Rotorua Mail Centre, Rotorua 3046, New Zealand

ROTORUA
LAKES COUNCIL

From: Paul Blair <paul.blair@tuhurapartners.co.nz>
Sent: Thursday, 29 July 2021 12:06 pm
To: blair.bowcott@hcc.govt.nz; andrew.parsons@hcc.govt.nz; Stephen Halliwell <Stephen.Halliwell@hcc.govt.nz>; ian.cathcart@waidc.govt.nz; adrian.delaborde@hauraki-dc.govt.nz; bevan.gray@whakatane.govt.nz; andrea.houlihan@waitomo.govt.nz; Brent Sinclair <Brent.Sinclair@waikatoregion.govt.nz>; bruce.hinson@tcdc.govt.nz; david.bewley@whakatane.govt.nz; Dawn Inglis <dawn.inglis@waipadc.govt.nz>; martin.mould@waipadc.govt.nz; hanno.vandermerwe@kaweraudc.govt.nz; Karl.pavlovich@mpdc.govt.nz; kstrongman@taupo.govt.nz; kumaren.perumal@westernbay.govt.nz; roger@otodc.govt.nz; mark@otodc.govt.nz; stephen.burton@tauranga.govt.nz; ted.anderson@southwaikato.govt.nz; Stavros Michael <Stavros.Michael@rotorualc.nz>; tony.hale@waitomo.govt.nz; nigel.ward@hcc.govt.nz; david.locke@waitomo.govt.nz; sarah.omundsen@boprc.govt.nz
Cc: Dean Kimpton <dean.kimpton@tuhurapartners.co.nz>; Andy Matthews <andy.matthews@tuhurapartners.co.nz>; Brent Manning <brent.manning@taituara.org.nz>; Shaun Jones <shaun.jones@tuhurapartners.co.nz>; Rachel Beck <Rachel.Beck@tuhurapartners.co.nz>; Kevin Lavery <kevin.lavery@tuhurapartners.co.nz>; Karyn Stillwell <karynstillwell5@gmail.com>; Kaine Thompson <kaine.thompson@gmail.com>; Karl Ferguson <karlferguson222@gmail.com>; Brooke Lavery <Brooke.Lavery@tauranga.govt.nz>; Nigel Ward <Nigel.Ward@hcc.govt.nz>; Paula Trubshaw <paulat@hauraki-dc.govt.nz>; Jenelle Burnell <Jenelle.Burnell@waitomo.govt.nz>; Jacob Quinn <Jacob.Quinn@waidc.govt.nz>
Subject: Comms & Engagement Plan for Three Waters Reform

Hi all

With many thanks to our Comms & Engagement reference group of Brooke, Nigel, Jacob, Paula & Jenelle (copied) and the Tuhura team of Karyn, Karl & Kaine, please find attached the comms & engagement plan.

The purpose of the plan is to provide you tools and messages which you can tailor to your particular audience. Please note that it is difficult with our diverse circumstances across the two regions to get to 100% consensus on key messages, so we expect that you may all have a slightly different slant / emphasis on the messages we have put in here. I hope that at least 80% of this will provide you with material to assist your councillors, community and other stakeholders with a better picture out of this complex reform. These messages are also at a 'point in time' and will need to be updated/evolved as more information comes to light. Please share with your internal comms team and consider use of this with key stakeholders – especially staff, iwi and councillors.

For now, if there is any feedback or questions please come through to me as Karl & Karyn will be finishing up at end of July. I'll look forward to seeing most of you in Taupo soon and thanks again to the reference group volunteers who helped pull this together on your behalf.

Nga mihi
Paul



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WBOP Water Reform Consortium

Communications and Engagement plan

July 2021

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1. Purpose of this plan

This document sets out to provide the Waikato/Bay of Plenty (WBOP) Water Reform Consortium with the following:

- overarching context, objectives, audiences, key messaging and FAQs for communication and stakeholder activities in terms of the Government's water reform initiatives;
- templates for member Councils to customise/localise messaging for their communities and different key stakeholders; and
- suggests actionable approaches/tactics for different audience/stakeholder groups, broken down by the following stages:
 - Stage 1 – Inform and Test (mid-July to end of Sept 2021)
 - Stage 2 – Preparing for Reform (Sept 2021 onwards)

This document was co-created with a sub-group of the WBOP consortium, established as the WBOP Comms & Engagement Reference Group. The Reference Group was chosen to be a representative subset of WBOP region members.

This phase of work under the WBOP consortium is funded until the end of July 2021, so this document is a 'current state of play' document, but if the WBOP Consortium is funded/extended beyond this date the document should be continuously refined and updated.

2. Background and current state

Currently 67 different councils own and operate the majority of the drinking water, wastewater and stormwater services across New Zealand, Aotearoa. Local government is facing urgent challenges in the provision of these services including:

- funding infrastructure deficits;
- complying with safety standards and environmental expectations;
- building resilience to natural hazards and climate change into three waters networks; and
- supporting growth.

In July 2020, the Government launched the Three Waters Reform Programme – a three-year programme looking at local government three waters service delivery arrangements. The programme builds on the progress made through the [Three Waters Review](#) and establishment of [Taumata Arowai](#). Rather than piecemeal solutions, the Government is working to facilitate comprehensive system-wide change to achieve lasting benefits for the local government sector, our communities, and the environment.

Water services are a substantial part of most council's business, generating potentially one third of council revenues, and being heavily linked to other council activities such as transport, provision of land for housing, environmental outcomes etc.

A key change sought by the Three Waters programme is to separate water services from the general council balance sheet. Water is a utility business (like electricity or telecommunications) and, if it were separated from councils, specialist water utilities would be able to sustainably borrow more money to invest in services, leaving residual councils with more balance sheet capacity to meet community needs.

Separation of water from councils will introduce a new, third party entity for council to work with, hence the working relationship with and design of the new entity is critical.

Alongside Three Waters reform, the Crown is also reforming the Resource Management Act and has initiated the Future for Local Government Review. The latter two reforms are relevant for councils and council employees as together these three reforms are significantly reshaping the face of local government, with the aim of boosting community wellbeing and the Treaty partnership.

The Three Waters reform programme is being progressed through a voluntary, partnership-based approach with the local government sector, alongside iwi/Māori as the Crown's Treaty Partner. A Joint Three Waters Steering Committee provides collaborative oversight of the reform programme that brings together central and local government expertise and experience.

In June 2021, the Government proposed four multi-regional entities. The WBOP regions are included in Entity B (22 Councils).

A subsequent announcement in July 2021 contained details for a reform support package for each council, consisting of \$2bn as a 'Better off' funding allocation, and \$500m as a 'No worse off' funding allocation. Further information on the funding package for each council in Entity B is in Appendix Five.

- Local authorities have been provided approximately eight weeks, commencing 2 August 2021, to consider the impact of the reforms (including the financial support package) on each council and community, and provide feedback. There are still questions and details to be worked through around what the Government is proposing. It will take time and expertise for councils to assess the situation and determine a course of action.

3. The role of Local Government NZ (Te Te Kahui Kaunihera ō Aotearoa)

Government and LGNZ have now recommitted to working in partnership with the local government sector not just on the three water reforms, but on other challenges and opportunities. This is reflected in a joint central/local government statement released by the Government and LGNZ.

4. The WBOP Consortium

A consortium consisting of 16 councils across WBOP have engaged consultants via Taituarā (ex SOLGM) to prepare for Three Waters Reform. Broadly, this WBOP consortium is positive on the possibilities of water reform and has engaged with Minister Mahuta offering to partner and be a potential early adopter of this reform (subject to future Council approval), provided the consortium receives financial incentives and that it can co-design the new entity to be a community-aligned growth and wellbeing partner for councils.

Stage 1 of the Taituarā work was readiness for reform (completed Jan 2021). Stage 2 is around preparation for reform, and a future Stage 3 would consist of engagement and transition into a new entity.

The Taituarā focus for the immediate future (until the end of September) is:

- complete deliverables for Stage 2 work;
- support councillors/commissioners in making decisions on whether to support reform or not;

- on-board new councils from Taranaki & Manawatu into a refreshed and expanded Entity B consortium;
- focus on communications support to council staff; and
- deliver the decision-making matrix to some councils in WBOP (the consultants engaged by Taituarā have also been engaged by LGNZ to deliver the decision-making matrix across Entity B – this point just highlights that some of the decision-making matrix work will be funded by LGNZ, as the decision-making matrix is an ‘extra’ above the original scope of the WBOP consortium).

5. Iwi/ Māori viewpoints

Between September and October 2020, members of the Three Waters Reform Team and Taumata Arowai conducted a series of hui throughout the country (hui-ā-motu), with over 300 representatives attending from many different iwi, hapū and Māori organisations. In its [Three Waters Reform Programme and Taumata Arowai: Hui-ā-Motu Summary Report](#) the Department of Internal Affairs (DIA) identified several key themes:

- **Partnership:** There was strong support for a stronger partnership between Māori and the Crown and many saw the water reform process as an opportunity to develop and enhance this relationship.
- **Participation:** There is concern about whether Māori would be able to participate in this process. Insufficient capacity and capability being the key reasons behind this concern. This is heightened where collaborative opportunities to design a system that works better than the status quo leads to inequity of ability to participate.
- **Protection:** There is general concern to ensure that the rights and responsibilities of Māori are protected through the process and key to this is that rights must not be privatised. Additionally, there is concern to ensure that the assertion of those rights and responsibilities is provided for in transitionary and final structural arrangements.
- **Values:** The intergenerational and deep cultural relationship between Māori and water must endure throughout the transition and into the final structural arrangements. Specifically, DIA was told that water catchments could not be broken and, at the same time, entity boundaries must not break traditional boundaries, they must be preserved.
- **Mana:** the reform provides for Māori to be involved at all levels of the reform process and the new entities as they emerge. Specifically though, Māori want to be able to drive collaborative design to ensure that traditional rights and responsibilities can be reflected in new operating frameworks.
- **Ownership:** It is broadly understood that the process to reform water management will not also be a process to resolve the issue of ownership. However, it has been made clear that this process must not preclude future resolution to issues around ownership and allocation – this is a bottom line.

6. Guiding principles for Consortium communications

The following principles will guide our communications:

- Valuing stakeholder input – we will encourage and enable stakeholders to be part of the conversation as a way to ensure collective buy-in to decisions around water reform, while recognising the need to move the conversation forward.
- Open and transparent – we will be open about both the opportunities and trade-offs for our communities when it comes to water reform, and be proactive in our communication

- Partner wherever possible – we will support the principles of partnership – iwi, local government, central government – and this will be reflected in our communication
- Meaningful engagement – we will be authentic in the engagement we undertake making it clear what communities and stakeholders can (and can't influence).
- Acknowledging different perspectives – we will acknowledge and recognise that there will be those who do not support decisions we make about water reform in our region. We will be respectful of these views, and be clear about the rationale for the decisions ultimately taken.
- Staff first – we will recognise that staff could be directly affected by decisions about water reform and we will prioritise their communication needs about decisions that could impact their employment over other parties.
- Providing trusted information to councillors & communities – we will provide the best possible information to councillors so they can inform and help communities decide on the best course of action through water reform

7. Communication objectives

Based on the above, this document sets out a plan to achieve the following outcomes:

- Awareness - Ensure that our community understands what water reform means for our country, for their region/town and for them personally;
- Advocacy - Our community knows that Council is genuinely advocating for the best wellbeing outcomes for the community ;
- Support - Build support for the opportunities in reform, but acknowledge that our community is our priority; and
- Engagement - Provide opportunities for individuals/organisations to engage in Water Reform discussions.

To do this we'll need to:

- acknowledge there are challenges in the provision of drinking water, stormwater and wastewater (and localise these);
- keep key stakeholders (including Council staff) engaged throughout the process – to help inform decision making and other developments;
- acknowledge the Minister's announcements and contribute to ongoing implementation/transition phases;
- understand and mitigate any risks;
- monitor media and provide one easily accessible source of truth for our communities; and
- ensure communications and engagement is connected/aligned with other related pieces of work.

Note that there are further objectives detailed in the Communication Staging sections of this document.

8. Audiences/stakeholders and roles

The following audiences/stakeholders have been identified as being key in these stages of the communication plan. They will undertake a variety of roles based on their ability to influence the water reform process as it develops:

Stakeholder	Contributor	Approver	Implementer
Councils/Elected Members/Commissioners	✓	✓	✓
Iwi/Maori	✓	✓	
Internal/wider staff	✓		✓
Government	✓		✓
The local community, particularly ratepayers	✓		
Interest groups (including large water customers, advocacy groups, etc)	✓		

9. Channels and communications tactics

Overview of available channels

Owner	Channel/Tactic	Purpose
Central government/DIA	<ul style="list-style-type: none"> • Website • National advertising campaign • Ministerial comments and media 	<ul style="list-style-type: none"> • Awareness and information
Consortia – WBOP	<ul style="list-style-type: none"> • Common collateral as required • Common local advertising • Common set of overarching key messages and core narrative, localised as required 	<ul style="list-style-type: none"> • Awareness and information • Encourage engagement • Generate conversation
Individual councils	<ul style="list-style-type: none"> • Digital channels 	<ul style="list-style-type: none"> • Awareness and information

	<ul style="list-style-type: none"> • Comments by elected members/commissioners • Internal channels • Council community facilities • Tailored local media campaigns • Regular community newsletters • Earned media/Mayor/Commissioner comments • Targeted engagement opportunities • Rates notice inserts 	<ul style="list-style-type: none"> • Encourage engagement • Generate conversation
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10. Current overarching messaging

These messages sit across all audience/stakeholder groups and the two initial stages. There are sub-messages for each audience and stage, outlined in their respective sections in Appendix Two.

- [Our council] has been working with 16 other councils across WBOP to understand and fully prepare for water reform.
- This is the most complex change in local government for 30 years, so the costs and benefits will not fall evenly at the national, regional and local level.
- LGNZ has endorsed the Government’s case for change by publicly supporting the position that there is a sufficient and evidence-based national case for change, including that the current approach to three waters service delivery is not capable of delivering the outcomes required in an affordable and sustainable way into the future.
- The Government has recently announced funding/support packages, which is helpful, but for all of us, water is about more than money. For example (staff, environment, local control, iwi etc).
 - For our region/town, there are key considerations that need to be taken into account before we reach a final position. In particular, what does the proposal mean for our [future growth/current debt/environmental outcomes or challenges].
- As well, we are mindful that council staff will be entering into a period of uncertainty. We are committed to ensuring that their concerns are acknowledged and considered, and that they will be supported throughout this process.
- We will take our time to look at this carefully, to keep our community involved, engage our community and to advocate for the best outcomes for community wellbeing.

11. Communication Staging

Stage One – Inform and Test

Date	July 15 to Sept 10 (8 weeks)
Objectives	<ul style="list-style-type: none"> • keep relevant stakeholders engaged in the process, and move them to a point of being willing to publicly endorse the Council's position, and support transition (planning and actual) • ensure information/collateral is: <ul style="list-style-type: none"> ○ accessible and easy to understand; ○ tells a clear story of how we arrived at this point; and ○ motivates people to action (get educated, get involved). • minimise other 'noise' or risks around the project and 'public' communications – other than the reactive messages below.
Key stakeholders	Iwi/Māori, council/elected members/commissioners, internal/wider staff, ratepayers, local community, interest groups, advocates
Tactics	<ul style="list-style-type: none"> • engage key stakeholders and build agreement about what their ongoing role is – and isn't – and a process for collaborating with them on this and futures stages (next announcement and implementation). This will be done by: <ul style="list-style-type: none"> ○ revisiting some of the expressed concerns, and assure them the Council (and Government) will be aware of all their views; ○ having more active communication – regular updates (fortnightly), more meetings (three now, rather than one); ○ get greater clarity for them on any constraints – time, resource etc; ○ have genuine collaboration and co-design around implementation planning. Involve them in the other workshops (governance, funding etc); ○ strong communications involvement in design and creation of collateral; and ○ closer engagement with other Council communications teams in Entity B (and DIA if possible) – have a formal structure to minimise risks and set regular meetings.
Risks and mitigations	<ul style="list-style-type: none"> • Stakeholders are unhappy with Councils/Govt. decisions and express that publicly: <ul style="list-style-type: none"> ○ undertake much more active engagement now; and ○ promote future for community wellbeing initiatives through funding packages. • Negative backlash to reforms (goes too far, not enough detail, not enough funding, not enough consultation, our view not represented etc) <ul style="list-style-type: none"> ○ unavoidable – anticipate and prepare messaging, try to head off with early stakeholder engagement.

Reactive (public) messages	<ul style="list-style-type: none">• We're currently analysing the information that was provided on July 15 2021 to all Councils , with our Council due to meet to decide on a course of action by early September 2021.• We don't yet have enough information on what terms apply to the incentive funding offered by the Government, other than to say it needs to be in line with central and local government priorities. A funding allocation will be available from July 2022.• Our reference groups, WBOP Consortium partners and Treaty Partners continue to help with this work and we're seeking further advice/clarification from others as we need it.• This is the most complex change in local government for 30 years, and the costs and benefits will not fall evenly at the national, regional and local level.• We are mindful that council staff will be entering into a period of uncertainty. We are committed to ensuring that their concerns are acknowledged and considered, and that they will be supported throughout this process.• We will take our time to look at this carefully, to keep our community involved/engage our community and to advocate for the best outcomes for our community.
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Stage Two – Preparing for Reform

Date	September 10 2021 onwards
Objectives	<ul style="list-style-type: none"> • demonstrate that we have engaged and listened to the community and stakeholders during Stage 1 • share how this feedback/engagement has informed our position • ensure that there is high awareness within our community about the state of water reform and the implications of any decisions – whether they are made directly by us, or are outside of our control • be clear about the potential benefits, and the potential trade-offs • grow positive stakeholder support in advance - primarily with the government announcements, Council decisions and, more broadly, the local impacts. • gain significant positive media coverage and social media engagement • launch internally – gaining staff buy-in and manage concerns about employment • manage risks • appropriately pre-position the upcoming implementation phase
Key stakeholders	Iwi/Maori, council/elected members/commissioners, internal/wider staff, ratepayers, local community, interest groups, advocates
Tactics	<ul style="list-style-type: none"> • proactive release of council papers that were used to determine its decision • engage credible local journalists & interest groups with the information above to get the word out
Risks and mitigations	<ul style="list-style-type: none"> • Government makes the reforms mandatory <ul style="list-style-type: none"> ○ Ensure stakeholders are aware this might happen before it does • Stakeholders are unhappy with Councils/Govt decisions and express that publicly: <ul style="list-style-type: none"> ○ Undertake much more active engagement now ○ Promote future for community wellbeing initiatives through funding packages • Negative backlash to reforms (goes too far, not enough detail, not enough funding, not enough consultation, our view not represented etc) • unavoidable – anticipate and prepare messaging, try to head off with early stakeholder engagement Establish a joint working group of Mayors with an independent Chair

	<ul style="list-style-type: none"> ○ An Entity B hui on Thursday 5 August will consider the best governance arrangements to collectively assist councils through the reform consideration period
Reactive (public) messages	To be developed

12. Communication Resources

Appendix One - Links to additional information

DIA main website pages	DIA Three-Waters-Reform-Programme main landing page
DIA – Three Waters Reform Programme and Taumata Arowai: Hui-ā-Motu Summary Report	Three Waters Reform Programme and Taumata Arowai: Hui-ā-Motu Summary Report
Taumata Arowai (new water regulator)	https://www.taumataarowai.govt.nz/
Water Services Bill	https://www.dia.govt.nz/diawebsite.nsf/Files/Three-waters-reform-programme/\$file/water-services-bill-overview.pdf
LGNZ and DIA Heads of Agreement document – ‘Partnering commitment to support three waters service delivery reform’	https://www.dia.govt.nz/diawebsite.nsf/Files/Three-waters-reform-programme/\$file/heads-of-agreement-partnering-commitment-to-support-three-waters-service-delivery-reform.pdf
DIA – Local Government Review	Future for Local Government Review
Resource Management Act review	https://environment.govt.nz/what-government-is-doing/key-initiatives/resource-management-system-reform/
DIA’s Public Information & Education Campaign	Website: https://threewatersnz.co.nz/ Video: https://www.youtube.com/watch?v=1c1RF_DeuK8

Appendix Two – Key Messages bank

A. Overarching messages

1. *The proposal*

- The Government's Three Waters Reform programme is recommending fundamental changes to New Zealand's (NZ) water service delivery system.
- 'Three Waters' refers to the provision of clean drinking water, wastewater (sewerage) and stormwater.
- As part of this programme, the Crown has recommend that NZ's council water providers be consolidated into four super-regional water bodies.

2. *The need for reform*

- Rising environmental standards and the pressures of growth (housing and businesses demand) are core drivers of the need for reform.
- Without reform, the provision of drinking water, wastewater and stormwater services will become unaffordable. Rural councils face rates increasing 3-13 times current levels, provincial councils increasing 2-8 times and metro councils increasing 1.5-7 times current costs (in real terms).
- Councils and Government both agree that more investment is needed in drinking water, wastewater and stormwater infrastructure if we are to meet the economic, social, cultural and environmental aspirations of our communities.

3. *The current situation*

- A comprehensive survey of all councils was completed in early 2021, with the Water Commission for Scotland ('WICS'), Deloitte, Beca and Farrierswier [providing reports on the survey data](#). These reports have been peer reviewed and checked for accuracy and assumptions.
- WICS concludes that councils are, on average, delivering as much as is possible within our water system constraints, but our system suffers from funding, regulation, planning and delivery barriers.
- International benchmarking and case studies show that reform could deliver benefits, but we don't yet have all the evidence for what this means locally.
- Despite best efforts by councils, 2017-18 data showed that one third of all suppliers do not meet Health Act requirements, two-thirds of water supplied does not meet the national drinking water standards and 34,000 Kiwis fall ill every year from drinking tainted water.
- The Government estimates \$125-\$180 billion needs to be invested in drinking water, wastewater and stormwater infrastructure over the next 30 years. Council's Long-Term Plans allow for \$42-\$81bn of investment, leaving an unfunded infrastructure gap of \$83-\$99 billion.

4. *The proposed system*

- The Government has recommended that four new super-regional, publicly owned water companies be established.
- A new economic regulator may independently set the price for water rates.
- Taumata Arowai will take over from the Ministry of Health as the drinking water regulator when the Water Services Bill is enacted, expected to be in mid/late 2021.
- Taumata Arowai will also take over some functions from Regional Councils, though this is yet to be fully defined.

- The new entity will have a form of co-governance with iwi, as required in the Treaty of Waitangi. The form of this co-governance is not yet set.
- The board of directors will be independent, skills based and accountable for community interests as well as other key outcomes.
- This would be a major change for the shape of local government. The Government has launched its Future of Local Government programme to address this.
- An expert report commissioned by the Government (from the Water Industry Commission of Scotland) projects that savings of 45% would be used to invest in new services, closing the infrastructure deficit and meeting the new, higher standards demanded by regulation. Consumers costs would stay similar to now (in real terms), but consumers will avoid rates being substantially higher without reform, and will enjoy the benefits of a healthy, reliable, safe water system.

5. *Timetable/next steps*

- Cabinet has announced its preferred geography for the 4 regions and how it expects to work with iwi/Maori. It has also announced funding packages for individual councils to help prepare for transition.
- A DIA led public information campaign started on 20 June, highlighting the value of water to our wellbeing, and the need to improve our water delivery system.
- Cabinet is expected to announce its plans for implementing reform, governance of the new entities, how transition will occur and detailed plans about what this will mean for stakeholders between July - September 2021.

B. Consortium & council positioning

6. *We are working together to prepare for any change to 3-Waters management*

- Councils in the Bay of Plenty and Waikato regions are partnering with a consulting team from Taituara to ensure that we are well placed to respond to, and make the most of, water reform opportunities.
- Our coalition is made up of 16 district and regional councils representing nearly 800,000 New Zealanders including almost 200,000 Māori.
- We have many ties – social, geographic, environmental to name just a few – and a long history of working together.
- We began preparing for this change in 2020, including engaging specialist, independent experts to help us with a readiness assessment, and convening key working groups across the region.
- We are working together for the greater good of our two regions, but acknowledge that there are some regional differences, so we will advocate for the best outcome for our respective, local communities.

7. *The change presents opportunity, and we're ready to make the most of it*

- We are New Zealand's two fastest growing regions, and ensuring water services meet the needs of our current, but also future community is a critical priority.
- Partnerships will be required and we have ideas on what this could look like in the future.

- We believe that the Government strongly backs reform and that reform is likely to happen. We want to 'own our own destiny' by undertaking this readiness programme, so we can co-design (where possible) with Government and build in elements that are critical for our region and individual communities.

8. *We're making it clear to central government what we need from the change*

- We're regularly engaging with Ministers and key officials around the Three Waters reform programme.
- We see significant opportunity in the change, but it also has to meet our needs as a combined region, and at a local level.
- Because this change is complex and co-designed, we don't have all the answers yet, but our readiness programme means that we are as well prepared as possible to take advantage of the opportunities and mitigate any risks.

C. Audience specific messaging

Ratepayers/local community

9. Key message (short form):

- *We are going to get government funding for this reform in order to reduce the impact and reliance on ratepayer funds*
 - *We are following the government announcements and we want to make sure our community is considered in the planning*
 - *We are determined to get the best outcome for our community*
-
- WICS estimates that, without reform, average water bills in WBOP will rise 225% from \$1,320 to \$4,000 p.a. (in inflation adjusted terms) by 2050, making it unaffordable for many. Within the region, small rural councils could face even more extreme rises.
 - WICS estimates that average water rates across the wider WBOP area could fall from \$1,320 to \$1,220 p.a. by 2050 (in real terms) under a reform scenario.
 - Deloitte modelling projects additional capital investment of \$10.5 billion (low scenario) to \$18.4 billion (high scenario), additional \$3.4 billion (+4.5%) in regional GDP and 839 new jobs over 30 years under a reform scenario.
 - Because water is a universal good, the Deloitte study shows that job opportunities are widely spread throughout all economic sectors and council geographies.
 - The additional benefits highlighted above rely on the new regional entity making cost savings of 45%, and on the ability to increase borrowings to levels typical for non-council owned utilities.
 - Under a reform scenario, new investment in water service outcomes comes from reform efficiencies, not from consumer price increases.
 - For the one third of kiwis who get their water from a private (non-municipal) supply, Taumata Arowai will become the new regulator, and there are expected to be additional annual monitoring and quality requirements.
 - The new water services entity (or any council which opts-out of water reform) is expected to become the default provider for private suppliers. Regulation is likely to incentivise private suppliers to join municipal supplies where possible or to invest in new solutions which meet new, higher standards for water.
 - Increased capital investment will allow for higher environmental standards, respond to growth and to lift service/quality levels.
 - A water system that can invest ahead of population growth, rather than 'just in time', is also likely to help bring new, water serviced land to market faster thereby helping with housing supply (and cost) and with business demand, creating new jobs.
 - Customer satisfaction substantially increased at Australian and UK water companies that went through similar reform processes. It is likely that customer satisfaction will be embedded into quality (Taumata Aowai), governance (board charter) and price (economic regulator) frameworks.
 - A key consideration for councils and central government will be how their community voice gets heard in these new, larger entities, and to ensure the terms of any consolidation are fair to residents in one council area who have invested in quality water assets versus other council areas which may not have invested. The Crown is working on co-designing mitigation for these issues, and final design will be subject to Cabinet signoff which has not yet occurred.

Iwi/Māori

10. Key message (short form):

- *We want the same outcomes and have the same success factors*
- *Let's partner and work together*

- A key building block of reform will be co-governance with iwi, as required by Treaty of Waitangi.
- Water reform is also aimed at delivering the outcomes of Te Mana o te Wai, a set of principles co-designed with iwi/Māori to lift the quality of freshwater.
- We recognise and support the need for iwi/Māori to be satisfied any reform doesn't adversely impact existing rights and interests.
- [Our council] is engaging early with our Treaty partners to work with them on any possible reform.
- The new entity is also expected to adopt the Government's social procurement guidelines which will result in increased opportunities for education, apprenticeships, employment, investment and small businesses.
- The final design of iwi co-governance is subject to Cabinet signoff, which has not yet occurred.

Affected Employees

11. Key message (short form):

- *We've got your back, and from what we have seen, read and data we've analysed, there will be enough roles/jobs for everyone.*
- *We are going to support you through this change.*

- We know the prospect of change can be unsettling, and a change of this scale can lead to rumours and misinformation which can raise unwarranted concerns.
- We will be informing you every step of the way and seeking your views, and those of our communities, as options become clearer and opportunities arise.
- We'll be building a FAQ site on our internal website and providing managers with regular updates.
- The significant additional investment required will mean additional roles in the water sector
- We want to retain existing staff to mentor and train the many new staff we will need. Government has committed that all existing waters staff (other than senior leadership roles) will have guaranteed roles in the new entity with similar working conditions (pay/distance to work etc) as now.
- Let us know if you have questions and we'll do our best to answer them.
- For water delivery employees, reform is likely to be positive.
- International experience shows that water reform creates new opportunities through specialisation, training and new investment.
- Scottish Water employed 2,500 less workers as a result of reform, however the private suppliers to the water industry employed 6,500 more workers, a net increase of 4,000.

- Transition to the new entity is expected to take years, during which there will be a strong focus on change management, retaining key staff and minimising change fatigue as the water teams are already stretched with business as usual.
- For council employees who indirectly support the water business (e.g. in finance, call centres, planning etc) consolidation may cause some concerns. Further information is required on the shape of any transition and on the Future of Local Government review, however councils will be consulting with staff as information comes to light.
- New apprenticeships and industry training courses are likely to be created to meet demand for more employees, to lower average workforce age and meet specialist skills.
- Employee satisfaction ratings at Watercare, Scottish Water & TasWater (three comparator companies) all increased significantly. Being in a wholly-water focussed organisation rather than in a council with broader responsibilities and less focus on water has been a big part of the increase in employee satisfaction.
- It is possible that employee numbers in the water entities will fall over time, however private sector employment generally increases, averaging the numbers out.

All of Council staff

12. Key message (short form):

- *Council is changing, how can we help you get involved and informed?*
- *We are going to support you through this change.*
- A large number of factors (climate change, population growth, historical underinvestment, higher environmental standards, increasing iwi and wider community expectations and water's link to the high cost/ low supply of housing) mean that the current model for delivering water services is unable to meet the future wellbeing needs (economic, social, environment and cultural elements) of ratepayers, regulators, iwi or central government.
- Some councils are managing parts or all of the Three Waters well, but a DIA survey in January 2021 estimated that the Three Waters needed investment of at least \$110bn (upper-end estimates are \$120-185bn) over the next 30 year period. Aggregate council spending of \$45bn (based on historical spend of \$1.5bn p.a.) would leave a \$65bn gap to be funded over the next 30 years. The survey highlighted that, without reform, urban water rates could almost double and rural water rates would triple (in real terms), leaving rural areas facing water rates of up to \$5-6,000 per annum.
- Reforms undertaken in Australia and Scotland have been studied, and they provide case studies for what may be possible in New Zealand. Scotland aggregated its water industry in the early 2000's and has managed to reduce operating costs by 40% while increasing investment, service levels, environmental performance, customer and employee satisfaction over the same period.
- A consortium of 16 councils across WBOP have engaged consultants via Taituarā (ex SOLGM) to prepare for Three Waters Reform. Broadly, this WBOP consortium is positive on water reform and has engaged with Minister Mahuta offering to partner and be a potential early adopter of this reform (subject to future Council approval), provided the consortium receives financial incentives to engage and that it can co-design (where possible) the new entity to be a community-aligned growth and wellbeing partner for councils.
- Stage 1 of the Taituarā work was readiness for reform (completed Jan 2021). Stage 2 is around preparation for reform, and a future Stage 3 (if we are retained) is engagement and

transition into a new entity. As this is a fluid reform process, some items will be out of scope for us or not yet resolved.

- Water services are a substantial part of most council's business, generating potentially one third of council revenues, and being heavily linked to other council activities such as transport, provision of land for housing, environmental outcomes etc.
- A core driver of the Three Waters programme is to separate water services from the general council balance sheet. Water is a utility business (like electricity or telecommunications) and, if it were separated from councils, specialist water utilities would be able to sustainably borrow more money to invest in services, leaving residual councils with more balance sheet capacity to meet community needs.
- Alongside Three Waters reform, the Crown is also reforming the Resource Management Act and has initiated the Future for Local Government Review. The latter two reforms are outside the scope of our teams work, but are relevant for councils and council employees as together these three reforms are significantly reshaping the face of local government, with the aim of boosting community wellbeing and the Treaty partnership. The volume of change may be particularly unsettling for indirect water employees (those who support water activities in areas such as finance, IT, call centres, planning etc).

Business sector

13. Key message (short form):

- *The reforms will enable future business growth opportunities*
- *We can help you stay updated and informed*
- As water consumers, reform should open additional supply (where needed to meet growth), quality and affordability, enabling business growth
- For suppliers to the water sector, increased capital investment (\$10.5 to \$18.4 billion for WBOP) and certainty of pipeline, will create new opportunities for businesses to scale up and invest in new employees and innovation
- The water reforms have focused on household costs. Further information is required on business rates and the development contributions.

Appendix Three – FAQs

How are the Three Waters performing today?

- Complex and interrelated failings in funding (determined by ratepayers), regulation (Government & regional councils), planning (Resource Management Act system complexities) and delivery (issues with lack of scale from councils, the workforce and private sector contractors) contribute to sub-optimal outcomes.
- International benchmarking shows that the best NZ councils score approximately 150 using a UK performance assessment tool, while leading UK water providers score 400 points. UK providers started with sub 150 scores 20 years ago, but reform has created better environmental outcomes, water quality and affordability, service quality and availability.

What is changing to drive the need for reform?

- Rising environmental standards (National Freshwater policy statement, Taumata Arowai as new regulator), climate change, iwi co-governance and standards (Te Mana o te Wai), changes to the Resource Management Act system and the pressures of urban growth (particularly the cost and supply of housing, and businesses needing water) are all core drivers of the need for reform.

What would our water system look like if it was reformed?

- International comparisons (particularly in Australia and the UK) show that the critical elements of a successful water system include clarity of system (reform) outcomes, governance & design of the new water entities, scale, quality of management, robust environmental regulation and independent economic regulation.
- Taumata Arowai, the new water regulator, will set new, higher standards for water outcomes, and it is possible that a new economic regulator will be established to independently set a price for water (as is common for NZ's electricity and telco industries).
- The new entities would not be on council balance sheets, therefore allowing them to borrow more money, similar to Transpower, Auckland Airport or Chorus – all entities that provide high quality services to the public in return for a regulated revenue stream.
- Water services are a large proportion of most councils' revenues and daily focus. If water consolidation occurs, this will force a significant change to councils' business model. The Government has launched its Future of Local Government programme, which aims to address this potential change.
- Community interests will also be represented through governance arrangements. It is likely that this will include some combination of reporting obligations, service standard charters, mechanisms for the community to meet with or vote for directors.
- Scottish Water achieved a 45% reduction in operating costs as a result of reform, and WICS estimates NZ could achieve similar results if comprehensive reform is implemented.

What is the timetable for reform?

- The water system in New Zealand is complex, inter-linked and requires a lot of consultation to address all issues.

What is the difference between the funding packages?

- Announced in July 2021, the 'better off' part of the package will help councils maintain momentum as they transition out of water services delivery and focus their strategy and operations on improving community wellbeing outcomes.

- The “no worse off” part of the package includes targeted support so that no councils are financially worse off when they transfer their assets. This is designed to protect communities from any negative financial consequences of councils losing their water services role. It includes funding to address the costs and financial impacts on territorial authorities directly as a result of the three waters reform programme and associated transfer of assets, liabilities and revenues to new water services entities.

How has the allocation of the “better off funding” been determined?

- 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)
- This formula recognises the relative needs of local communities, the unique challenges facing local authorities in meeting those needs, and differences across the country in the ability to pay for those needs.

What can the ‘better off’ funding be spent on?

- Councils will be able to use this funding to support the delivery of local wellbeing outcomes associated with climate change and resilience, housing and local place making. Each Council will be able to work with their communities to decide what this looks like for them, outcomes in a manner consistent with the priorities of central and local government. It is an investment by the Crown into the future for local government and community wellbeing.
- Councils will be required to demonstrate that the use of this funding supports the three waters service delivery reform objectives (and other local wellbeing outcomes) and aligns with the priorities of central and local government, through meeting some or all of the following criteria:
- 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 where those are available,
 - support local place-making and improvements in community well-being.

When will funding from the support package be made available?

- The timing for when funding will be made available will depend on the purpose for which it is sought:
 - Up to \$500 million of funding from the better off component of the support package will be made available for use by councils from 1 July 2022, with the remainder available from 1 July 2024 when the new water services entities are anticipated to be established. The process for release of this amount is being worked through and further details will be provided in the coming months.
 - Funding to meet stranded costs and address adverse impacts on financial sustainability will be met at the time of or shortly after transfer of assets, liabilities and revenue to the new water services entities.

Will my local contractors still get work if water services are consolidated?

- Several contractor arrangements are locked into multi-year contracts. Transition arrangements are likely to take years, and there will be a focus on delivery and 'keeping the lights on' in the interim. The Crown's social procurement focus means there is likely to be a requirement to ensure that local communities receive business and employment opportunities, not just large companies. Contractors are an important part of the water delivery ecosystem, and they will be kept informed once reform decisions and any transition arrangements become clearer.

Will I still work in my local area or will I be forced to move to a bigger regional hub?

- *Tentative answer:* transition arrangements are likely to take years, and there will be a focus on delivery and 'keeping the lights on' in the interim. It is possible that any larger regional water body would look to consolidate physical places of work but employees would be consulted on that down the track.

Will there be opportunities for local iwi as employees?

- *Tentative answer:* one of the core success factors for the Crown's reform programme is that it includes mechanisms to recognise the Treaty rights and interests of iwi/Maori, including employment opportunities (amongst other interests). The Crown has recognised that the infrastructure deficit in water means that more training programmes will need to be introduced so New Zealand can supply the new workers and skills needed to deliver on the reform programme.

How does my employment contract treat water reform? Will I be made redundant?

- *Tentative answer:* all staff will be fully informed on reform proposals as we become aware of them. Our aim is for the Three Waters reform to be co-designed, which should produce a more sustainable, high quality result, but it does mean that some questions can't be answered upfront as the solutions will be designed by stakeholders throughout the process. Several WBOP council employment contracts contain employment protection provisions which outline the process if a part of the Council is reorganised or restructured into a new entity. Broadly, these clauses oblige the council to act in good faith, consult with you and the new entity to encourage the new entity to offer you employment on the terms and conditions no less favourable than your current role, and to clarify employment options such as redundancy or redeployment if a role is not offered to you in the new entity.

Appendix Four - Individual stakeholder plan template

This template can be customised for each member Council for their particular communities:

[Stakeholder name]

Stage	Stage 1 – Inform and Test	Stage 2 - Preparing for Reform
Key message (short form):		
What do we want say?		
Our approach to getting it across		
What needs to be done and when		
Risks and mitigations		
Comments		

Appendix Five – WBOP Consortium funding allocations

Council	'Better off' Funding Allocation
Hamilton	\$ 58,605,366
Hauraki	\$15,124,992
Kawerau	\$ 17,270,505
Matamata-Piako	\$ 17,271,819
New Plymouth	\$ 31,586,541
Ōpōtiki	\$ 18,715,493
Ōtorohanga	\$ 10,647,671
Rangitīkei	\$ 13,317,834
Rotorua Lakes	\$ 32,193,519
Ruapehu	\$ 16,463,190
South Taranaki	\$ 18,196,605
South Waikato	\$ 18,564,602
Stratford	\$ 10,269,524
Taupō	\$ 19,736,070
Tauranga	\$ 48,405,014
Thames Coromandel	\$ 16,196,086
Waikato	\$ 31,531,126
Waipā	\$ 20,975,278
Waitomo	\$ 14,181,798
Western	\$ 21,377,135
Whakatāne	\$ 22,657,555
Whanganui	\$ 23,921,616

Appendix Six – DIA’s Public Information & Education Campaign

- Campaign was launched 20 June 2021
- In support of the Three Waters Reform Programme, the Department of Internal Affairs has developed a Government public information and education campaign. The campaign aims to build greater awareness of the need for three waters reform and to assist New Zealanders to engage with and participate in supporting the best water services decisions for their communities.
- This is a national campaign with, over time, local community detail. The campaign will be supported by a strong social strategy.
- The creative approach uses animation and reframes water services from a system that people take for granted to a system in trouble that requires more care and attention to allow it to thrive for the greater good of New Zealand.
- The animated approach was chosen to achieve maximum cut through in a space crowded with issues calling for New Zealanders’ compassion and care. It translates easily across different demographics, from age groups to ethnicities. It takes a light, and at times, quirky approach to a dry and difficult subject matter.
- Te Reo Māori scripts for television and radio are being produced.
- The campaign is divided into stages or layers. Layer one of the campaign is designed to raise awareness of the issues while building a greater understanding of and support for the reform programme. Layer two will communicate key Government decisions in a simple and engaging way, highlighting how people and their communities can benefit from the reform programme.
- **Layer one** of the campaign begins on Sunday 20 June 2021 with the first of two 30 second television adverts. The first advert asks audiences to imagine what Aotearoa would be like without good water. The advert will be seen on all of the main television networks.
- Press advertising begins with a full-page advert in each of the daily regional newspapers from Wednesday, 23 June 2021, the strongest day for readership for daily regional papers. Continued print advertising across all of the main newspaper mastheads and some targeted community newspapers flows from this date.
- Stage one of the campaign will also build reach through Video OnDemand and social channels, namely Facebook, Instagram and YouTube, and is supported by a standalone website that will build over time.
- The goal of stage one is to quickly and effectively emotionally engage the public and increase their understanding of the importance of good water.
- For more information, go to [ThreeWaters.govt.nz](https://www.threewaters.govt.nz)
- **Layer Two** of the campaign (called Better Water Matters) will be timed to support Government announcements. It will use television, radio, press, Video OnDemand, social media and out-of-home channels to explain the Government’s plans and how these will benefit Kiwi’s and their communities both now and in the future.

From: Stavros Michael
Sent: Friday, 30 July 2021 1:05 PM
To: Ingrid Tiriana; Oonagh Hopkins; Craig Tiriana
Cc: Regan Fraser
Subject: FW: Waikato/Bay of Plenty Preparing for Three Waters Reform Project - Weekly Update
Attachments: WBOP Steering Group 30 April 2021 v.02.pptx; Comms & Engagement Plan for Three Waters Reform

Ingrid following from the email this morning regarding the DRAFT comms framework on 3 waters (attached), you asked who these people are who produced the draft.

As you know we have been working with a regional Waikato/BOP/Taranaki group (we call it consortium) to cover some 22 TLAs in the Proposed Entity B. A group of consultants of various backgrounds have been working with us all to navigate various issues related to the proposals. This group of consultants are a link with LGNZ and DIA.

Below (see highlighted sections) in early May I provided the group with key contacts from RLC and the key contacts from the Group i.e. Paul Blair/Kaine Thompson.

I suggest that your key contact for this draft communications framework should be Paul Blair. Would be good to get in touch and start coordinated information.

Nga mihi

S

Stavros Michael *DCE Infrastructure & Environment & Primary CDEM Controller –*
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E: stavros.michael@rotorualc.nz | **W:** rotorualakescouncil.nz
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ROTORUA
LAKES COUNCIL

From: Stavros Michael
Sent: Monday, 3 May 2021 8:58 am
To: 'Brent.Manning@taituara.org.nz' <Brent.Manning@taituara.org.nz>; 'shaun.jones@tuhurapartners.co.nz' <shaun.jones@tuhurapartners.co.nz>; 'kaine.thompson@gmail.com' <kaine.thompson@gmail.com>; 'thenzpaulblair@gmail.com' <thenzpaulblair@gmail.com>; 'Kevin Lavery' <Kevin.Lavery@taituara.org.nz>
Cc: Kerry Starling <Kerry.Starling@rotorualc.nz>; Peter Dine <Peter.Dine@rotorualc.nz>; Regan Fraser <Regan.Fraser@rotorualc.nz>; Ingrid Tiriana <Ingrid.Tiriana@rotorualc.nz>; Oonagh Hopkins <Oonagh.Hopkins@rotorualc.nz>; Craig Tiriana <Craig.Tiriana@rotorualc.nz>; Gina Rangi <Gina.Rangi@rotorualc.nz>
Subject: FW: Waikato/Bay of Plenty Preparing for Three Waters Reform Project - Weekly Update

Kia ora Korua

Thank you Kevin for the update.

In response to the action points agreed regarding the progression of the 3 Waters Reform see below key points of contact here in Rotorua Lakes Council.

Procurement Leads (Brent and Shaun)

In the first instance to interact in this regard the following;

- Kerry Starling
- Peter Dine
- Regan Fraser

Communications and Engagement (Paul Blair and Kaine Thompson)

The following key points of contact in RLC

- Oonagh Hopkins
- Ingrid Tiriana
- Craig Tiriana

Iwi Engagement

In the first instance to provide a road map for key Iwi contacts our Deputy Chief Executive (DCE) Te Arawa

- Gina Rangī

Please let me know if anyone here requires further information

Nga mihi nui

Stavros

Stavros Michael GM Infrastructure & Primary CDEM Controller –

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ROTORUA
LAKES COUNCIL

From: Kevin Lavery <Kevin.Lavery@taituara.org.nz>

Sent: Friday, 30 April 2021 4:29 pm

To: Waikato/BofP Water Steering Group <WaikatoBofPWaterSteeringGroup@solgm.org.nz>

Cc: Waikato/BofP Consulting Team <WaikatoBofPConsultingTeam@solgm.org.nz>

Subject: Waikato/Bay of Plenty Preparing for Three Waters Reform Project - Weekly Update

Hi everyone,

Thanks for those of you who attended this morning's meeting. I attach the presentation material for your information.

From this morning's meeting here are the actions:

- Each Council to contact either Brent Manning or Shaun Jones with the relevant procurement leads. Brent and Shaun will circulate a note on the procurement issues they intend to cover.
- We have received nominations from Hamilton and Tauranga for leads on the comms and engagement and iwi workstreams. Kaine Thompson will be in the regions next week to meet these contacts. Other Councils wish to make nominations for these workstreams should contact either Paul Blair or Kaine.

- A meeting has been arranged with Minister Mahuta on 7 May. A pre-meeting of Mayors will be held on 3 May. Mayors Sanson, Adams, Webber, Chadwick, Southgate and Commissioner Tolley will be at the Ministerial meeting.
- The considered view of the Steering Group was that we should aim for a zoom meeting with Mayors and Chairs following the meeting with the Minister. And, then aim for a full half day workshop with Mayors and Chairs at the end of May. I will discuss this approach with the Mayors at the Monday pre-meeting.

Have a great weekend and look forward to hearing from you soon.

Best wishes,

Kevin

You're receiving this message because you're a member of the Waikato/BofP Water Steering Group group from SOLGM. To take part in this conversation, reply all to this message.

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WBOP - PREPARING FOR THREE WATERS REFORM

30 April 2021

AGENDA



National Update

Progress on Stage 2

Forthcoming meeting with Minister Mahuta

Future engagement with Mayor and Chairs

Any other business

NATIONAL UPDATE



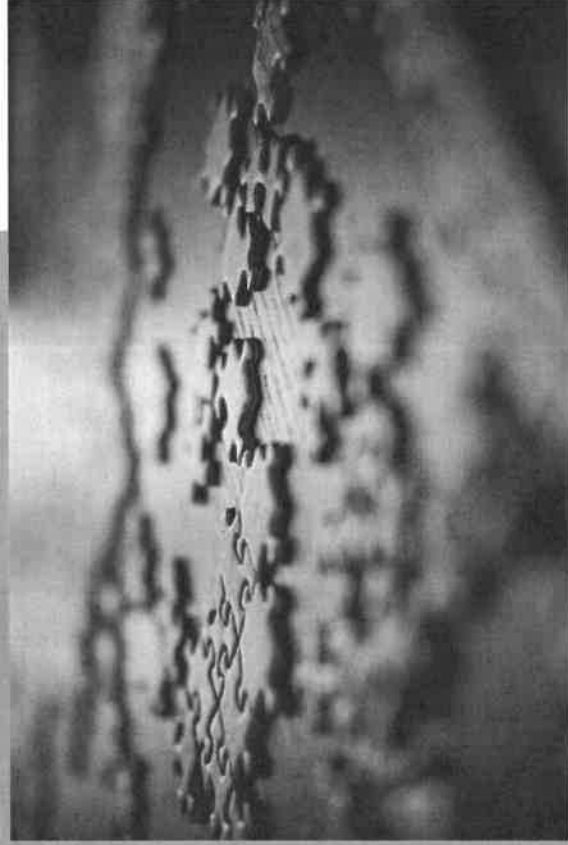
Timing of Cabinet meetings

Geography

Stormwater

Transition arrangements and planning

PROGRESS STAGE 2



Transformation

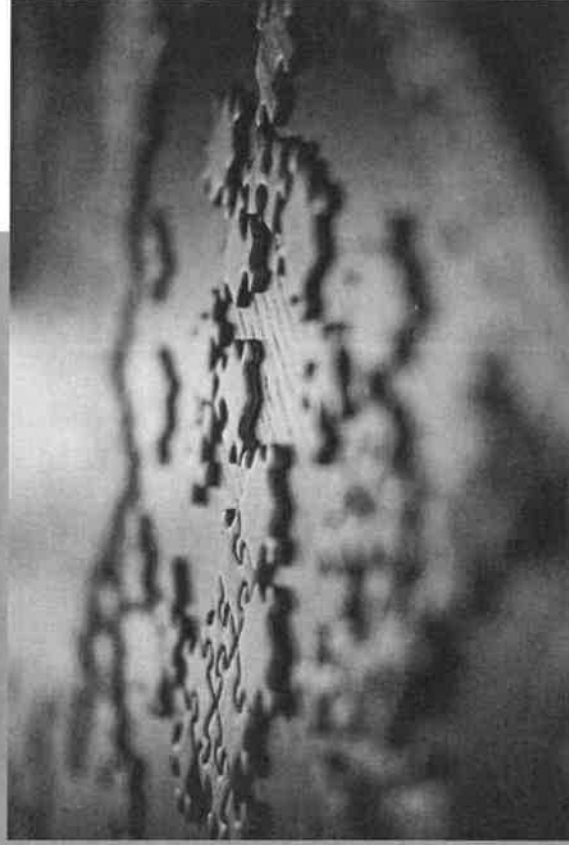
- Focus – Stage 1 assessment completion and engagement with Watercare, City Care and RATA
- Stage 1 readiness assessment survey submitted by South Waikato DC. Awaiting 3 more and from TCDC
- Stage 2 procurement planning and engagement with key external agencies underway

Communications and Engagement

- Focus – engaging with key stakeholders, key messaging and case studies
- Initial engagement completed with council reps for comms, iwi and advocacy
- Engagement with councils for stage 1 readiness assessment underway
- Meeting scheduled with iwi representatives for

Hamilton and Tauranga week beginning 3 May

PROGRESS STAGE 2



Integration

- Focus – Stage 1 assessment completion and identifying key contact procurement leads for each of the 14 TLAs
- Engagement underway with RATA to understand their role and asset management capability (to meet in May)
- Planning and scheduling underway with key

external agencies for Stage 2 procurement package

Financial Transition

- Focus – high level debt and asset summary report for WBOP council group
- Financial and funding information sourced from Council annual reports and plans to complete initial 3 Waters dashboards for 4 recent joiners
- Dashboard information collation underway for additional 4 Councils
- Establishing Finance Transition working group contacts/members underway

PROCUREMENT



~~Methodology for procurement-workstream~~ developed

- Take an enquiry approach, co-design with local experts
- Understanding existing operating models and governance
- Understand the marketplace, changes, risk and opportunities
- Considering as is and to be
- Tactical recommendations focussed on 3-5yr

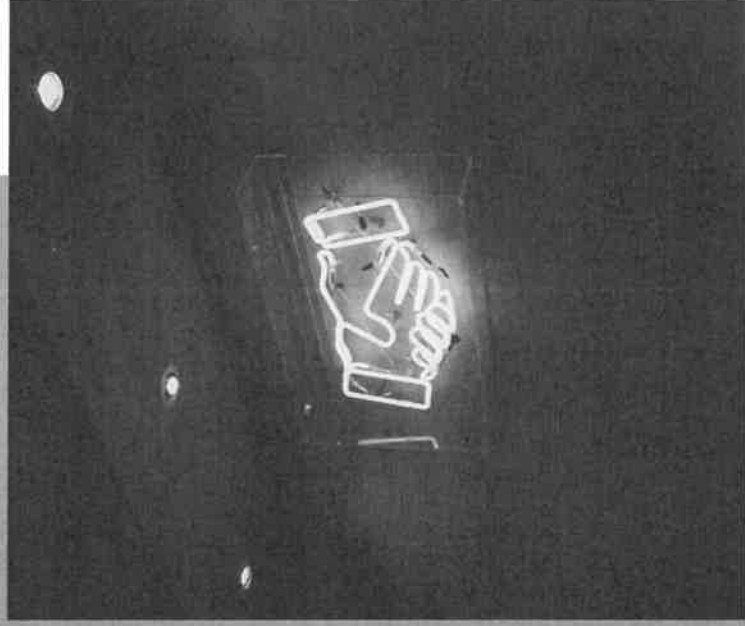
horizon

Aiming for one-on-one discussions 12/13 May

Final deliverable is still emerging

We need a key point of contact

MEETING WITH THE MINISTER



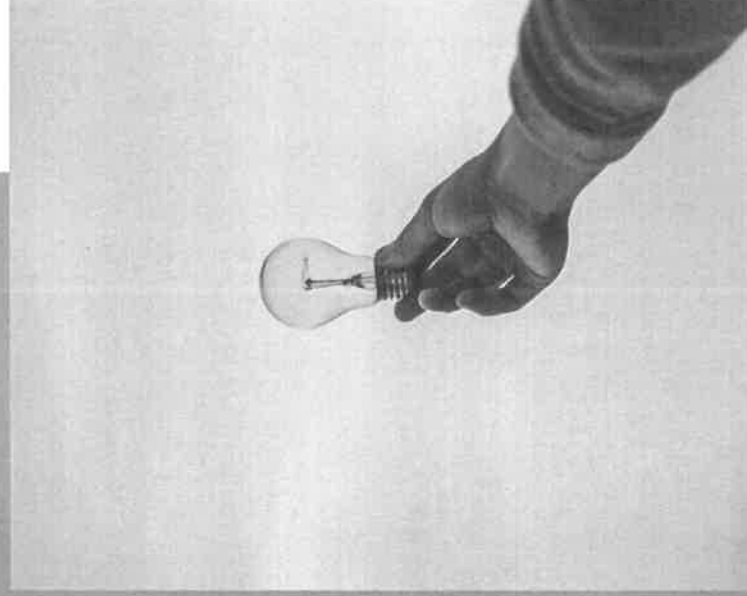
Set up by Mayor Southgate

Pre-meeting on Monday 3 May 2021

The brief

Need for briefing CEOs and Mayors in advance of meetings

FUTURE ENGAGEMENT



Begin with an informal workshop

Face-to-face or by Zoom?

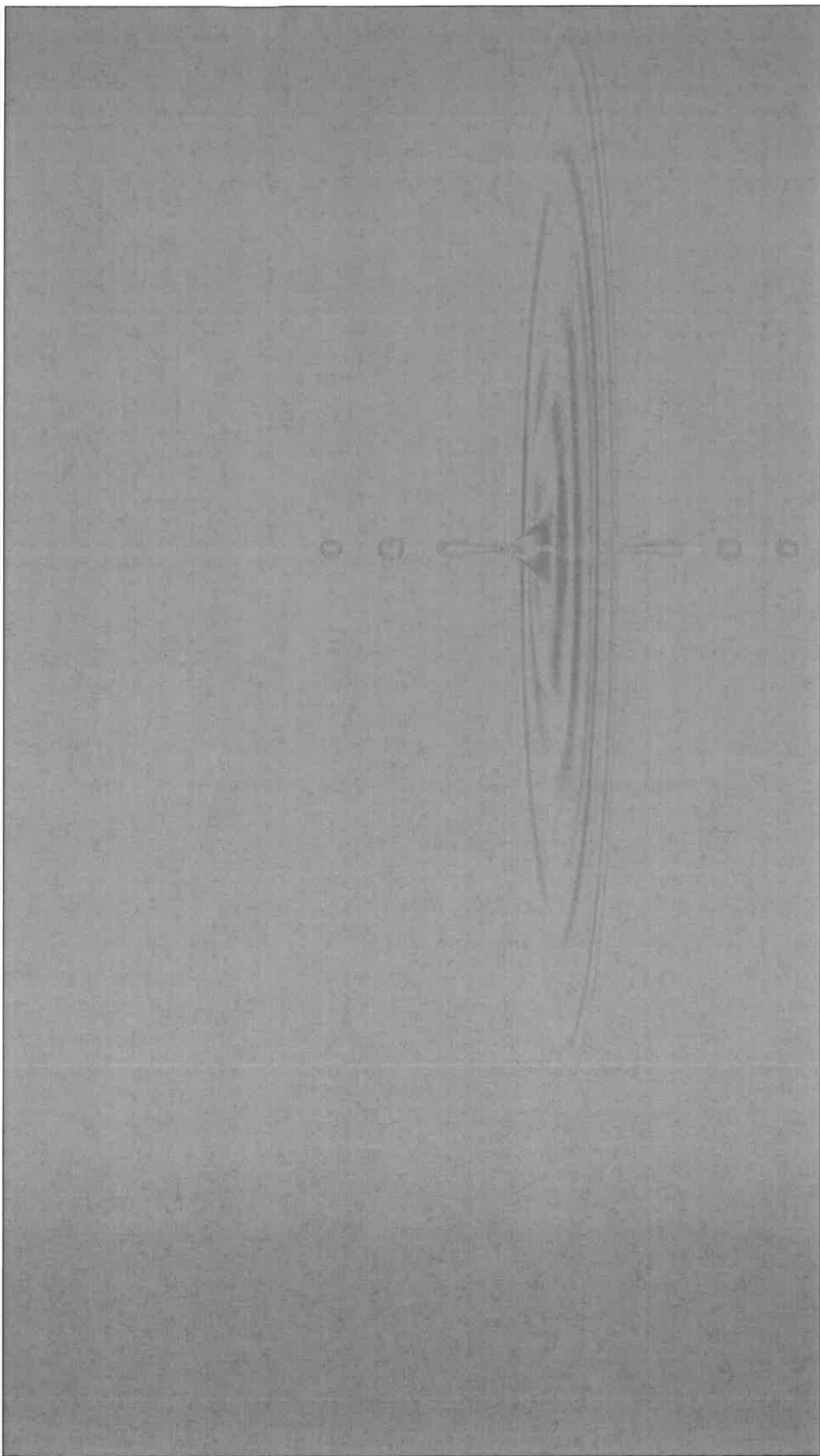
Timing – end of May?

1.5 – 2.0 hours?

Initiated by Mayor Sanson or Mayor Adams?

**Presentation and discussion on Water Reform and
WBOP**

**Discussion on how to engage in future with
Mayors, Chairs and Councillors**



From: Stavros Michael
Sent: Monday, 9 August 2021 2:15 PM
To: 'Tanya Winter'
Cc: Geoff Williams
Subject: RE: Entity B Working Group Nomination

Kia ora Tanya

Thank you for the note below. I confirm my readiness to assist this process.

Nga mihi

Stavros

Stavros Michael *DCE Infrastructure & Environment & Primary CDEM Controller –*
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ROTORUA
LAKES COUNCIL

From: Tanya Winter <tanya@otodc.govt.nz>
Sent: Monday, 9 August 2021 1:49 pm
To: Tanya Winter <tanya@otodc.govt.nz>
Subject: Entity B Working Group Nomination

Tēnā koe

You are one of the lucky ones who have been nominated for the CE positions on the Entity B Working Group. You may have already confirmed you are OK with this nomination but before I go ahead and organise the voting can you please confirm that back to me. I don't need anyone getting hōhā because you didn't know 😊.

Ngā mihi, Tanya

CE Ōtorohanga District Council | Chair of the Waikato CE Forum



Tanya Winter | Chief Executive
Ōtorohanga District Council
17 Maniapoto Street, Ōtorohanga 3900
07 873 4000 | [57\(2\)\(a\)](tel:078734000)
tanya@otodc.govt.nz | [Website](#) | [Follow us on Facebook](#)



From: Stavros Michael
Sent: Wednesday, 11 August 2021 8:40 am
To: Regan Fraser; Thomas Colle; Geoff Williams; Gina Rangi
Cc: Greg Kieck; Eric Cawte; Karlo Keogh
Subject: FW: Council Impact Assessment - Rotorua

Morena

With regards to the below. As we will need a report to Council at some in time it would be good to undertake this workshop to develop a CIA. (I have accepted the offer paid by LGNZ).

It would be good to have you on the workshop but I note I lead this so happy to take the lead.

Thomas – either you or both Greg and Karlo would be great thanks.

Gina – would be good for you to help inform the subcommittee for 3 Waters.

Geoff – Up to you but not necessary.

Regards

Stavros

Stavros Michael *DCE Infrastructure & Environment & Primary CDEM Controller –*
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ROTORUA
LAKES COUNCIL

From: Stavros Michael
Sent: Wednesday, 11 August 2021 8:36 am
To: 'Shaun Jones' <shaun.jones@tuhurapartners.co.nz>; Regan Fraser <Regan.Fraser@rotorualc.nz>; Helen Ferguson <Helen.Ferguson@rotorualc.nz>
Cc: Kevin Lavery <kevin.lavery@tuhurapartners.co.nz>; Andy Matthews <andy.matthews@tuhurapartners.co.nz>; Paul Blair <paul.blair@tuhurapartners.co.nz>
Subject: RE: Council Impact Assessment - Rotorua

Morena Shaun

Thank you for the below. Please note that we are interested in undertaking this CIA on the 26th as you suggest. Can you please nominate suitable time. I will advice venue.

I lead the process on behalf of Council and will invite in the workshop the appropriate senior staff.

Regan/Helen – Once Shaun has come back we need a place for three hours.

Thanks

Stavros

Stavros Michael *DCE Infrastructure & Environment & Primary CDEM Controller –*
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ROTORUA
LAKES COUNCIL

From: Shaun Jones <shaun.jones@tuhurapartners.co.nz>
Sent: Tuesday, 10 August 2021 5:25 pm
To: Stavros Michael <Stavros.Michael@rotorualc.nz>
Cc: Kevin Lavery <kevin.lavery@tuhurapartners.co.nz>; Andy Matthews <andy.matthews@tuhurapartners.co.nz>; Paul Blair <paul.blair@tuhurapartners.co.nz>
Subject: Council Impact Assessment - Rotorua

Hi Stavros

I am following up after the Taupo workshop to confirm whether Rotorua Lakes is planning to undertake the Council Impact Assessment and to arrange a suitable time. The key objective of the assessment is twofold; to support you in developing a holistic view of the impact that water reform will have on your council – this can then be used to inform elected members; and at an aggregated level it supports an entity B picture that can reflect back to Central Government the collective key priorities, concerns, improvements and opportunities. It uses a balanced scorecard approach to examine all the relevant issues - service and environment, people and supply chain, social and economic well-being as well as finance and funding. The work is funded by LGNZ.

In terms of how the assessment is carried out, we provide you with the content which includes an introduction slide deck, spreadsheet and supporting word document. These documents are distributed to the attendees to familiarise themselves with the content. Attendance is up to you but typically includes the CE and other key leadership staff such as CFO. At the workshop we will work through the questions, scoring each one and gleaning the key issues and priorities. The output will be the completed spreadsheet with a PowerPoint presentation that can be used to support a conversation with the elected members, and we are available to support you in that conversation too as we are with some councils already.

Due to the number of Councils and geographical spread we are hoping to develop an efficient schedule to enable Paul Blair and myself to be in person. At this stage we are looking at a morning session on 26th Aug. From the assessments carried out to date we need to allow 3hrs to give sufficient time to the process.

Please let me know if you are interested in undertaking the assessment and if the proposed time is suitable. If you have any questions feel free to give me a call.

Cheers, Shaun



Shaun Jones

Tuhura Partners

Mobile **s7(2)(a)**

Email shaun.jones@tuhurapartners.co.nz

From: Regan Fraser
Sent: Wednesday, 11 August 2021 1:44 PM
To: Stavros Michael
Subject: FW: Three Waters Reform Webinar
Attachments: three-waters-guidance-for-councils-august-and-september-2021.pdf; Water NZ webinar - 10 August.pdf

Info from yesterday's webinar

Nāku noa, nā

Regan Fraser *Kaihautū Pakihi Tūāpapa - Infrastructure Business Manager*
P 07 351 8937 M 027 594 3610
E: regan.fraser@rotorualc.nz | W: rotorualakescouncil.nz
A: 1061 Haupapa St, Private Bag 3029, Rotorua Mail Centre, Rotorua 3046, New Zealand

ROTORUA
LAKES COUNCIL

From: Water New Zealand <katrina.guy@waternz.org.nz>
Sent: Wednesday, 11 August 2021 9:02 AM
To: Regan Fraser <Regan.Fraser@rotorualc.nz>
Subject: Three Waters Reform Webinar



Dear Regan,

Thank you for attending yesterdays Three Waters Reform webinar with DIA. We hope you found it useful.

Please find attached the presentation and the Three Waters Guidance for Councils - August and September 2021 document. Later in the week we will publish the recording of the webinar to our website.

The email address for councils reps to access LGNZ support is feedback@lgnz.co.nz

Regards,

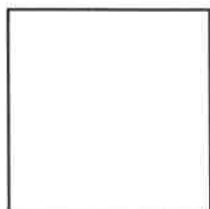
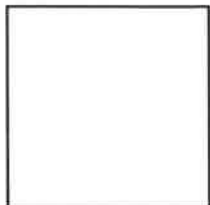
The Team at Water New Zealand

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Three Waters Guidance for councils over the next eight weeks

Local Government New Zealand, Taituarā, and Te Tari Taiwhenua Internal Affairs

30 July 2021

Context

The Government has recently announced an integrated and extensive package of reform proposals together with a comprehensive financial support package. These announcements build on an intensive 12-month period of policy, commercial, legal and analytical work that has been progressed through a constructive partnership-based approach with the local government sector, under the oversight of a joint central-local government steering committee. Throughout this period the government has also undertaken multiple periods of engagement with local government and iwi/Māori.

The sector, through LGNZ's National Council, Taituarā and the Joint Steering Committee, have been working with the Government on their preferred model to ensure the Government's policy proposal worked within the broader local government "operating" system. We have shared the sector's concerns with DIA and challenged and tested policy as it's been developed. This has significantly influenced the shape of the reform. We are confident that there is a sufficient and evidence-based national case for change, including that the current approach to three waters service delivery is not capable of delivering the outcomes required in an affordable and sustainable way into the future.

What's the Government's proposing?

The Government is proposing four new, large water service delivery entities. Their scale and balance sheet separation from councils means they will be able to borrow enough to fund the investment needed, a position that has been thoroughly tested with ratings agency Standard & Poors. The scale is also important to build and develop capability and capacity in the water services industry, as well as creating operating efficiencies and for effective quality and economic regulation. Without the new WSEs, councils will be directly responsible for all quality and economic regulatory obligations.

To support the sector through this massive change, LGNZ and the Crown (through DIA) jointly developed a [national-level package](#) to wrap around the reform proposals that addresses the sector's concerns and supports our communities now and into the future. The package is detailed in a [Heads of Agreement](#), signed in July, between LGNZ and the Government.

A summary of the proposed reform and support package can be found in [Appendix 1](#). [Appendix 2](#) provides an overview of the resources available to local authorities seeking further detail around the case for change and the decisions taken to date.

The Government and LGNZ have recommitted to working in partnership with the local government sector not just on these reforms, but on other challenges and opportunities. This is reflected in a [joint central/local government statement](#) released by the Government and LGNZ and underpinned by the Heads of Agreement.

Through the Heads of Agreement, the Government and LGNZ have agreed that local authorities will be provided a reasonable period from the end of the LGNZ conference through to 1 October to consider the impact of the reforms (including the financial support package) on them and their communities and an opportunity to provide feedback. The agreement and support package signal the Government's confidence in local government as a critical partner, both in this reform and in the future. We have heard strongly that Ministers want to work in partnership with our sector.

They have committed to doing so and LGNZ has made the same commitments. That is how we can be most effective and influential going forward.

No formal decisions are required between now and 1 October, but we are seeking feedback on the potential impacts of the proposed reform and how it could be improved.

The purpose of the next eight weeks

The purpose of this period is to provide time for all local authorities to:

- engage with and 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;
- take advantage of the range of engagement opportunities to fully understand the proposal and how it affects your local authority and your community; and
- identify issues of local concern and provide feedback to LGNZ on what these are and suggestions for how the proposal could be strengthened.

You are not expected to make any formal decisions regarding the reform through this period. This is an opportunity for the sector to engage with – and provide feedback on – local impacts and possible variations to the proposed reform package outlined by the Government.

This engagement period does not trigger the need for formal consultation.

We would encourage local authorities to share your feedback with us as it arises over this period – that way we can share insights and ideas on common issues across the sector and help each other benefit from each other's work.

Who's doing what over the next eight weeks

Over the next eight weeks:

- DIA and the Steering Group will continue to work on policy development so they can refine and enhance the model based on feedback from the sector.
- LGNZ and Taituarā will continue to support councils to understand their individual council data and the potential impacts the proposal will have on them and their communities.
- LGNZ will also facilitate workshops and council meetings to gather your feedback and provide clear guidance and ideas to DIA, the Steering Group and the Minister on the remaining unresolved areas of concern.
- The Steering Committee will maintain a role in informing ongoing policy issues, informing the implementation of the reform package, and providing oversight of and input into the transition processes.
- Councils can use this time to work through the proposal and information provided by DIA, including to test the 'no worse off'/'better off' proposition underpinning the financial support package.

Engagement with iwi/Māori

Over the next eight weeks, the Government will continue to lead engagement with iwi/Māori over the reform programme. You should be aware of this occurring but not let it stop you from maintaining your own constructive relationships. You should also be aware that as part of the Heads of Agreement and the funding allocation attached, it is proposed that 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.

What happens next - decision making and consultation

Following the engagement period, the Government will consider the feedback and suggestions provided by local authorities, in partnership with the joint steering committee. It will also consider the next steps, including the transition and implementation pathway, and revised timing for decision-making, which could accommodate the time required for any community or public consultation.

The Government will not be taking further decisions until after this engagement period.

Engagement on boundaries

The Government is keen to engage with those most affected by boundary issues, with discussions already underway. This engagement will be ongoing and is not limited to the eight week period.

What councils need to do over the next eight weeks

This is an opportunity for the sector to engage with the model and the proposal, at the national level and very specifically as it relates to your district/city. In this period Chief Executives should provide advice, for noting, to their council on the implications for the district/city. (Taituarā will develop a report format for chief executives to use). A decision on the advice, apart from noting, is not required, but the advice could form the basis of consultation with the community at a later date if required.

We would encourage councils to share your feedback with us as it arises over this period – that way we can share insights and ideas on common issues across the sector and help each other to benefit from each other's work.

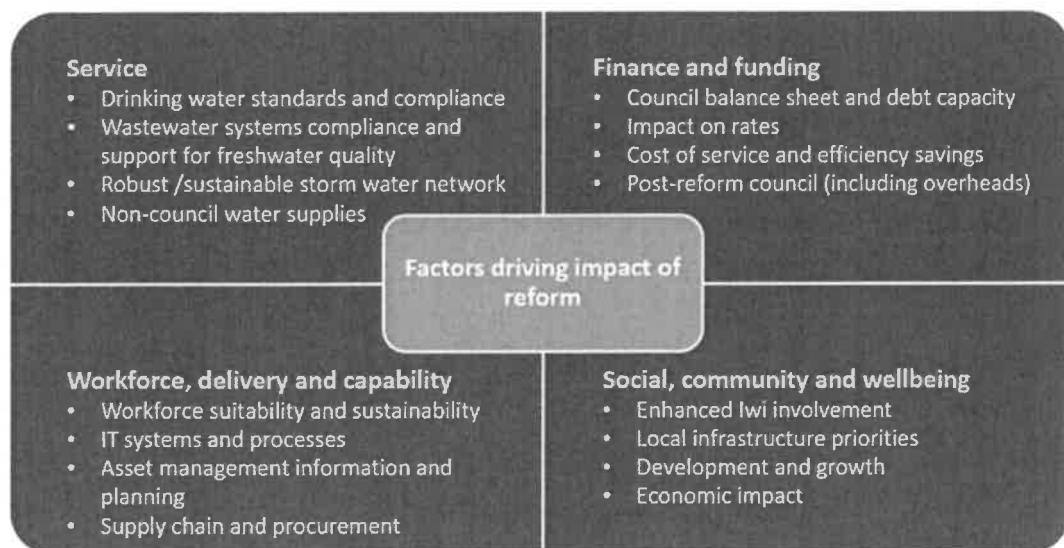
Local authorities are encouraged to review and consider the reform package and its implications for the communities they serve.

From now till 1 October, councils should carry out analysis to understand the potential impact of the reform by taking these steps:

1. Understand the key features of the proposed model and how it is intended to work (LGNZ will provide resources to help with this – see below).
2. Apply the proposed model to your circumstances (consider impacts on your community) for today and for the future (we would propose a 30 year horizon).

3. Consider the model holistically – in terms of service, finance and funding, workforce, delivery and capability and social, cultural, environmental and economic well-being. LGNZ can help with this analysis.
4. Using the Taituarā pro forma report framework, chief executives should report the outcome of this analysis as advice to their councils, for noting. The pro forma report will specify all the parameters to be covered. Please provide a copy of the advice to LGNZ.

Local authorities are encouraged to consider the impacts of the proposed reform holistically, in terms of service outcomes, economic development and growth, finance and funding, workforce capability and social, community and economic well-being. The diagram below provides a helpful framework for thinking through these impacts. LGNZ can help with this analysis.



Local authorities are also encouraged to provide feedback or participate in targeted workshops to develop solutions on outstanding issues identified by LGNZ and the Government.

As part of the agreement between LGNZ and the Government, we are also looking for feedback on and solution refinements for issues that councils have raised that aren't fully resolved and on which the Government has said there is room for flexibility to come up with solutions that meet local needs:

1. Ensuring all communities have both a voice in the system and influence over local decisions. This includes assurance that water service entities will understand and respond appropriately to communities' needs and wants, including responding to localised concerns.
2. Effective representation on the new water service entities' oversight boards so that there is strong strategic guidance from, and accountability to, the communities they serve, including iwi/manua whenua participation. This also covers effective assurance that entities, which will remain in public ownership, cannot be privatised in future.

3. Making sure councils' plans for growth, as reflected in spatial plans, district plans or LTPs, are appropriately integrated with water services planning. This includes that planning and delivery of water infrastructure investment is integrated with transport and other related infrastructure.

You can either provide potential solutions and refinement ideas in writing to us or participate in targeted workshops. If you would like to be part of a workshop, please email feedback@lgnz.co.nz.

Appendix 1: Summary of reform proposal and support package

Government reform package

The Government has decided, based on the substantial work undertaken over the past year in partnership with the sector, to pursue an integrated and extensive package of reform to the current system for delivering three waters services and infrastructure. The package comprises the following core components:

- establish four statutory, publicly-owned water services entities to provide safe, reliable and efficient water services;
- enable the water services entities to own and operate three waters infrastructure on behalf of local authorities, including transferring ownership of three waters assets and access to cost-effective borrowing from capital markets to make the required investments;
- establish independent, competency-based boards to govern each water services entity;
- introduce mechanisms that protect and promote the rights and interests of iwi/Māori in the new three waters service delivery system;
- introduce a series of safeguards against future privatisation of the water services entities;
- set a clear national policy direction for the three waters sector, including expectations relating to the contribution by water services entities to any new spatial / resource management planning processes;
- establish an economic regulation regime, to ensure efficient service delivery and to drive the achievement of efficiency gains, and consumer protection mechanisms; and
- develop an industry transformation strategy to support and enable the wider three waters industry to gear up for the new water services delivery system.

Financial support package

The Government has developed, in close partnership with Local Government New Zealand, a package of \$2.5 billion to support the sector through the transition to the new water services delivery system, and to position the sector for the future. There are two broad components to this support package:

- \$2 billion of funding to invest in the future of local government and community well-being, 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).

The better off component of the support package, which comprises \$1 billion Crown funding and \$1 billion from the new water services entities, is allocated to territorial authorities on the basis of a nationally consistent formula that takes into account population, relative deprivation and land area. This formula recognises the relative needs of local communities, the unique challenges facing local authorities in meeting those needs, and differences across the country in the ability to pay for those needs.

Territorial authorities will be required to demonstrate that the use of this funding supports the three waters service delivery reform objectives and other local well-being outcomes and aligns with the priorities of central and local government, through meeting some or all of the following criteria:

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

The no worse off component of the support package is intended to address the costs and financial impacts on territorial authorities directly as a result of the three waters reform programme and associated transfer of assets, liabilities and revenues to new water services entities. It 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 allocated to the Auckland, Christchurch and Wellington Water councils excluded above based on a detailed assessment of two years of reasonable and unavoidable stranded costs directly resulting from the Water Transfer, as the nationally-consistent formula is likely to overstate the stranded costs for these councils due to their significantly greater scale and population. Stranded costs should be lower with respect to Watercare and Wellington Water as these Council Controlled Organisations have already undertaken a transfer of water services responsibilities, albeit to varying degrees; and
- 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 process for determining this will be developed by the Department of Internal Affairs working closely with Local Government New Zealand).

The remainder of the no worse off component will be used to address adverse impacts on the financial sustainability of territorial authorities. This will require a due diligence process that will need to be worked through in the coming months.

In addition to the support package, the Government 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 reasonable legal, accounting and audit costs. There is an allocation for these costs within the \$296 million tagged contingency announced as part of the 2021 Budget Package for transition and implementation activities. This allocation is additional to the \$2.5 billion support package.

The Department of Internal Affairs is continuing to work with Local Government New Zealand and Taituarā, including through the joint Steering Committee process, to develop the process for accessing the various components of the support package outlined above, including conditions that would be attached to any funding. More information and guidance will be made available in the coming months.

Better off funding allocation

Council	Allocation
Auckland	\$ 508,567,550
Ashburton	\$ 16,759,091
Buller	\$ 14,009,497
Carterton	\$ 6,797,415
Central Hawke's Bay	\$ 11,339,488
Central Otago	\$ 12,835,059
Chatham Islands	\$ 8,821,612
Christchurch	\$ 122,422,394
Clutha	\$ 13,091,148
Dunedin	\$ 46,171,585
Far North	\$ 35,175,304
Gisborne	\$ 28,829,538
Gore	\$ 9,153,141
Grey	\$ 11,939,228
Hamilton	\$ 58,605,366
Hastings	\$ 34,885,508
Hauraki	\$ 15,124,992
Horowhenua	\$ 19,945,132
Hurunui	\$ 10,682,254
Invercargill	\$ 23,112,322

Kaikoura	\$ 6,210,668
Kaipara	\$ 16,141,395
Kapiti Coast	\$ 21,051,824
Kawerau	\$ 17,270,505
Lower Hutt	\$ 38,718,543
Mackenzie	\$ 6,195,404
Manawatu	\$ 15,054,610
Marlborough	\$ 23,038,482
Masterton	\$ 15,528,465
Matamata-Piako	\$ 17,271,819
Napier	\$ 25,823,785
Nelson	\$ 20,715,034
New Plymouth	\$ 31,586,541
Opotiki	\$ 18,715,493
Otorohanga	\$ 10,647,671
Palmerston North	\$ 32,630,589
Porirua	\$ 25,048,405
Queenstown Lakes	\$ 16,125,708
Rangitikei	\$ 13,317,834
Rotorua Lakes	\$ 32,193,519
Ruapehu	\$ 16,463,190
Selwyn	\$ 22,353,728
South Taranaki	\$ 18,196,605
South Waikato	\$ 18,564,602
South Wairarapa	\$ 7,501,228
Southland	\$ 19,212,526
Stratford	\$ 10,269,524
Tararua	\$ 15,185,454

Tasman	\$	22,542,967
Taupo	\$	19,736,070
Tauranga	\$	48,405,014
Thames-Coromandel	\$	16,196,086
Timaru	\$	19,899,379
Upper Hutt	\$	18,054,621
Waikato	\$	31,531,126
Waimakariri	\$	22,178,799
Waimate	\$	9,680,575
Waipa	\$	20,975,278
Wairoa	\$	18,624,910
Waitaki	\$	14,837,062
Waitomo	\$	14,181,798
Wellington	\$	66,820,722
Western Bay of Plenty	\$	21,377,135
Westland	\$	11,150,183
Whakatane	\$	22,657,555
Whanganui	\$	23,921,616
Whangarei	\$	37,928,327

Appendix 2: Three Waters Reform Programme key resources

The table below summarises the key resources that have been published in relation to the Government's recent announcements around the proposed three waters service delivery reform and financial support package.

Further information is available at the three waters reform programme webpage at:

<https://www.dia.govt.nz/Three-Waters-Reform-Programme>

Title	Description
Cabinet papers and decisions	
<u>Cabinet paper one and minute – A new system for three waters service delivery</u>	Paper summarising the case for change and seeking Cabinet agreement to the overall reform package.
<u>Cabinet paper two and minute – Designing the new three waters service delivery entities</u>	Paper seeking Cabinet agreement to the proposed structure of water services entities, associated oversight, governance and ownership arrangements and mechanisms that provide for communities and consumers to have a voice within the new structure.
<u>Cabinet paper three and minute – Protecting and promoting iwi/Māori rights and interests</u>	Paper summarising iwi/Māori rights and interests in the three waters service delivery reforms, and seeking agreement to a number of specific mechanisms for protecting and promoting rights and interests in the new service delivery model.
Summary of case for change and reform proposal	
<u>Transforming the system for delivering three waters services - the case for change and summary of proposals</u>	An overview of the case for change and the Government's proposed package of reform.
<u>A3 Overview of the Three Waters Reform Programme</u>	A3 summarising the case for change, proposed new delivery system.
<u>Financial support package information and FAQs</u>	Overview of the financial support package, allocations and responses to frequently asked questions.

Title	Description
Models, tools and dashboards	
<u>Local Dashboard</u>	Dashboard of the potential impacts on local authorities with and without reform.
<u>Simplified financial models</u>	Simplified versions of the financial models the Water Industry Commission for Scotland used in its analysis of the potential economic benefits of three waters reform. These models demonstrate the approach taken to calculate average household costs for each council and amalgamated entity. There are also slide packs setting out sensitivity analysis for each council and amalgamated entity to test the sensitivity of the modelling to key assumptions, including assumptions around levels of efficiency and future investment need.
<u>Water Service Entities overview</u>	A short overview of the estimated position of the Water Service Entities following reform.
Evidence base	
<u>Regulatory Impact Assessment – Decision on the reform of three waters service delivery arrangements</u>	Regulatory Impact Assessment (RIA) developed by the Department of Internal Affairs to inform the decision on whether and how to improve the system for delivering three waters services. Developed in two parts: <ul style="list-style-type: none"> • a strategic RIA assessing the rationale for reform; and • six detailed RIA chapters assessing each of the core design choices that make up the package of policy proposals.
Industry Development Study and Economic Impact Assessment (Deloitte) <u>Summary A3</u> <u>Full report</u>	Analysis of the potential economic impact of the proposed reform package, and the opportunities and risks for industries affected by reform.

Title	Description
<p>Economic analysis of water services aggregation (Water Industry Commission for Scotland):</p> <p>Final report</p> <p>Supporting material part 1 - required investment</p> <p>Supporting material part 2 – scope for efficiency</p> <p>Supporting material part 3 – costs and benefits of reform</p> <p>Supporting material part 4 – modelling the effect of ranges for key parameters for Auckland Council</p> <p>Supporting material part 5 – Council outcomes under amalgamation</p>	<p>Second phase of analysis that builds on earlier work by making use of more up-to-date information collected through the Request for Information process and by making allowance for population growth and council-reported rates of connection. The analysis is done in three parts:</p> <ul style="list-style-type: none"> • Estimated investment requirement for New Zealand’s three waters infrastructure to meet quality standards; • Scope for efficiency gains from transformation of the three waters service delivery system, including those associated with scale; and • The potential economic (efficiency) impacts of various aggregation scenarios.
<p>Review of methodology and assumptions underpinning economic analysis of aggregation (Farrierswier)</p>	<p>Farrierswier, a regulatory economics consultancy in Victoria, Australia with deep understanding of the water services industry, reviewed the methodology and underpinning assumptions applied by the Water Industry Commission for Scotland in its analysis of the potential benefits of reform and the extent to which this is reasonable to inform policy advice.</p>
<p>Review of assumptions between Scotland and New Zealand Three Waters Systems (Beca)</p>	<p>Beca reviewed the standards and practices in the United Kingdom three waters industry and the relevance to New Zealand given WICS has used United Kingdom data and benchmarks as part of its analysis.</p>

Three Waters Reform Programme

Water NZ – 10 August 2021

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

threewaters@dia.govt.nz



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



Te Tari Taiwhenua
Internal Affairs

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

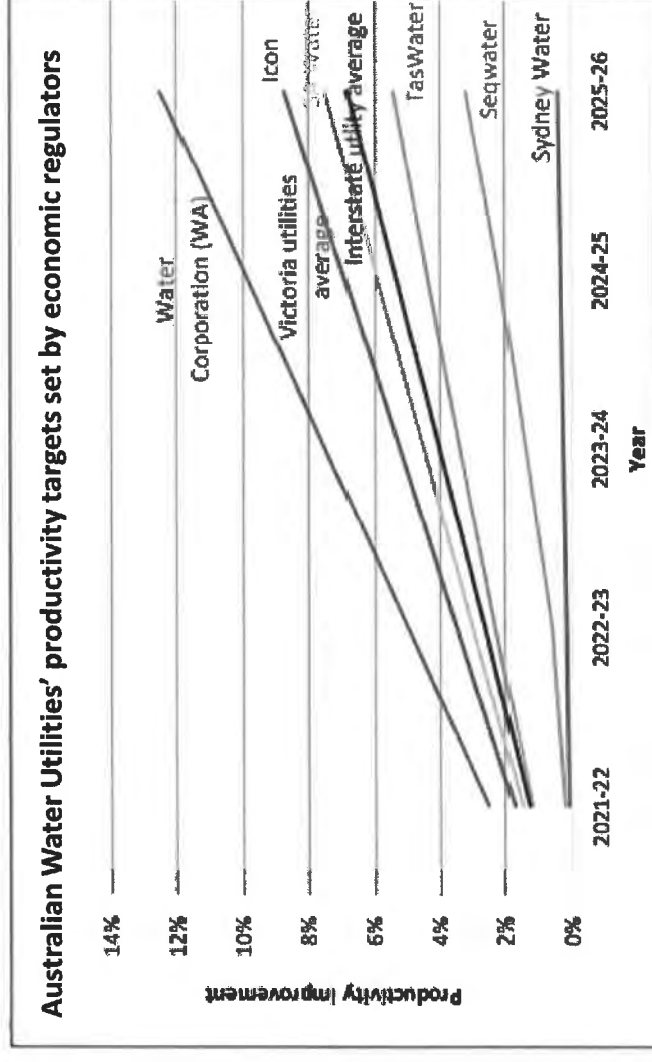
About efficiencies

- 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

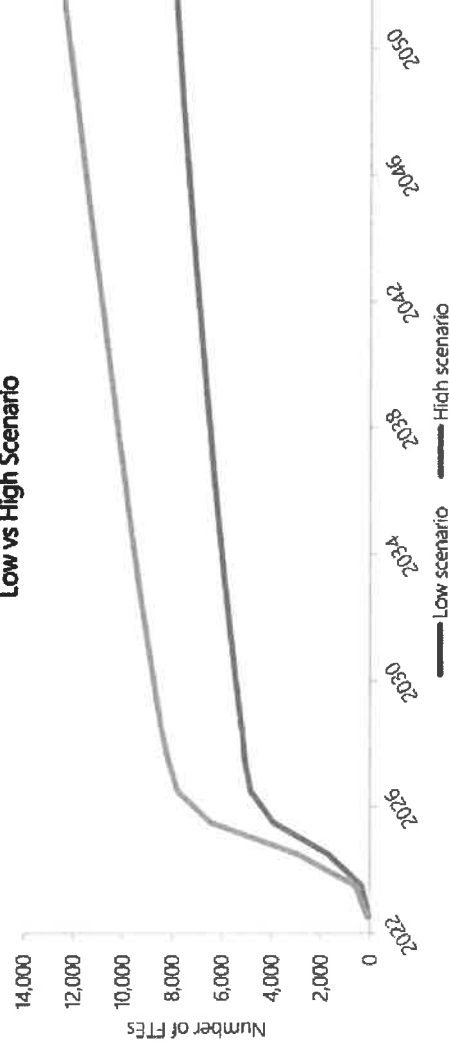
- Deloitte found reform is expected to support significant job creation across the economy
- Reform could result in **5,800 to 9,300 new jobs**
- The **water sector workforce** is anticipated to **grow by up to 80%** between now and 2051

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

Scenario	Average additional FTEs pa	Average increase in FTEs pa	% of 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)

Net change in FTEs between 2022-2051 as a result of reform
Low vs High Scenario



Source: Deloitte Access Economics (2021)

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

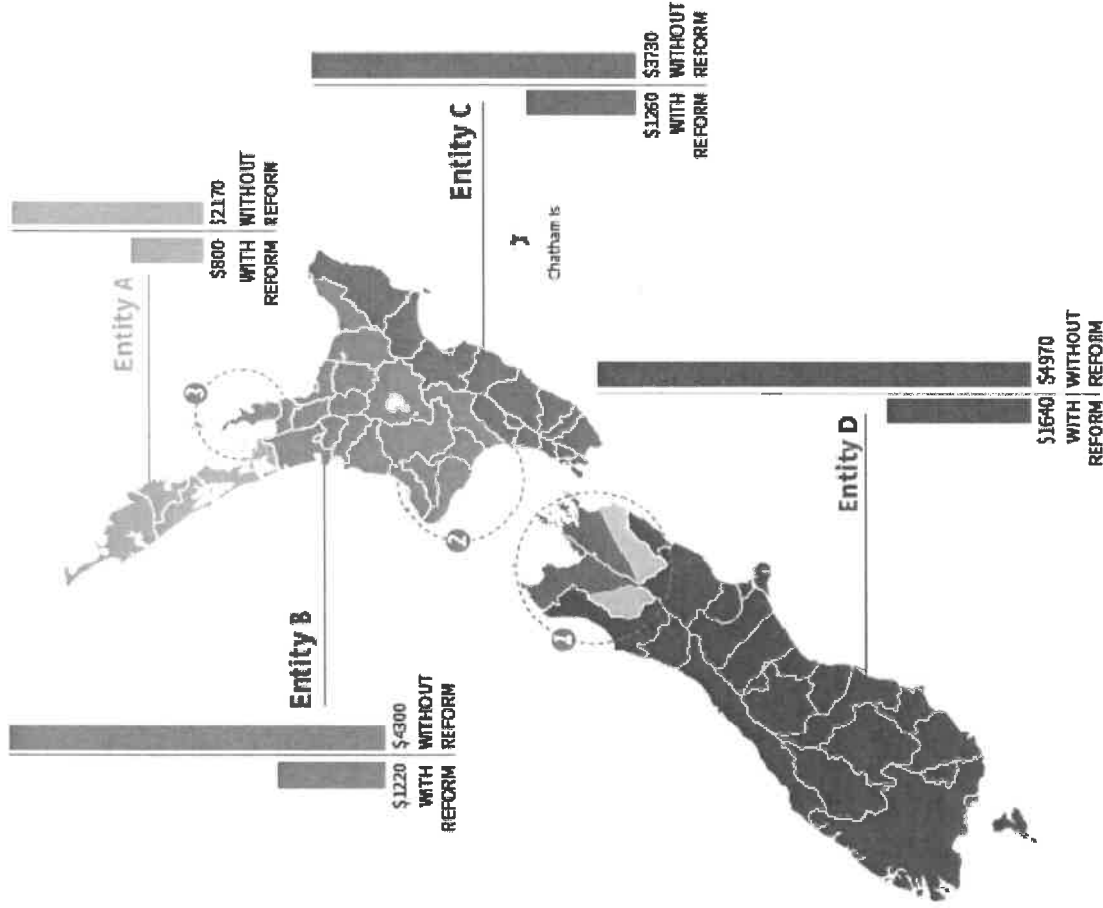
- The Government has agreed the new entities will provide services and infrastructure relating to drinking water, wastewater and stormwater
- The **purpose** of the entities would be to **provide safe, reliable and efficient water services**. With high-level **objectives** relating to:
 - delivering 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

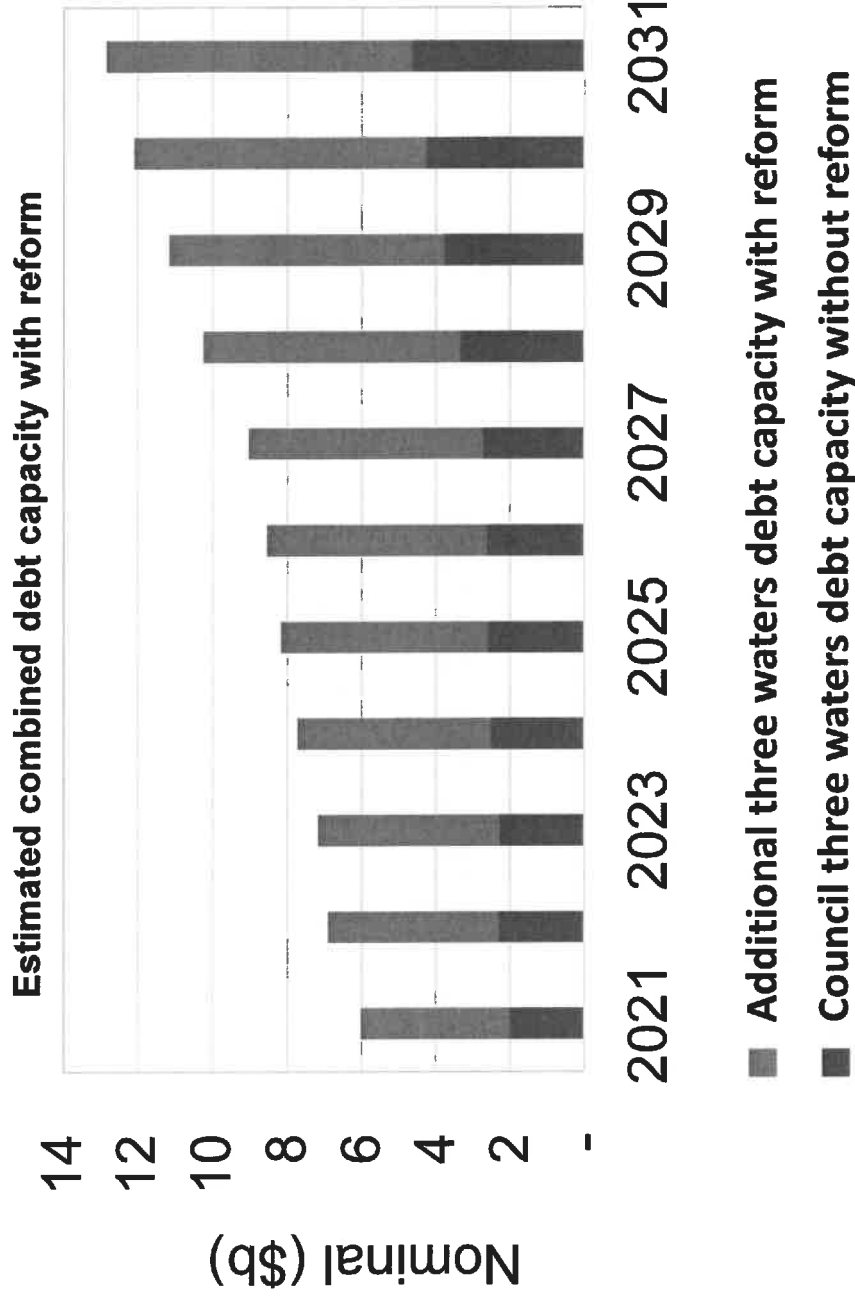
Proposed boundaries

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

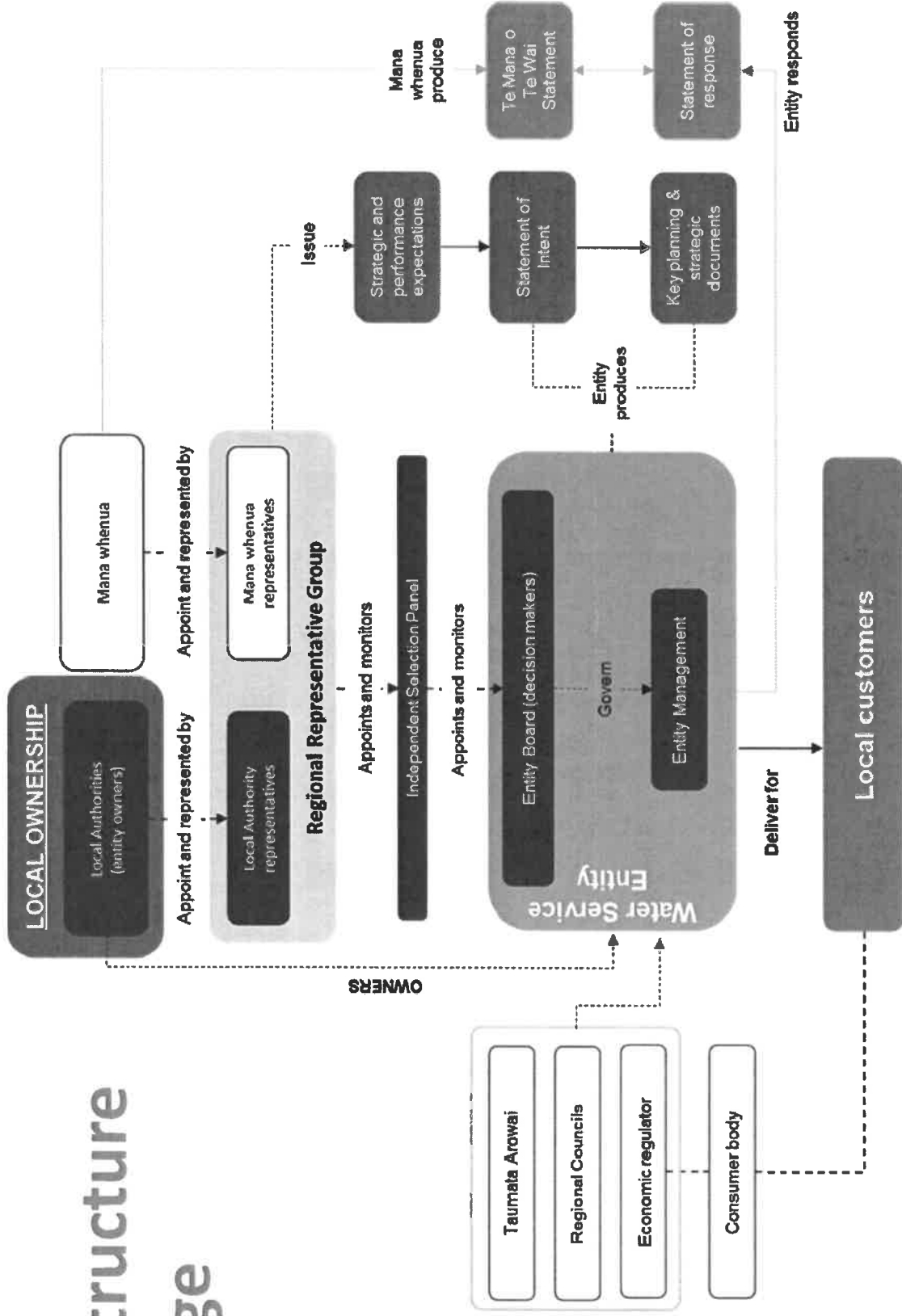


Estimated debt capacity of Entities

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

Governance

- Each entity will have a **regional Representative Group** that provides for proportionate representation of the local government and mana whenua
- The Representative Group will issue a **Statement of Strategic and Performance Expectations** to inform the entity's planning and **monitor performance** against these documents
- Entities will be required to produce a **Statement of Intent** in response to the Strategic and Performance Expectations
- The Representative Group will also establish and monitor the **Independent Selection Panel (ISP)** that appoints and removes members to the entity's board
- The **independent board**, appointed by the ISP, will **govern the new entities** and will require relevant competencies – to be set out in legislation
- A Government Policy Statement will provide direction to entities on national policy priorities

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**

Next steps

August– September 2021

- 8 week LGNZ-led local government sector engagement on the reform proposals
- **Following this 8-week window to consider the reform proposals, the Government will take further decisions on the next steps of the reform pathway**
- Cabinet is also expected to confirm boundary choices at the end of this period

Also ongoing

- DIA will continue to lead engagement with our Treaty Partners through targeted and group based hui with iwi/Māori
- Early, no-regrets discussions on transition with industry groups and council leaders

Establishment and Transition

Early 'no regrets' work



Te Tari Taiwhenua
Internal Affairs

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 activities

Transition activities are distinct to service delivery and policy activities, which will continue to be undertaken by councils and DIA respectively throughout transition

Water service delivery activities remain with council until the new entities become operational (1 July 2024)

- Councils will continue to deliver three waters services until at least early 2024
- We are targeting water service entities commencing operations on 1 July 2024
- This means councils will remain responsible for all tasks associated with water service delivery for the establishment and transition period
- Through the transition there may need to be central oversight to ensure council decisions align with/complement the transition process and activities of the new entities once operational

Policy activities remain with the DIA policy team throughout the reform process

- There will be ongoing policy, legislative and stewardship activities required throughout the water reform process
- 'Policy' refers to decisions requiring Ministerial approval
- This is distinct from operational policy that will inform transition activities
- The objective of transition activities will be to ensure that policy decisions are supported by a smooth transition and implementation approach that is efficient, effective and minimises disruption

Transition activities are distinct from service delivery and policy (the focus of today's presentation)

- Transition activities refer to the tasks required to ensure the new entities are able to commence operations from 1 July 2024
- These tasks are distinct to service delivery and policy activities
- Transition activities will be focussed on **managing and mitigating transition risks** to ensure reform objectives are delivered - this highlights the need for council oversight

WUA and WSMG workshop overview (April 2021)

Key points raised:

- Staff are currently uncertain about their future (particularly role and location) and this needs to be addressed for reform success
- There is a risk that local authorities become incentivised to reduce three waters investment through the transition
- The transition needs to manage the burden on staff who will also be doing their day jobs
- The transition needs to be undertaken in conjunction with staff to ensure the best outcomes for New Zealand
- Different staff will have expertise and interest in different areas of the future water service entities – this needs to be catered for
- The proposed transition to June 2024 is a long time, we need to look at ways to accelerate the process
- There are potential constraints that will limit increased investment outside of the service delivery reform (for example workforce training). We need to start addressing these constraints now
- Integration with wider regional plans ie urban planning, is essential for achievement of wider community outcomes
- Effective communications to both the industry and the workforce will be critical to reform success

WUA and WSMG workshop overview (May 2021)

Key points raised (additional to April points on previous slide):

- Look to opportunities to help work together across councils and industry
- Should establish 'shadow entities' early – but be cautious this does not put more pressure on a constrained workforce
- Need to broaden our engagement from just Water staff/industry into others e.g. HR and IT
- Opportunity to upskill staff and have a pool of resources to ensure delivery during transition
- Recognise improvement might be a stretch goal and continued service is a more realistic target
- Opportunity to work with education institutes to brand the reforms as an opportunity for new entrants and attract talent
- Enable iwi ground up involvement in water services
- Concerns about ongoing border restrictions adding to the challenge of getting on top of our infrastructure needs

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 Strategy

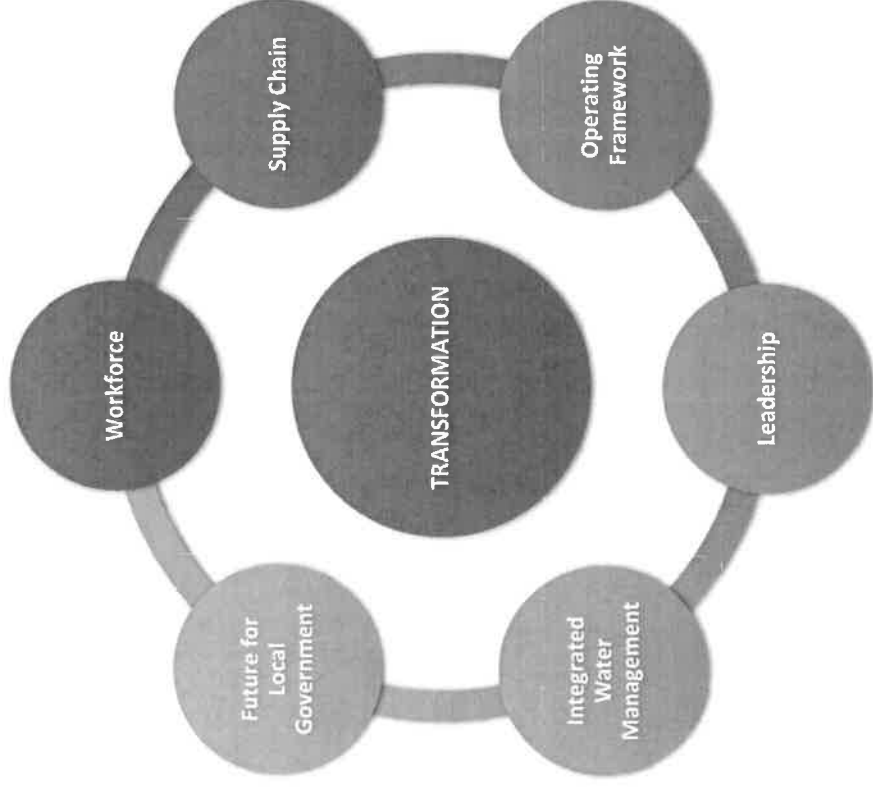
There are significant additional challenges facing the three waters sector that will not be solved through the reform alone. These include items such as workforce availability, supply chain logistics, construction capacity, as well as many others.

We are therefore going to commission an industry and workforce transformation strategy to identify additional challenges and provide recommendations for addressing these.

The overall objective of the Strategy includes:

1. A **holistic assessment** of the existing constraints, challenges and opportunities to delivering the reform objectives
2. Successfully reversing the infrastructure deficit and unlocking increased productivity
3. The identification of **practicable and deliverable solutions** to address the material constraints, challenges and opportunities and a system for prioritising the delivery of these solutions
4. An execution pathway to successfully address the infrastructure deficit

Transformation Workstreams



How will transformation be delivered

- **A dedicated team of subject matter experts with strong industry experience**
- **Developed** with significant input from the sector and local/central government players, capturing the views, concerns and aspirations of the leaders, workforce and partners impacted by it
- **Managed holistically** to ensure efficiency, workstream interdependencies are effectively managed, and for relationship management purposes
 - Relationship management is crucial as this is a significant undertaking for the sector and we are cognisant of the need to be efficient with personnel time and manage both expectations and conflicts.
- **Be effectively transitioned** to the emerging water service entities

**Ngā mihi,
Thank you**

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

Email: threewaters@dia.govt.nz



**Te Tari Taiwhenua
Internal Affairs**

From: Shaun Jones <shaun.jones@tuhurapartners.co.nz>
Sent: Thursday, 12 August 2021 8:39 AM
To: Stavros Michael; Regan Fraser; Helen Ferguson
Cc: Kevin Lavery; Andy Matthews; Paul Blair
Subject: RE: Council Impact Assessment - Rotorua

Hi Stavros

9am for 3hrs would be good.

Shaun

Sent from my Galaxy

----- Original message -----

From: Stavros Michael <Stavros.Michael@rotorualc.nz>
Date: 11/08/21 8:36 am (GMT+12:00)
To: Shaun Jones <shaun.jones@tuhurapartners.co.nz>, Regan Fraser <Regan.Fraser@rotorualc.nz>, Helen Ferguson <Helen.Ferguson@rotorualc.nz>
Cc: Kevin Lavery <kevin.lavery@tuhurapartners.co.nz>, Andy Matthews <andy.matthews@tuhurapartners.co.nz>, Paul Blair <paul.blair@tuhurapartners.co.nz>
Subject: RE: Council Impact Assessment - Rotorua

Morena Shaun

Thank you for the below. Please note that we are interested in undertaking this CIA on the 26th as you suggest. Can you please nominate suitable time. I will advice venue.

I lead the process on behalf of Council and will invite in the workshop the appropriate senior staff.

Regan/Helen – Once Shaun has come back we need a place for three hours.

Thanks

Stavros

Stavros Michael *DCE Infrastructure & Environment & Primary CDEM Controller –*
Manahautū: Tūāpapa me te Rākau Whakamarumarū
P: 07 351 8148 | **M:** 027 807 3847
E: stavros.michael@rotorualc.nz | **W:** rotorualakescouncil.nz
A: 1061 Haupapa St, Private Bag 3029, Rotorua Mail Centre, Rotorua 3046, New Zealand

ROTORUA
LAKES COUNCIL

From: Shaun Jones <shaun.jones@tuhurapartners.co.nz>
Sent: Tuesday, 10 August 2021 5:25 pm
To: Stavros Michael <Stavros.Michael@rotorualc.nz>
Cc: Kevin Lavery <kevin.lavery@tuhurapartners.co.nz>; Andy Matthews <andy.matthews@tuhurapartners.co.nz>; Paul Blair <paul.blair@tuhurapartners.co.nz>
Subject: Council Impact Assessment - Rotorua

Hi Stavros

I am following up after the Taupo workshop to confirm whether Rotorua Lakes is planning to undertake the Council Impact Assessment and to arrange a suitable time. The key objective of the assessment is twofold; to support you in developing a holistic view of the impact that water reform will have on your council – this can then be used to inform elected members; and at an aggregated level it supports an entity B picture that can reflect back to Central Government the collective key priorities, concerns, improvements and opportunities. It uses a balanced scorecard approach to examine all the relevant issues - service and environment, people and supply chain, social and economic well-being as well as finance and funding. The work is funded by LGNZ.

In terms of how the assessment is carried out, we provide you with the content which includes an introduction slide deck, spreadsheet and supporting word document. These documents are distributed to the attendees to familiarise themselves with the content. Attendance is up to you but typically includes the CE and other key leadership staff such as CFO. At the workshop we will work through the questions, scoring each one and gleaning the key issues and priorities. The output will be the completed spreadsheet with a PowerPoint presentation that can be used to support a conversation with the elected members, and we are available to support you in that conversation too as we are with some councils already.

Due to the number of Councils and geographical spread we are hoping to develop an efficient schedule to enable Paul Blair and myself to be in person. At this stage we are looking at a morning session on 26th Aug. From the assessments carried out to date we need to allow 3hrs to give sufficient time to the process.

Please let me know if you are interested in undertaking the assessment and if the proposed time is suitable. If you have any questions feel free to give me a call.

Cheers, Shaun



Shaun Jones
Tuhura Partners
Mobile s7(2)(a)
Email shaun.jones@tuhurapartners.co.nz



From: Kevin Lavery <kevin.lavery@tuhurapartners.co.nz>
Sent: Saturday, 14 August 2021 8:11 AM
To: blair.bowcott@hcc.govt.nz; andrew.parsons@hcc.govt.nz; Stephen Halliwell; ian.cathcart@waidc.govt.nz; adrian.delaborde@hauraki-dc.govt.nz; bevan.gray@whakatane.govt.nz; andrea.houlihan@waitomo.govt.nz; Brent Sinclair; bruce.hinson@tcdc.govt.nz; david.bewley@whakatane.govt.nz; Dawn Inglis; martin.mould@waipadc.govt.nz; hanno.vandermerwe@kaweraudc.govt.nz; Karl.pavlovich@mpdc.govt.nz; kstrongman@taupo.govt.nz; kumaren.perumal@westernbay.govt.nz; Stephen Burton; Stavros Michael; nigel.ward@hcc.govt.nz; roger@otodc.govt.nz; ted.anderson@southwaikato.govt.nz; tony.hale@waitomo.govt.nz; sarah.omundsen@boprc.govt.nz; david.locke@waitomo.govt.nz; Brent Sinclair
Cc: Andy Matthews; Shaun Jones; Dean Kimpton; Paul Blair; 'Kaine Thompson'; Rachel Beck; Brent Manning
Subject: Waikato/Bay of Plenty - Weekly Update on Water Reform

Hi everyone,

I hope everyone is well. The Hui on 4th August went very well. We will be very busy in August with the LGNZ work. And as part of that work we will be visiting a large number of councils in the Entity B area. This will involve completing the community impact assessment for individual councils and where required supporting workshops with councillors.

I am conscious that we cancelled the Steering Group planned for the 5th August. We are rescheduling the meeting for Friday 27th August 8.30 – 10.00 am. An invite will be sent out separately. This will be the last of the Waikato/Bay of Plenty Steering Group meetings. The intention is to report on all the deliverables and close down the assignment. We will establish a new steering group in September with all councils in the Entity B area represented. Following the Hui we are in the process of establishing Mayoral and CE groups. Good progress is being made here and announcements should be made shortly. We have also had positive discussions with DIA about support for the next stage of the project. We hope this can be finalised over the next couple of weeks.

Best wishes,

Kevin

From: Shaun Jones <shaun.jones@tuhurapartners.co.nz>
Sent: Tuesday, 17 August 2021 3:27 PM
To: Stavros Michael; Regan Fraser
Cc: Andy Matthews; Paul Blair; Kevin Lavery
Subject: Rotorua impact assessment background information
Attachments: 3W Council Impact Assessment Framework_v10.xlsx; COUNCIL IMPACT ASSESSMENT_CONSIDERATION CRITERIA TEMPLATE_v_10.docx; Impact Assessment Matrix Presentation.pptx

Follow Up Flag: Follow up
Flag Status: Flagged

Hi Stavros/ Regan

We provide the attached information in advance which will allow you to familiarise yourself with the exercise. Attached is:

1. A Powerpoint presentation that provides some context around the process
2. The updated word document that outlines the detailed criteria assessment information
3. An excel file which is used for the assessment 'scoring' process.

We have included a 'weighting' of the criteria in the example excel file attached. This can be modified as part of the process to reflect specific Council priorities.

Please familiarise yourself with the material and feel free to come back to me with any queries you may have.

Regards,



Shaun Jones
Tuhura Partners
Mobile s7(2)(a)
Email shaun.jones@tuhurapartners.co.nz

WHANGANUI DISTRICT COUNCIL - QUADRANT STATUS SUMMARY

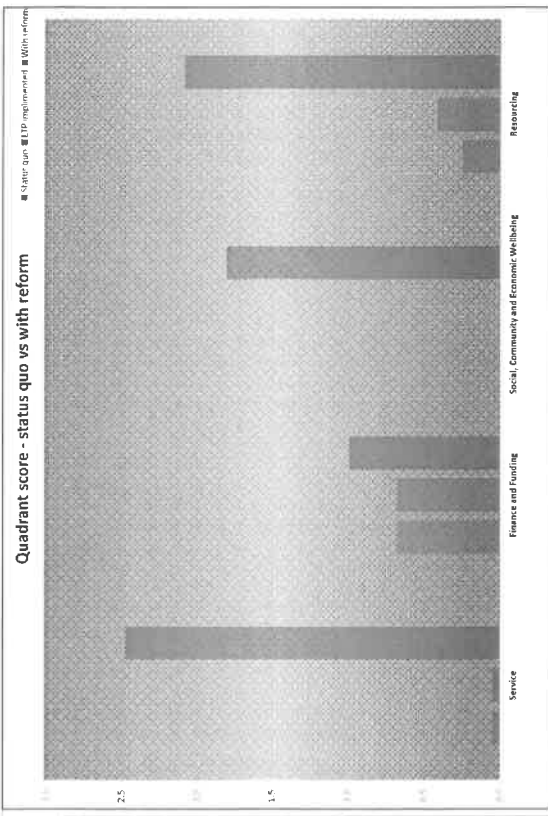
WITHOUT REFORM - STATUS QUO		WITHOUT REFORM - IN 10 YRS		WITH REFORM	
Service	Finance	Service	Finance	Service	Finance
0.0	0.0	0.0	0.0	2.0	1.0
Resourcing	Community	Resourcing	Community	Resourcing	Community
0.0	0.0	0.0	0.0	2.0	2.0

Service	0.05
Finance	0.68
Community	-
Resourcing	0.25

Service	0.05
Finance	0.68
Community	-
Resourcing	0.42

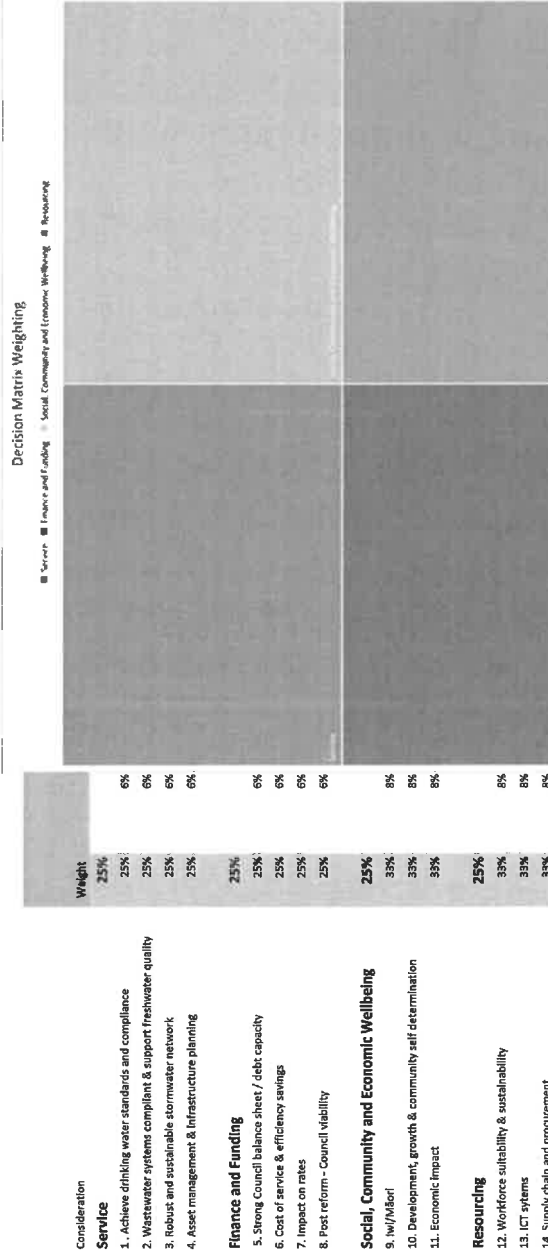
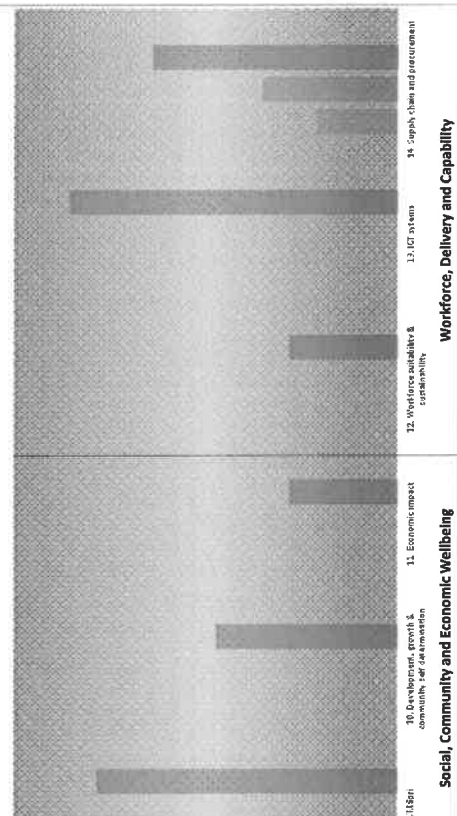
Service	2.47
Finance	0.99
Community	1.81
Resourcing	2.08

SUMMARY SCORING KEY			
Score Range	Colour	Quality	Risk
2.5-3	Dark green	Significant opportunity	Significant opportunity
1.76-2.5	Light green	Opportunity	Opportunity
1.26-1.75	Yellow	Neutral	Neutral
0.76-1.25	Orange	Threat	Threat
0-0.75	Red	Significant threat	Significant threat
*refer 'Considerations and Criteria for Council Impact Assessment' for detailed assessment criteria			



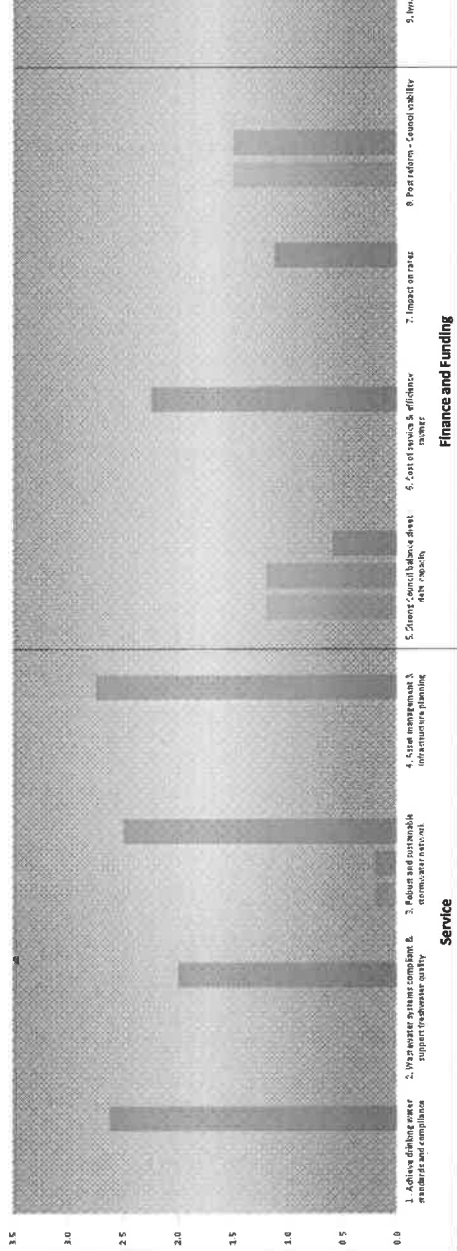
Scenario	Status quo	LTP Implemented (2031)	With reform
Scenario Score (%)	9	10	61
Quadrant Weighted Score (%)	9	10	61

Considerations score - status quo vs with reform



Scenario	Status quo	LTP Implemented (2031)	With reform
Scenario Score (%)	9	10	61
Quadrant Weighted Score (%)	9	10	61

Considerations score - status quo vs with reform



Consideration	Ref	Criteria	Weighting	Council Assessment		Template default notes	Council assumption notes
				Status Quo / WITHOUT REFORM	With 10yr LTP implemented WITHOUT REFORM		
1. Achieve drinking water standards and compliance	1(a)	2020 Drinking Water Standard compliance	0.25			Expect a strong push for full compliance as a priority	
	1(b)	2024 Intended DWS compliance - per Infrastructure Strategy	0.25		1.5	NA as this relates to the subject councils intent	
	1(c)	Water safety plans	0.25			Expect these will be a priority and can be feasible completed in timeframe	
	1(d)	Risk relating to non-council water supplies	0.25			Expect WSE to have registered all private supplies due to regulator involvement	
	2(a)	System performance - consent compliance DIA mandatory measures	0.20			2 Likely that there will remain some minor exceedances but within timeframe more significant issues	
2. Wastewater systems compliant & support freshwater quality	2(b)	System performance - dry & wet weather overflows	0.20				
	2(c)	Discharges to inland waterways	0.20				
	2(d)	Expired or expiring (in next 5 years) treatment plant consents	0.20				
	2(e)	Are costs of compliance fully recognised in IS and LTP	0.20			Expect all consents to be operative and up to date, after if consents due between 2031-2036	
	3(a)	Asset valuation completeness & confidence rating	0.20			All forward costs will be understood and provisioned for	
3. Robust and sustainable stormwater network	3(b)	Fully funding SW depreciation in 2021-31 LTP	0.20			All valuations will be up to date in accordance with best practice	
	3(c)	IS & LTP account for future climate change impacts	0.20		1	1.5 NA on Reform as question relates to LTP. SQ defaults to 10 yr.	
	3(d)	SW catchment management plans in place	0.20			3 Expect WSE to incorporate all relevant climate change policies into design and delivery	
	3(e)	Evidence of SW discharge standards to improve water quality	0.20			3 Most, if not all, catchment plans will be in place, however there will be a big lift to get this across to WSE will be required to and will have funding for the delivery of best practice stormwater quality or	
	4(a)	Asset management maturity/index score	0.25			3 Assume WSE AM design will be best practice and will draw on international experience	
4. Asset management & Infrastructure planning	4(b)	Asset metadata quality assessment score	0.25			3 Assume that over the transition period all councils will lift data quality to appropriate standard	
	4(c)	Asset information - completeness & condition rating	0.25			3 Note that it is likely that priority will be given between 2024 and 2031 to councils with poor asset in	
	4(d)	Asset management system integration	0.25			3 WSE is a greenfield ICT scenario so will be designed with full integration in mind	
	5(a)	Three waters debt-to-income ratio 2020	0.20		1.5	1.5 Criteria only relates to SQ	
	5(b)	Three waters debt-to-income ratio 2031 (per LTP)	0.20	1.5		1.5 Criteria only relates 10yr LTP	
5. Strong Council balance sheet / debt capacity	5(c)	Three water debt-to-income / Balance of Council debt-to-income	0.20	1.5		1.5 Only impacts with Reform	
	5(d)	Proportion of 3 waters debt related to Development Contributions	0.20	1.5		1.5 Only impacts with Reform	
	5(e)	Perception of additional council debt capacity	0.20	1.5		1.5 Only impacts with Reform	
	6(a)	Population served - as an indicator of efficiency potential	0.25				
	6(b)	Change in three waters operating expenditure in next 10 years - LTP forecast	0.25			1.5 Status quo defaults to 3 as entity size maximises efficiency potential	
6. Cost of service & efficiency savings	6(c)	Does 2021/31 LTP include all infrastructure invested required to respond to forecast growth	0.25			1.5 Status quo defaults to same as 10 yr as criteria based across LTP period	
	6(d)	Proportion of 3W depreciation invested in renewals	0.25			1.5 Assume new WSE will meet renewal requirements	
	7(a)	Three waters rates level compared to other councils in proposed WSE area	0.25			1.5 Relates to risk re future renewal requirements in non-reform	
	7(b)	Funding Impact Statement operating surplus compared to depm	0.25			1.5 Relates to risk re future renewal requirements in non-reform	
	7(c)	Three waters rate increase forecast over next 10 years - LTP	0.25			1.5 Status quo defaults to same as 10 yr as criteria based across LTP period. Non-reform risk.	
7. Impact on rates	7(d)	WICS forecast average cost per household - Reform vs No reform	0.25			1.5 Status quo defaults to same as 10 yr as criteria based across LTP period	
	8(a)	Proportion Council of overheads currently allocated to three waters activities	0.33	1.5		1.5 Criteria refers to impact of reform only	
	8(b)	Disconomies of scope - impact of removing three waters on Council	0.33	1.5		1.5 Criteria refers to impact of reform only	
	8(c)	Size of council - indicator of ability to absorb stranded overheads	0.33	1.5		1.5 Expectation of WSE's	
	9(a)	Extent to which Iwi co-governance is embedded in water delivery	0.25			1.5 Expectation of WSE's	
8. Post reform - Council viability	9(b)	Extent to which Iwi values and outcomes are embedded within water delivery	0.25			1.5 Expectation of WSE's	
	9(c)	Iwi/Māori access to training, employment and investment opportunities in 3 waters	0.25			1.5 Expectation of WSE's	
	9(d)	Extent to which marae and ikainga have access to clean, compliant drinking water	0.25			1.5 Expectation of WSE's	
	10(a)	Assessment of delivery status on National Policy Statement - Urban Development	0.33				
	10(b)	Representation of and Delivery in response to local community concerns	0.33				
9. Iwi/Māori	10(c)	Ability to strategically plan and invest ahead of community demand	0.33				
	11(a)	Water infrastructure investments creates local benefit from GDP & jobs	0.33				
	11(b)	DIA has assessed the relative benefits of reform on the economy (Deloitte) primarily driven by economic benefit be achieved without reform?	0.33				
	11(c)	Constraints on ability to invest in 3W impacts negatively on the local economy, jobs and GDP	0.33				
	12(a)	Direct water staff perception of local job availability - without and with reform	0.20				
10. Development, growth & community self determination	12(b)	Perception of working conditions (ability to make decisions, specialist staff, team morale)	0.20				
	12(c)	Pathways for career development	0.20				
	12(d)	Indirect staff perception of job availability	0.20				
	12(e)	Impact with and without reform on contractors and local businesses in the supply chain	0.20				
	13(a)	ICT platform is scalable to deal with the challenges and opportunities of the future	0.33				
11. Economic impact	13(b)	Level of advanced technological capabilities & integration to transform service delivery and achieve effci	0.33				
	13(c)	Does your ICT system provide a rich customer experience including access to all relevant information?	0.33				
	14(a)	World class procurement - strategic partnering, utilises a range of commercial models,	0.25				
	14(b)	dedicated specialist procurement staff.	0.25				
	14(c)	Supplier relationships - local flexibility and responsiveness	0.25				
12. Workforce suitability & sustainability	14(d)	Procurement approach to supply chain - regular engagement, strategic approach & clear pipeline of contracts	0.25				
	14(e)	Implementing broader procurement outcomes - social and environmental outcomes for local community	0.25				
	14(f)	Expected of new WSE	0.25				
	14(g)	Central govt procurement policy for WSE	0.25				
	14(h)	Raw score (0 = red 1=amber 2= yellow)	14.5	16.5	10	61	
13. ICT systems	14(i)	Adjusted score / 100	9	10	102.5		
	14(j)						
	14(k)						
	14(l)						
	14(m)						

Background & context

Key points from half hour intro session. E.g. vision for council, key matters of importance, why weightings were chosen

Organisation Design Principles for new Water Services Entity

Key questions councils have about how the new entity will be established. Examples might be how they prioritise investment, service standards, independent CCO or partner to councils etc

Transition

Key questions councils have how, when, where, who is affected by transition. Examples could be debt transfer rules, how stranded overhead compensation is calculated, whether jobs will be lost locally etc

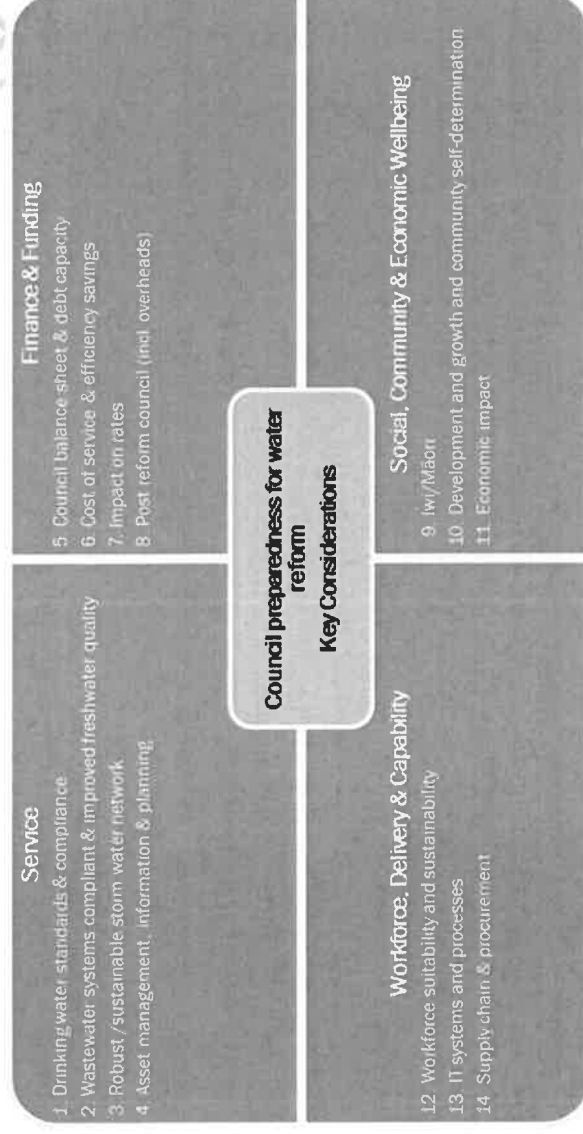
Three Waters Reform – Considerations and Criteria for Council Impact Assessment - Version 10: 13-08-21

The purpose of the 'balanced scorecard' impact assessment framework is to provide a structure through which Councils can consider a range of factors which may impact on Three Waters reform decision-making.

The assessment is divided into four quadrants, with each incorporating a range of considerations. A range of criteria have been developed to assess Councils current three waters position and risks compared to the those of the Reform proposal.

The criteria use council's current (without reform) position as a Base, with a RAG status (Red, Amber, Green) assessment to be completed for each criteria. For some data driven criteria an assessment can be made for both "current/without reform" and for the "with reform" scenario. For others where the criteria is based on the assessing a risk to Council, a RAG assessment is to be completed for "without reform", and a default assessment (e.g. "green" where reduced risk to Council is expected under reform) or a "yellow" to reflect and n/a assessment, or where the criteria is "non-binary" (i.e. it is not possible to make a comparative assessment under Reform). This will be become evident as you progress through the assessment.

The assessment worksheet and summary will allow Councils to develop a graphic representation based on relative RAG status comparing "Without Reform" and "With Reform". Weighting of various criteria can be considered on a council-by-council basis, but should not be necessary to provide a general comparative assessment.



1. Drinking Water Standards & compliance																
Rationale	The Drinking Water Standards for New Zealand (DWSNZ) set and provide the compliance criteria to be met by all public water supplies (including for small community schemes and private suppliers). Compliance with the DWSNZ requires appropriately built and installed infrastructure (capex) and operational (opex) activities with management oversight and compliance reporting and review, including appropriately qualified and competent operators. Achievement per supply with the DWSNZ, demonstrates a responsible attitude by the Supplier to public health, along with significantly reduced risk for consumers.															
Reform assumptions	<ul style="list-style-type: none"> It is presumed where a Council has achieved DWSNZ compliance for a particular supply then they will continue to maintain that compliance. This makes no allowance for the changing nature of the Standards. It is assumed that some (if not all) private supplies/schemes will default to local councils once the supplier(s) recognise the burden of future compliance. A 2018 national report by Beca identified the national cost to upgrade all known and registered water supplies for DWSNZ compliance, which can be used to estimate upgrade costs per scheme on a population (per person supplied) basis 															
Criteria:	RAG Classification															
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1(a) 2020 Level of compliance with DWSNZ (per 2019/20 published results) for council operated supplies																
1(b) Intended level of compliance with DWSNZ (per Infrastructure Strategy)																
1(c) Water Safety Plans (WSP) are a required feature per scheme for DWSNZ compliance (and a means of identifying and managing operational risk)																
1(d) Compliance risk of future liability for non-council supplies (as at 2020)																
Other considerations:																
	<ul style="list-style-type: none"> Taumata Arowai is set to become the regulator for Drinking Water in NZ from late 2021. Marae water supplies are in many cases to be identified and prioritised for upgrade and compliance – the Crown has allocated a \$30M capex fund for a pilot Growth impacts to be separately considered 															

INDICATIVE ONLY

2. Wastewater systems compliance, and improved freshwater quality	<p>Upgrading wastewater treatment plants (wwtp) & discharges to meet current and future standards is a major investment challenge. Major components of this challenge are that the Resource Management Act (RMA) reforms and subsequent consenting regimes, the implementation of the National Policy Statement for Freshwater Management (NPS-FM) by Regional and District Councils, and the elevation of Te Mana O Te Wai. This creates uncertainty around acceptable future discharge characteristics, from which appropriate treatment processes, and the necessary capex investment and operating practices, may be determined. To mitigate this uncertainty, responsible water entities will anticipate these challenges at a pan region level, then work with their communities, stakeholders, industry and service providers to appropriately consent their wastewater discharges. They will also look for shared opportunities. <u>Note:</u> The NPS-FM applies to freshwater bodies, i.e. all inland rivers, lakes and waterways.</p> <ul style="list-style-type: none"> Regional Councils to have National Policy Statement (NPS-FM) provisions in place by 2025 – to inform future consent discharge limits – this will apply to all discharges to inland waterways. Marine (Sea) discharges by ocean outfall are likely to come under greater scrutiny/more stringent limits and conditions on discharges Resource Management (RM) consenting regime set to change within next few years – expected to result in more stringent environmental conditions All of the above is expected to add input costs over and above the current settings Opportunities and optioneering for combined plants and discharges pan-region are unlikely to have been explored or costed in any detail 		
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Assumptions	<ul style="list-style-type: none"> Regional Councils to have National Policy Statement (NPS-FM) provisions in place by 2025 – to inform future consent discharge limits – this will apply to all discharges to inland waterways. Marine (Sea) discharges by ocean outfall are likely to come under greater scrutiny/more stringent limits and conditions on discharges Resource Management (RM) consenting regime set to change within next few years – expected to result in more stringent environmental conditions All of the above is expected to add input costs over and above the current settings Opportunities and optioneering for combined plants and discharges pan-region are unlikely to have been explored or costed in any detail 		
Criteria	RAG Classification		
	Green	Amber	Red
2(a) System performance – consent compliance (per DIA Mandatory measures reporting) - for most recent reporting year – across all council schemes	No non-compliant discharges, consent condition breaches resulting in environmental condition exceedances, abatement notices, prosecution	Some minor non-compliance in discharges; no consent condition breaches resulting in environmental condition exceedances, abatement notices, prosecution	Non-compliant discharges, and/or consent condition breaches resulting in environmental condition exceedances, abatement notices, prosecution
2(b) System performance – whole network - no of overflows reported (past year, dry weather and wet-weather overflows)	No reported dry weather overflows, wet weather overflows within stated target	Few dry weather overflows, future targets for wet weather overflows in place	Dry weather overflows, and wet weather overflows exceedances
2(c) Freshwater management – future discharge conditions affected by NPS-FM. Do you have wwtp discharges to inland waterways as receiving waters as this presents a significant future risk?	All wwtp discharge to sea and/or to land based discharge	Some discharge to inland waterways	All wwtp discharge to inland waterways
2(d) Consent expiry - Are your wastewater treatment plants operating on expired consents? Will any consents expire within the next 5 years?	All with current consents and expiry date >5 yrs away	All with current consents but with expiry date for some or all <5 yrs away	Some or all operating on expired consents
2(e) Are the financial implications fully recognised in your long-term plan? Per options included in Infrastructure Strategy (IS)	Costs (capex and opex) all fully estimated and provisioned in 2021-31 LTP per preferred option in IS	Capex estimates included in LTP; opex allowance included	Some capex included; opex not allowed for (unknown). Options yet to be fully explored and estimated

Other considerations

- In future Taumata Arowai expected to also have a role in oversight of wastewater system performance and compliance (over and above the existing regional council role). To this end Taumata Arowai have indicated that they will seek to institute some form of national performance standard pertaining to wastewater infrastructure for expectations on discharge quality
- Growth impacts to be separately considered

INDICATIVE ONLY

<p>3. Robust, sustainable stormwater network</p> <p>Rationale</p> <p>Stormwater is emerging as a significant future investment challenge, driven primarily by growth and environmental quality improvement requirements. Are you confident you have sufficient investment in your long-term plan and are fully funding costs, including depreciation? The reform generates stormwater benefits that reduce statutory and regulatory complexity, address funding constraints, increase existing and future capacity and capability, enable urban growth, improve water quality, and respond to climate change. There is a growing trend towards stormwater quality management. The number of service providers with stormwater quality management plans has increased by 43% in the last three years (Water NZ NPR)</p>	<p style="text-align: center;">RAG Classification</p>		
<p>Criteria</p>	<p style="text-align: center;">Green</p>	<p style="text-align: center;">Amber</p>	<p style="text-align: center;">Red</p>
<p>3(a) Stormwater asset valuation using Optimised Replacement Cost (ORC) where soft assets are defined as land attenuation, swales, ponds, wetlands etc</p>	<p>Revalued with ORC including all hard and soft assets and/or Confidence rating in completeness and accuracy of asset data at A (high confidence)</p>	<p>ORC does not include soft assets and/or Confidence rating in completeness and accuracy of asset data at B or C (medium confidence)</p>	<p>ORC does not include all hard assets and no soft assets and/or Confidence rating in completeness and accuracy of asset data at D (low confidence)</p>
<p>3(b) Economic depreciation and renewals funding (per 10-year period of LTP 2021-31)</p>	<p>Long run renewals funded budget matches accrued depreciation for stormwater</p>	<p>Long run renewals funded budget <100%>50% accrued depreciation for stormwater</p>	<p>Long run renewals funded budget <50% accrued depreciation for stormwater</p>
<p>3(c) Climate change impacts on Levels of Service (LoS)</p>	<p>Current and future LoS determined taking into account changed rainfall patterns, and sea level rise impacts quantified</p>	<p>Future LoS unchanged from current LoS (which do incorporate some impacts of climate change)</p>	<p>Current LoS don't take into account climate change impacts</p>
<p>3(d) Service providers with stormwater quality and catchment management plans</p>	<p>Catchment management plans in place, implemented with active stormwater quality monitoring</p>	<p>Most or some catchment management plans in place, and some or no quality monitoring</p>	<p>No catchment management plans in place, and no quality monitoring</p>
<p>3(e) Discharge water quality – means to manage and improve discharge quality e.g. incorporation of Sensitive Urban Design (SUD) and Low Impact Design (LID) standards in design and operation of networks</p>	<p>Have discharge standards and practices to remove contaminants (may be tailored to sensitivity of receiving catchment)</p>	<p>Some discharge standards and practices to remove contaminants, but not applied across whole network</p>	<p>No discharge standards and practices to remove contaminants</p>
<p>Other considerations</p>			
<ul style="list-style-type: none"> • Yet to incorporate Iwi and Hapu views, and community and Regional Councils aspirations as to the quality of local water bodies (per the NPS-FM framework) • Growth impacts to be separately considered 			

<p>4. Asset Management and Infrastructure Planning</p>	<p>Things might look alright now but what are the implications for the future? Some councils have invested heavily recently in upgrading 3 waters assets, where for others this will be required in the next 10-30 years. Where are your assets in their lifecycle? The expected increased level of service will require a step change in standardised and enhanced asset information and operating systems. Are you confident that your Council with its current systems could deliver this?</p>		
<p>Rationale</p>			
<p>Criteria</p>	<p style="text-align: center;">RAG Classification</p>		
	<p>Green</p>	<p>Amber</p>	<p>Red</p>
<p>4(a) Asset Management Maturity index (for organisation) (per International Infrastructure Management Manual [IIMM])</p>	<p>D or E average rating across all facets (Intermediate to Advanced) Assessment score >80%</p>	<p>C average rating across all facets (Core) Assessment score <80%>50%</p>	<p>A – B average or some facets rated A or B (Aware - Basic) Assessment <50% or not undertaken</p>
<p>4(b) Asset meta-data quality (based on relevant assessment tool, i.e. BIP & RATA etc)</p>	<p>>50% (by length) of all pipe networks and >50% of above ground assets condition rated</p>	<p><50% >20% of all pipe networks and <50% of above ground assets condition rated</p>	<p><20% of all pipe networks and/or none of above ground assets condition rated</p>
<p>4(c) Knowledge about assets – completeness and condition rating. Quantum of 3 waters assets that have been condition-rated (and may be triaged based on criticality)</p>	<p>AMS are integrated with corporate finance, billing, CRM and GIS systems in real time or regularly automated</p>	<p>AMS partly integrated with other enterprise systems e.g. occasional data transfer for alignment</p>	<p>AMS is stand-alone i.e. no integration with other enterprise systems and/or transfer of data is manual</p>
<p>4(d) Systems – integration. Asset Management Systems (AMS) are central to enterprise planning and operational management This may include analytical operational and planning tools such as hydraulic models – working in real time, and sensors inputs from smart meters</p>			
<p>Other considerations</p>	<ul style="list-style-type: none"> • There are many factors essential to good practice Asset Management, as covered in the IIMM, which should be treated as a primary reference for NZ context • Good practice, which has transformed utilities elsewhere, includes integration of such tools as working hydraulic models, overlaid with asset criticality, SCADA and Programmable Logic Control (PLCs) etc. for full analytical capability and future progression to artificial (programmed) intelligence in automating operational decision-making. 		

<p>5. Council balance sheets and debt capacity</p>	<p>Rationale</p> <p>Debt is prudent way for Councils to finance asset investment. This especially true of 3 Waters assets because they have very long lives over several generations. Users of asset then fund the asset through mechanisms such as development contributions where the investment is for growth; or by rates where the investment is to upgrade existing assets or service – with users paying as they receive the benefit of the investment over generations. But many Councils are reaching their maximum debt capacity. This has or will in future, put significant limitations on the ability for Councils to borrow to fund the required improvement in service levels in 3 waters activities and/or the investment required to respond to growth. In many cases the levels of borrowing attributable to 3 waters (reflected through a debt-to-income ratio) is significantly higher than that for the balance of Council activities. Separating the assets and debt relating to 3 waters activities (balance sheet separation) and consolidating this into a combined water entity with increased borrowing capacity than that afforded to Councils will increase the capacity for 3 waters investment, and lower the debt-to-income ratio of the residual Council entities, enabling greater borrowing capacity for other Council activities.</p> <p>Reform Assumptions</p> <ul style="list-style-type: none"> • The ability to incur debt is a critical enabler to the environmental and social outcomes desired through 3 waters reform • The new 3 waters entities will acquire the 3 waters assets of each Council (excluding land?) and assume responsibility for these assets and service levels (some specific exceptions re Storm-water assets) • The outstanding balance of external debt incurred by Councils investing in improvement to 3 waters infrastructure will transfer to the new Water Entity. Outstanding debt balances arising from asset investment, for which repayment provisions are incorporated in a Council Development Contributions Policy will also transfer. • While, not yet confirmed it is assumed that where a Council has zero 3 waters debt, any cash/investment reserves held by Councils will either not transfer to the new WSE, or alternatively if transferred an equivalent reimbursement be made to the Council. • The level of council debt that is transferred to the new WSE, will, when combined with future investment requirements must be sustainable i.e. will enable the entity to meet both its credit and economic regulation obligations. 																																			
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- Some Councils have low debt levels. This may relate to the lower level of investment made in recent years. Councils should consider not only their current position but what debt requirements may be over the next 30 years. Councils with lower debt levels, may be likely to incur significant costs to upgrade 3 waters infrastructure in the future. With asset and balance separation this investment and borrowing that goes with it would become the responsibility of the new entity.
- Decision makers will need to ensure that under the new entity structure, there is a mechanism that ensures that investment prioritisation is given to meeting compliance with service level standards and that the relative needs of a smaller geographical areas are prioritised equally with larger ones.
- The Councils with highest debt are generally Councils that have experienced the highest population growth in recent years. This debt reflects a portion of the investment needed to meet the necessary infrastructure requirement.
- To ensure a continuation of investment Government could consider setting the level of 'Base' borrowing to be transferred as at 1 July 2022 and then require Councils to gain approval from the 'Interim Entity' for subsequent 3 waters capex projects to be funded by debt, up until formal debt transfer on 30 June 2024.
- Three waters balance sheet separation will increase investment capacity for the remaining activities of Councils. While generally viewed as a positive some may consider that the effective resetting of Council debt caps will encumber Council and their ratepayers. Is there a risk it may also shift investment from longer life (i.e., 3 waters infrastructure) towards shorter life assets with higher depreciation rates and proportionally higher funding requirements.

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6. Cost of service & efficiency savings	<p>The current cost of service varies significantly between councils, both regionally and nationally. This is caused by a range of factors including variable level of service, concentration of population & scale and physical /environmental factors. Increases in service levels requirements resulting in increased capital investment and operating costs are expected to place significant upward and potentially unsustainable upward pressure on 3 waters costs unless significant efficiencies can be achieved.</p> <p>For many Councils obtaining cost efficiency is limited by scale and having a small, generalist workforce. For capital projects pricing efficiency can also be limited by the one-off nature of projects and the lack of a delivery pipeline for contractors. For some Councils efficiency limitations extend to being able to access the right labour resources at the right time to meet work demands.</p> <p>Reform Assumptions</p> <ul style="list-style-type: none"> Evidence from UK and Scotland (see WICS reports) indicates significant efficiencies can be achieved through agglomeration of water service provision into larger entities. WICS suggest that efficiency potential can only be maximised within water service organisations serving in excess of 800,000 people. WICS identify a range of other factors that enable efficiencies to be achieved, including 'clarity of policy priority', 'robust water quality and environmental regulation' and 'excellence in management'. It is assumed these are all achieved under the reform scenario. WICS modelling assumes costs are scaled up to account for existing service level gaps and then discounted by an efficiency factor, with greater comparative efficiencies assumed achievable in a consolidated entity for those Councils currently serving smaller populations. While there is no certainty that 40% - 50% efficiencies are achievable in the New Zealand context, it is realistic to expect significant gains by taking advantage of economies of scale and shared expertise, improving procurement co-ordination & pipeline, standardising operating environments, and utilising technology advancement. 		
Criteria	RAG Classification		
6(a) WICS modelling assumes significantly greater opportunity for efficiency savings with scale. What population will be served with and without reform.	Green	Amber	Red
6(b) Many Councils will find it difficult to manage future cost pressures. WICS modelling forecasts that reform will create efficiencies that significantly reduce the impact of increasing costs. What change in forecast operating costs per household (incl. Depreciation & in real terms) is expected over the next 10 years based on your 2021-2031 LTP.	Greater than 800,000	60,000 – 800,000	Less than 60,000
6(c) Responding to the infrastructure requirements to support /population & housing growth has been a significant challenge for some Councils. Do your 2021-2031 LTP forecasts fully cover your growth expectations for your city/district.	Less than 50% increase in costs per household (i.e., less than 5% average year on year increase)	50%-100 %increase in costs per household (i.e., between 5% and 9% average year on year increase)	Greater than 100% increase in cost per household (i.e., greater than 9% year of year average increase)
6(d) Councils with low current renewal requirements may face a bow-wave of expenditure in future. What proportion of depreciation expense is forecast to be invested in asset renewal	Fully cover growth related capex expectations.	Not sure or within 10% -20%	Likely significantly short of fully meeting forecast growth requirements.
Other considerations	More than 100% invested in renewals	50% to 100% invested in renewals	Less than 50% invested in renewals

7. Impact on rates / charges for 3 Waters	
Rationale	<p>There are some significant differences between Councils both regionally and nationally in”</p> <ul style="list-style-type: none"> - the level of rates currently levied to pay for 3 waters services - the degree to which costs are targeted to those that benefit specifically (targeted rates, water metered etc) - how rates balances & reserves are recorded and managed <p>We can also not presume that because three waters rates are currently low relative to other Councils, that they will be so in future. Current rates levels can be heavily influenced by service levels and the degree to which the cost of these waters services is fully funded.</p>
Reform assumptions	<ul style="list-style-type: none"> • It is assumed that water charges will be harmonised across a 'Water Services Entity' (WSE) region over a period of 5 – 10 years from 1 July 2024. • It is assumed a mechanism will be identified and implemented to address differences in funding contributions (i.e. for capital investment) made between ratepayers within a particular targeted rating scheme. • The new entities will temporarily use debt to manage transition costs (i.e. to fund some operating costs until efficiencies are realised), but that after 5 years receivers of 3 waters services will be fully funding the cost of service, including economic depreciation.
Criteria	RAG Classification
	<p>Green</p> <p>About the same or lower so there is likely to be a perception that ratepayers are paying less than others in the region.</p> <p>Equal to or greater than 3 waters annual depreciation, indicating there is little or no funding gap to be addressed by reform.</p> <p>Increasing by less than 50%, so not a lot of benefit will be achieved through rates harmonisation, based on LTP forecasts</p>
	<p>Amber</p> <p>Slightly higher so there may be a perception that ratepayers are paying more than others in the region.</p> <p>80% to 100% of three waters annual depreciation, indicating there some funding gap that will need to be addressed.</p> <p>Increasing between 50% and 150% so medium benefit achieved by harmonisation.</p>
	<p>Red</p> <p>Significantly higher (>20% higher than average) so there may be a perception that ratepayers are paying much more than others in the region.</p> <p>Less than 80% of three waters annual depreciation, indicating a potentially significant funding gap to be addressed.</p> <p>Increasing by more than 150% so significant benefit to gained through reform efficiency and rates harmonisation.</p>
<p>7(a) Compared to other Councils in the proposed Water Services Entity area current average water rates for your council are:</p> <p>7(b) Some Councils do not currently fully fund the cost of 3 waters services (e.g. depreciation). It is expected that under the economic regulator will require WSE's will address this issue. Funding Impact Statements (FIS), provide an indication of the level of under-funding to be addressed. The combined 'surplus/deficit' of operating funding for 3 waters activities is:</p> <p>7(c) As reform aims to secure water services for the next 30 years and beyond, future rating impacts are an important consideration. Under reform these impacts will be reduced by both</p>	

<p>efficiency and rates harmonisation across the region, Council LTP forecasts show rate increasing over the next 10 years: (note: include the impact of fully funding depreciation)</p>			
<p>7(d) The analysis completed by WICS & incorporated in the DIA dashboard shows an estimated relative 30-year (i.e. 2051 forecast) cost per household for 3 waters services under the status quo vs a reform scenario. What does this indicate for your Council?</p>	<p>Council costs without reform are forecast to be lower than cost with reform</p>	<p>Council costs without reform are forecast to be 0-100% higher than cost with reform</p>	<p>Council costs without reform are forecast to be >100% higher than cost with reform</p>
<p>Other considerations:</p>			
<ul style="list-style-type: none"> ● Note that the quality of information in criteria (b) will be limited by the accuracy of asset value data i.e. if assets are undervalued, depreciation will be under-estimated and the under-lying funding gap may be greater than indicated. ● The application of rating differentials varies considerably between Councils. Some Councils have higher relative rates requirements on their business sector. It is important that the impact on businesses from reform and rates harmonisation is also considered. ● The WICS modelling assumes 70% of funding will come from households. More work is required to assess the accuracy and impact of this assumption in each proposed water service entity area. 			

8. Post reform council viability (including overheads)													
Rationale:	A key consideration for Councils is the impact of three waters reform and the separation of debt, asset, and service operations on the remaining Council during transition and post reform. Three waters activities make up between a quarter and third council costs, so most Councils allocate a significant proportion of their corporate overhead costs to three waters activities. Unless these costs can be removed, they risk becoming 'stranded' costs that ratepayers will still need to fund.												
Reform assumptions:	<ul style="list-style-type: none"> The report prepared for the government by WICS does not make specific provision for stranded overheads, preferring to assume that these costs will be managed out by Councils through resizing their organisations. Overhead costs that risk become stranded in post reform Councils include salaries & wages in Finance, HR, contracted services & asset ownership costs such as in IT, some of which will still be needed to service the balance of the organisation post-reform. Some costs such as building space may be to be managed out over time, but this will be subject to lease commitments. It is reasonable to expect that Councils receive financial support from central government to cover a period of transition over which the organisation can be re-sized to manage stranded overheads. No consideration has yet been made of the Local Government Review considering the broader future form and function of local government. While it is possible that Local Government may acquire more functions as a result of this review, it is not possible to assess the degree to which stranded overheads may be reallocated to support new Council functions. 												
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8(a) The level of overheads currently allocated to three waters activities divided by non- 3 waters operating income provides an indication of the maximum potential for stranded overhead													
8(b) There is a risk that removing three waters creates diseconomies of scope for your council. Equally the pending local government review and RMA reform may see other changes to local government functions which could offset the separation of three waters.													
8(c) The proportion of council spend on three waters and the overall size of your council are potential indicators of likely ability to be able to reallocate or absorb stranded overheads. Will your Council have the critical mass to manage through reform?													
Other considerations:													
A number of other factors impacting on the Council entities that will remain post-reform a covered under other consideration areas. These include:													
<ul style="list-style-type: none"> Debt capacity – covered under Balance Sheet & Debt capacity consideration Staff factors are covered under Workforce suitability & sustainability considerations 													

9. Iwi/Māori																
Rationale	The Government has stated that a key outcome of water reform will be co-governance with iwi/Māori, as required by the Treaty of Waitangi. Implementing Te Mana o Te Wai, the national freshwater framework which incorporates tikanga Māori values, is also expected to be a key outcome of system reform. The Waikato and Bay of Plenty regions have an estimated 47 iwi and population of almost 200,000 Māori, being 25% of the region's population. Critical success factors for Māori include partners in decision making, developing management & governance capability, protection of rights & obligations, addressing inequality, protecting traditional boundaries and water catchment areas and structural longevity.															
Reform Assumptions	<ul style="list-style-type: none"> • Iwi/ Māori timeframes are intergenerational which will bring longer term sustainability thinking to the fore • Iwi/ Māori rights and interests are matters which central government will need to manage, not local government • This process is not meant to 'put a price on water', however equity and allocation decisions are likely to raise economic value considerations • Social procurement will be a feature of a new water entity, with consequent opportunities for iwi/ Māori 															
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9(a) Extent to which iwi co-governance is embedded in water delivery																
9(b) Extent to which te ao Māori values, key outcomes, and close working relationships (as opposed to governance) are embedded within water delivery																
9(c) Iwi/ Māori access to training, employment and investment opportunities related to the water																
9(d) Extent to which marae and papakainga have access to clean, compliant drinking water (wastewater hasn't been chosen – harder to measure)																
Other considerations	<ul style="list-style-type: none"> • Governance representation mechanisms will need to bridge between '1 iwi, 1 vote' across 47 iwi and the traditional Institute of Directors approach where somewhere between 6-8 directors is considered best practise 															
	# New Government social procurement guidance rules for iwi (if this measure is unable to be calculated at present across all categories, assume 'Red')															

10. Development, growth & community self-determination													
Rationale	Councillors are responsible under the Local Government Act for delivering the wellbeing outcomes that matter most to their ratepayers. Councils (currently) and any future water service entity have to meet the requirements of the National Policy Statement on Urban Development, monitored through the <u>Urban Development Dashboard</u> . Water services touch the lives of all residents, and are a critical enabler of urban form, housing and business growth, jobs, environmental outcomes and many others. The proposed reform will remove the ability of councillors to directly control this element of wellbeing, raising concerns that the new larger entity will fail to appreciate, ignore or not deliver on local needs in the same manner as existing councils can. There are two criteria in this scenario 'reacting to' development and growth (arguably this is the state in many higher growth TLA's where there is an infrastructure deficit) and 'strategic planning' – a state where a TLA or new water body is able to plan and invest ahead of growth, reducing supply side constraints.												
Reform assumptions	<ul style="list-style-type: none"> The cumulative effect of reform of the Resource Management Act, the Zero Carbon Act, DHB reform, and the Future of Local Government review will all impact on an individual council's ability to shape and respond to development & growth. Uncertainty due to the reforms listed above will also impact on Council's decision making around water reform Water infrastructure is not the sole driver of development & growth, but it is a critical enabler, and without it house prices generally increase faster than the rate of inflation and business growth is constrained below its full potential Any new water entity will have more powers and funding tools to help in meeting NPS-UD requirements 												
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<p>10(a) For Tier 1 & Tier 2 councils, use the Housing & Business Development Capacity Assessment recently provided to Ministry for Environment on compliance with NPS-UD.</p> <p>For other councils, qualitative assessment of development capacity & capability for housing & business land.</p> <p>10(b) Representation and timely delivery of local community concerns in regard to three waters decision making</p> <p>10(c) Extent to which a council or water entity can strategically plan and invest in water infrastructure ahead of demand (giving effect to council spatial plans), thus lowering costs and improving certainty for households and businesses</p> <p>Other considerations</p>													

- Councillors and ratepayers will need to weigh up any loss of community representation and prospects of speedy delivery with the prospects of unlocking new investment from reform and the mechanisms proposed to ensure that focus on local issues, investment and outcomes is not lost in a larger scale entity
- Water investment is critical for unlocking infrastructure-serviced and, however water investment alone may not unlock land. Transport is the other primary investment consideration, with secondary focus on social infrastructure, telco and electricity investments.
- For some councils the level of growth included in the LTP may not be sufficient to meet the unconstrained needs of ratepayers

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11. Economic impact			
Rationale	Water is an input into every business and household, driving widely distributed economic impact. The Government, regional and local economies including ratepayers all benefit from both additional investment itself s and as a basis for improving standards of living. A core driver of reform is to obtain productivity gains (up to 45% drop in operating costs) which drive a substantial increase in ability to fund capex, which will drive additional GDP. Beyond the boost to GDP from additional investment, businesses and households should benefit from increased certainty of high-quality water supply and water investment ahead of demand.		
Reform assumptions	<ul style="list-style-type: none"> Provincial and rural councils will enjoy the highest economic impact relative to existing GDP, while metros will have the smallest relative gains nationally (but highest absolute gains). W/BoP is modelled as a metro by Deloitte Deloitte models WAIBOP mid-point additional capex of \$15.4bn, GDP of +4.4%, 839 jobs, Removing or substantially mitigating constrained funding for water investment should have second order benefits (reduced cost/uncertainty) for businesses and households Organisational design of the new entity and a detailed transition plan will be required so councils can understand the distribution, timing and local impact of regional economic impacts 		
Criteria:	RAG Classification		
	Green	Amber	Red
11(a) Waters infrastructure investment creates local benefits (GDP & direct jobs) from initial capex and opex, and second order multiplier effects from local indirect jobs, supply chain, local businesses and productivity effects.	<p>Status quo: Impacts are known and controllable by council</p> <p>Reform: Regional benefits of reform (see assumptions) are known, allocation to local level is known, and allocation improves local economic impacts</p>	<p>Status quo: Impacts are controllable by council</p> <p>Reform: Regional benefits of reform (see assumptions) are known, allocation to local level is unknown</p>	<p>Status quo: N/A</p> <p>Reform: Regional benefits of reform (see assumptions) are known, allocation to local level is known, and allocation reduces local economic impacts</p>
11(b) DIA has assessed the relative benefits of reform on the economy (Deloitte) primarily driven by increased investment in 3 waters infrastructure. Can this level of investment and resulting economic benefit be achieved without reform?	Yes	Doubtful	No
11(c) Constraints on the ability to invest in three waters infrastructure impacts negatively on the local economy, jobs and GDP	Very little	Some	A lot
Other considerations:			

- Increased GDP does not necessarily translate into more money directly available for local investment (e.g. water rates are not linked to GDP, they are a cost-recovery for local government today). Taxes on economic outputs will flow primarily to central government, but local areas will benefit through additional jobs and potentially investment
- There data available from central government focusses on households, but perhaps 30% of revenue is from businesses. There is little information on business rates, trade waste customers and impacts on these businesses of reform and rates standardisation
- 30% of NZers are small business owners, hence the economic impact on businesses may need further detail

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12. Workforce suitability and sustainability	
Rationale	The 3 Waters workforce in WBOP has an average age of approximately 50, and a lot of critical information is held with older employees holding critical roles such as procurement and asset management. Staff are stretched delivering business as usual, so the potential stress of organisational change, maintaining business as usual standards and also delivering the new projects that additional capex will enable could be a 'perfect storm' for retaining key talent. Direct water employees may enjoy new and increased opportunities. However indirect / support staff may feel threatened by the change. Councils and any new water entities will need to have strong change management and innovation approaches to solving for the employee satisfaction, attraction, retention and training of staff for new ways of working, and potentially a new culture. In some areas, contractors are a critical extension to direct council staff, and are a key consideration
Reform Assumptions	<ul style="list-style-type: none"> Existing staff terms and conditions will be protected Care will be taken to avoid triggering redundancy during the transition process The new entities will have more specialist workforce structure and defined career pathways providing staff with many opportunities for promotion and career advancement There will need to be a re-sizing of support services which will mean job reductions
Criteria	RAG Classification
	Green
12(a) Direct water staff – perception of local job availability	More roles and opportunities
12(b) Direct water staff – perception of working conditions (ability to make decisions, specialist staff, team morale)	Improved
12(c) Well designed pathways for career development and training including graduate and apprenticeship programmes that are integrated with the sector supply chain	Opportunities are clear and integrated within business. Active participation with supply chain.
12(d) Indirect staff – perception of job availability	More roles and opportunities
12(e) Impact on contractors, consultants and local businesses in the supply chain	More contract value and employment for local businesses
	Amber
	Red
	Same roles and opportunities
	Same
	Limited career opportunities to progress and obtain a range of experience.
	Less roles and opportunities
	Reduced
	Little to no career development opportunities.
	Less roles and opportunities
	Less contract value and employment for local businesses
Other considerations	
	<ul style="list-style-type: none"> The timeframe for any transition and therefore impact on jobs is critical to give clarity to employees Technology and systems may be a critical way to mitigate knowledge loss, automate certain functions and improve employee experience Procurement (including social procurement policies) and partnering will be key to accessing long term capability outside the water entity – multi-year contracts may be required Leadership and cultural transformation programmes will be critical to unlock efficiencies and employee satisfaction. This includes diversity and inclusion that will drive more diverse workforce including leadership.

13. Information & Communications Technology (ICT) Systems

Rationale:	Internationally the ICT maturity levels for high performing water entities are much further advanced than in New Zealand. Even New Zealand's most advanced water utility operators are only beginning to develop the capabilities seen in the more advanced water operators. Technologies such as machine learning, data science, digital twins, data lakes and IOT deployment play a critical role in the future water entity capability. To achieve the step change efficiencies that are anticipated by reform these capabilities need to be developed and matured. A matured ICT system will enable optimised and prioritised decision making and create an immersive and holistic user experience. Cyber security threats are understood and the associated risks well managed.		
Reform assumptions:	The ICT capabilities post reform will be fully integrated from a data and asset management perspective enabling informed decision making and visibility for consumers. The scale associated with the new water entity will mean specialist capabilities can be secured to deliver the advanced system requirements.		
Criteria:	RAG Classification		
13(a) Do you have a modern underlying ICT platform that is scalable to deal with the challenges and opportunities of the future?	Green Has an advanced ICT roadmap that identifies optimal customer value, ensures reliable system operation and prioritises investment opportunity? Stage 1 maturity assessment rating 26-40	Amber An ICT platform that is suitable for the scale of operation but is not scalable and basic ICT road map developed. Stage 1 maturity assessment rating 16-25	Red No roadmap and disjointed systems. Stage 1 maturity assessment rating 8-15
13(b) Do you have advanced technological capabilities to transform service delivery and achieve the efficiency savings?	Fully integrated in terms of data and asset management. Decision making is optimised and efficiency gains are being realised. Includes access to all relevant information needed through interactive and up to date dashboard type interfaces. Human centred design is at the core of the experience.	Has less than ideal integration but sufficient to carry out core requirements. The ICT platform lacks intelligence in decision making. A marginally improved experience but with limitations that create contention for the customer	Little to no system integration. The tools and technology required to make informed and optimised decisions are not in place. diminish in the short to medium term as the customer currently has a high level of service.
13(c) Does your ICT system provide a rich customer experience including access to all relevant information?			
Other considerations:	ICT transition can take many years to fully integrate. The important considerations will be alignment & commonality during transition (to obtain efficiencies), the future state, and the roadmap time frames. International good practice has a clear separation ('demilitarised zone') between IT and OT to manage cyber security threats.		

14. Supply Chain and Procurement	
Rationale:	<p>A strong supply chain is critical to mitigate the risk of inflation and to support a thriving economy. Further, local businesses are at the heart of many smaller rural economies and maintaining/ enhancing these through this significant supply chain transformation will be crucial in creating a sustainable economy long term.</p> <p>It is also important that the benefits of scale procurement can be achieved. To do this there is a need to leverage best practice, engage and inform the supply chain, and facilitate the upscaling of contracts where efficiency gains are able to be realised (i.e. O&M contracts, large scale CAPEX programmes etc). In addition to scale there is a need to support social procurement outcomes. This is achieved through implementing a Broader Outcomes framework and ensuring the opportunities are integrated to procurement and the market place is informed.</p> <p>Broader Outcomes framework will be a foundation to the procurement strategy meaning that there will be a balance between efficiency buying and achieving wider social and community benefits.</p> <p>A full and complete pipeline will be developed as a priority and the platform for access is readily and freely available.</p>
Reform assumptions:	
Criteria:	RAG Classification
	Green
14(a) World class procurement	<p>Procurement prioritises more strategic partnering, utilises a range of commercial models to create optimal value and have dedicated specialist procurement staff. A healthy and competitive environment is facilitated.</p> <p>Prioritises buy local and proactively supports (including how to improve) local suppliers. Local suppliers are flexible and responsive to the needs of Council.</p> <p>We have regular engagement with the supply chain and they are well informed on the strategy and future pipeline of works.</p>
14(b) Supplier relationships – local flexibility and responsiveness	<p>Procurement undertakes limited strategic partnering and is limited to traditional contract models (NZS3910 etc).</p> <p>Local buying is important but is balanced with the need to purchase at scale and achieve efficiency benefits.</p> <p>We engage with the supply chain on an intermittent basis and communicate generally about the future pipeline of work.</p> <p>We aspire to integrate Broader Outcomes and Social Procurement into our policies but have yet to fully execute. There are some social and environmental outcomes with no foreseeable opportunity for improvement.</p>
14(c) Procurement approach to supply chain	<p>Procurement is limited in scope and scale primarily due to the limited budgets available.</p> <p>Local buying is not a priority due to either current buying trends (scale contracts etc) or insufficient capability in the local market.</p> <p>The only engagement that occurs with our supply chain is during the formal LTP period or during tendering.</p> <p>We do not have plans to delivery Broader Outcomes framework in our procurement function.</p>
14(d) Implementing Broader Outcomes	
Other considerations:	Utilities Act requires a 'do minimum' of annual presentation to the market of infrastructure pipeline.



3 Waters Council Impact Assessment Matrix – xxxxxxxxxxxx Council

High level approach & workshop format

Agenda

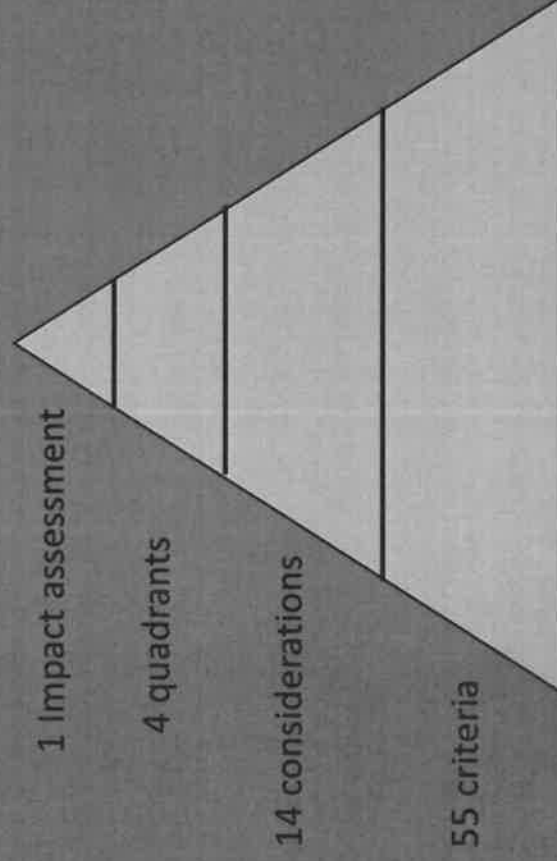
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|--|----------|
| 1. Welcome & introductions | 5 mins |
| 2. Purpose | 5 mins |
| 3. Overview of process (this presentation) | 10 mins |
| 4. Initial estimate of weightings for four quadrants of the matrix | 5 mins |
| 5. Work through matrix & scoring (c. 2 mins per consideration) | 110 mins |
| 6. Review outputs and adjust weightings | 30 mins |
| 7. Next steps & report preparation for councillors | 15 mins |

Purpose

1. Align Government's "top-down" proposal (national and regional level) with local concerns and focus areas
2. Use weightings to highlight the 4-5 key areas that councillors should focus on the most
3. Use a standardised matrix so the local issues of importance to councils can be "rolled up" to present a consolidated view of Entity B
4. Highlight issues or remaining questions – often these will be related to transition planning or organisational design principles on what and how the new organisation will deliver services

Three tools to assist in impact assessment

1. Impact Matrix (this presentation)



2. Transition plan

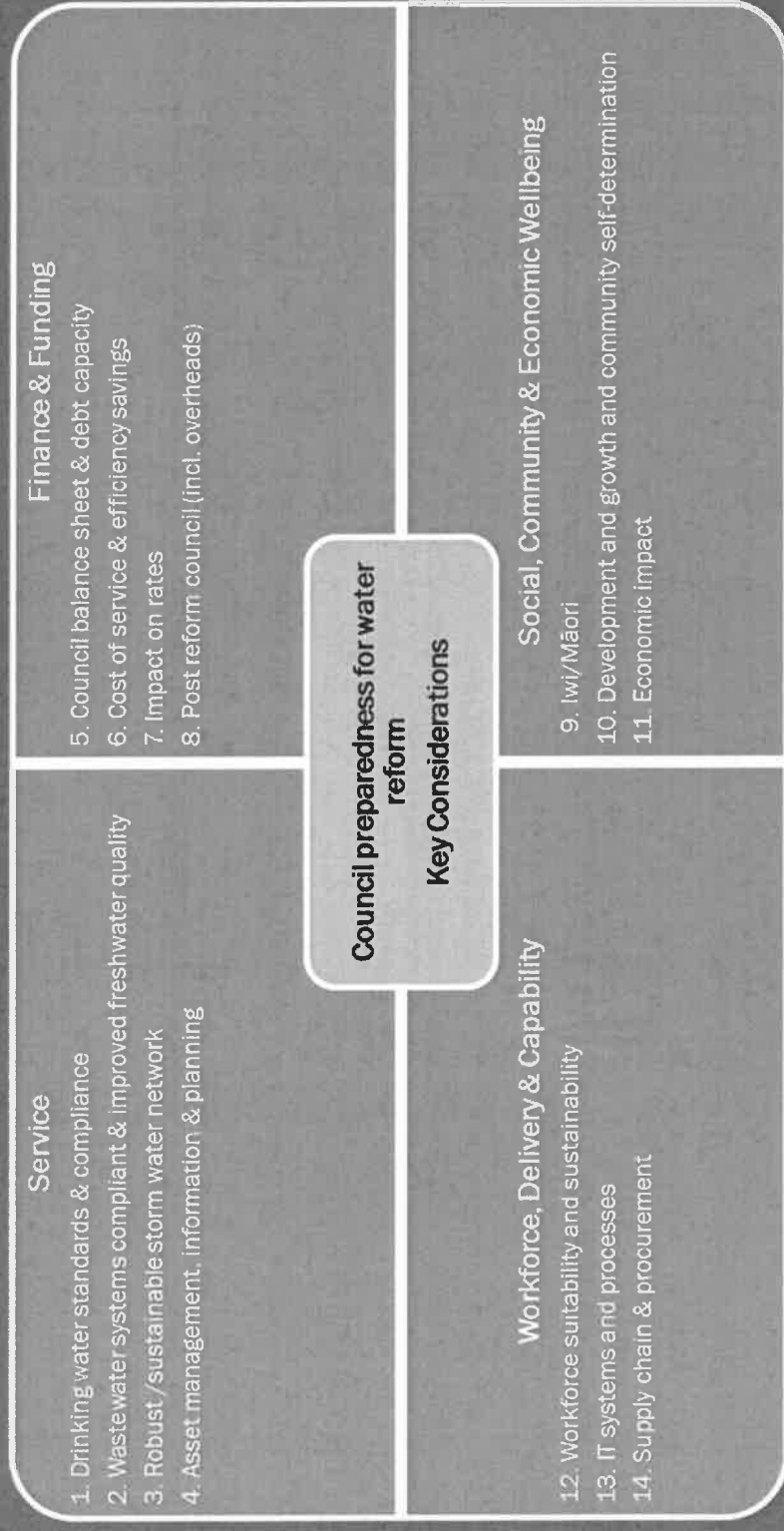
- When?
- Who?
- How?

3. Principles of new entity

- Partner to council or independent?
- How to incorporate community level concerns into a regional scale entity?
- Place-making quality over cost efficiency?

Strategic level: Four quadrants

What is the right weight to put against each quadrant for elected members to assess the impact?



Next level: 14 consideration S

Consideration Title	Designed to assess...	Service	Implies for council the...
1	Drinking Water Standards and Compliance	current compliance risk	level of uplift required to achieve compliance
2	Wastewater systems compliance, and improved freshwater quality	current compliance risk	level of uplift required to achieve compliance
3	Robust, sustainable stormwater network	current compliance risk	level of uplift required to achieve compliance
4	Asset Management and Infrastructure Planning	current compliance risk	level of uplift required to achieve compliance
Finance and Funding			
5	Council balance sheets and debt capacity	current ability to fund and finance infrastructure requirements	level of risk exposure with the forecast level of funding and financing
6	Cost of service & efficiency savings	be achieved and if these efficiencies are needed	risk around achieving efficiency assumptions
7	Impact on rates / charges for 3 Waters	the impact on ratepayers	impact on ratepayers based on 'Reform Assumptions'
8	Post reform council viability (including overheads)	current risk exposure to stranded overheads	residual financial liability post reform
Social, Community, Economic Wellbeing			
9	Iwi/Maori	how current state alignment with future state	operations to meet future co-governance requirements

Next level: 55 criteria

Consideration	Ref	Criteria	Weighting	EXAMPLE COUNCIL	
				STATUS QWQ / WITHOUT REFORM	EXAMPLE COUNCIL WITH REFORM
1. Achieve drinking water standards and compliance	1(a)	2020 Drinking Water Standard compliance	1		
	1(b)	2024 intended DWS compliance - per Infrastructure Strategy	1		
	1(c)	Water safety plans	1		
2. Wastewater systems compliant & support freshwater quality	2(a)	Risk rating to non-council water supplies	1		
	2(b)	System performance - consent compliance DfA mandatory measures	1		
	2(c)	Discharges to inland waterways	1		
	2(d)	Expired or expiring (in next 5 years) treatment plant consents	1		
	2(e)	Are costs of compliance fully recognised in IS and LTP	1		
	2(f)	Asset valuation completeness & confidence rating	1		
3. Robust and sustainable stormwater network	3(a)	Fully funding SW depreciation in 2021-31 LTP	1		
	3(b)	5 & 10 account for future climate change impacts	1		
	3(c)	SW catchment management plans in place	1		
	3(d)	Evidence of SW discharge standards to improve water quality	1		
4. Asset management & Infrastructure planning	4(a)	Asset management maturity index score	1		
	4(b)	Asset metadata quality assessment score	1		
	4(c)	Asset information - completeness & condition rating	1		
	4(d)	Asset management system integration	1		
	4(e)	Three waters debt-to-income ratio 2020	1		
5. Strong Council balance sheet / debt capacity	5(a)	Three waters debt-to-income ratio 2031 (per LTP)	1		
	5(b)	Three water debt-to-income / Balance of Council debt-to-income	1		
	5(c)	Proportion of 3 waters debt related to Development Contributions	1		
	5(d)	Perception of additional council debt capacity	1		
	5(e)		1		1.5

What to expect

- No more than 5mins discussion – after this we will 'parking lot' the issue
- Speak openly, this is for you and doesn't get distributed
- Be objective and score realistically

Explaining the red-amber-green scoring system

Scoring is for 3 scenarios/time periods:

1. Status quo (council today)
2. LTP (council in 10 years)
3. Reform (new Entity B, in 10 years to match LTP period)

SUMMARY SCORING KEY		
Score	Colour	Risk
3	Dark green	Significant opportunity
2	Light green	Opportunity
1.5	Yellow	Neutral
1	Orange	Threat
0	Red	Significant threat
*refer 'Considerations and Criteria for Council Impact Assessment' for detailed assessment criteria		

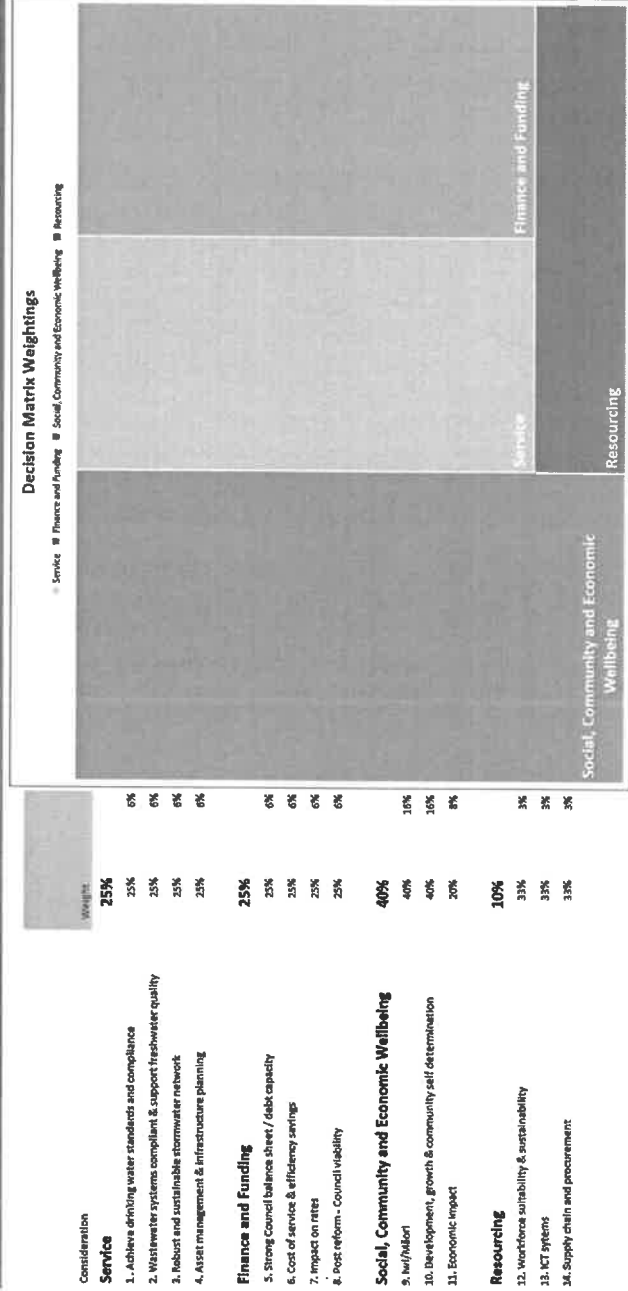
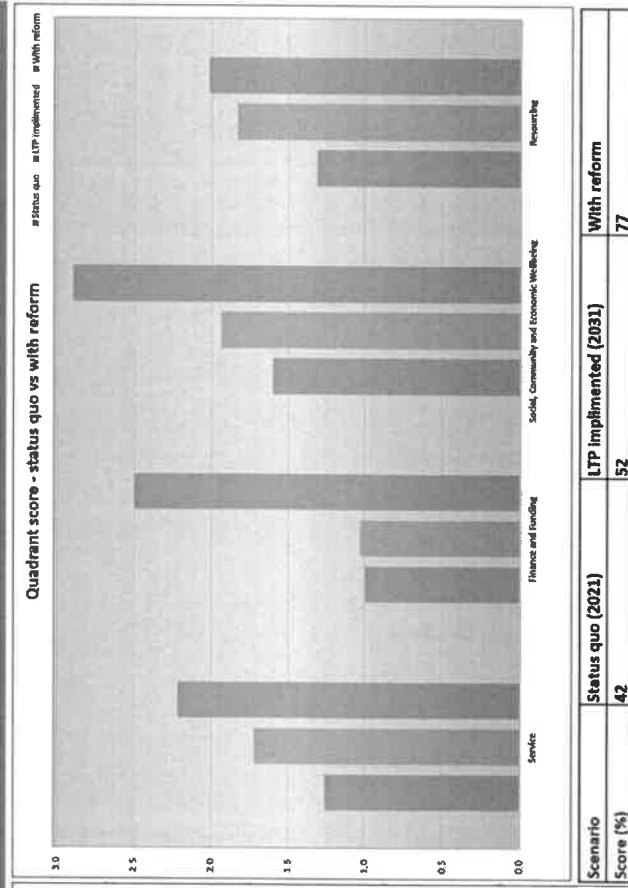
Apply Scoring to all criteria:

Criteria	Weighting	EXAMPLE COUNCIL	
		STATUS QUO / WITHOUT REFORM	COUNCIL LTP WITH REFORM
Tuhura estimate		39	69
Final adjusted score / 100		42	77
Additional effort required above LTP settings			50
			54%

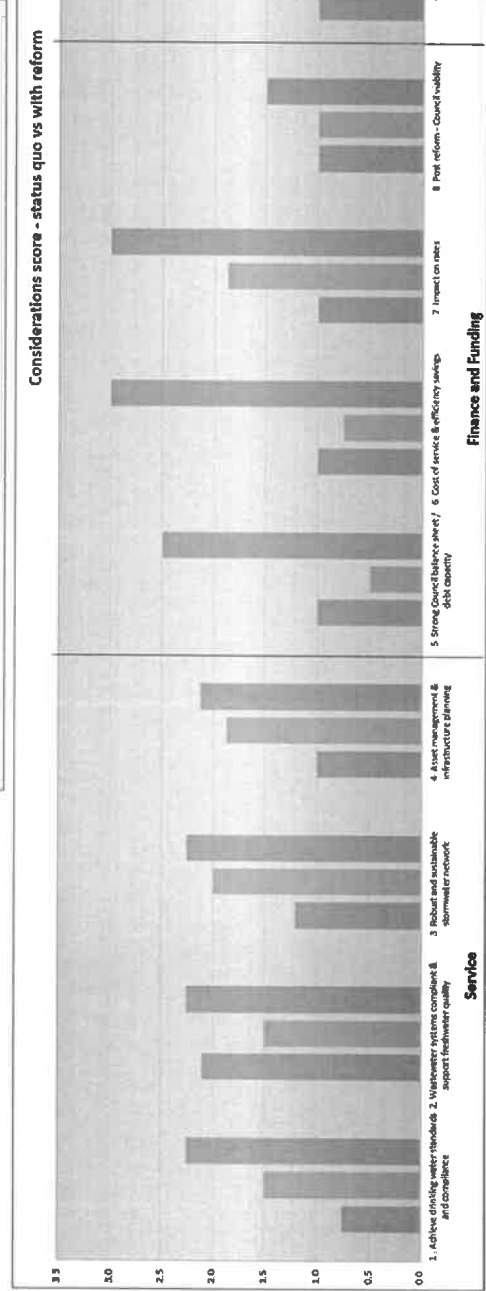
For this council, status quo is 42/100 and its LTP will lift performance to 50/100.

This council would need to lift its effort/outcomes to 77/100 (54% increase) over the LTP period to match the expectations under reform.

This is with the council on a standalone basis (not going into Entity B)

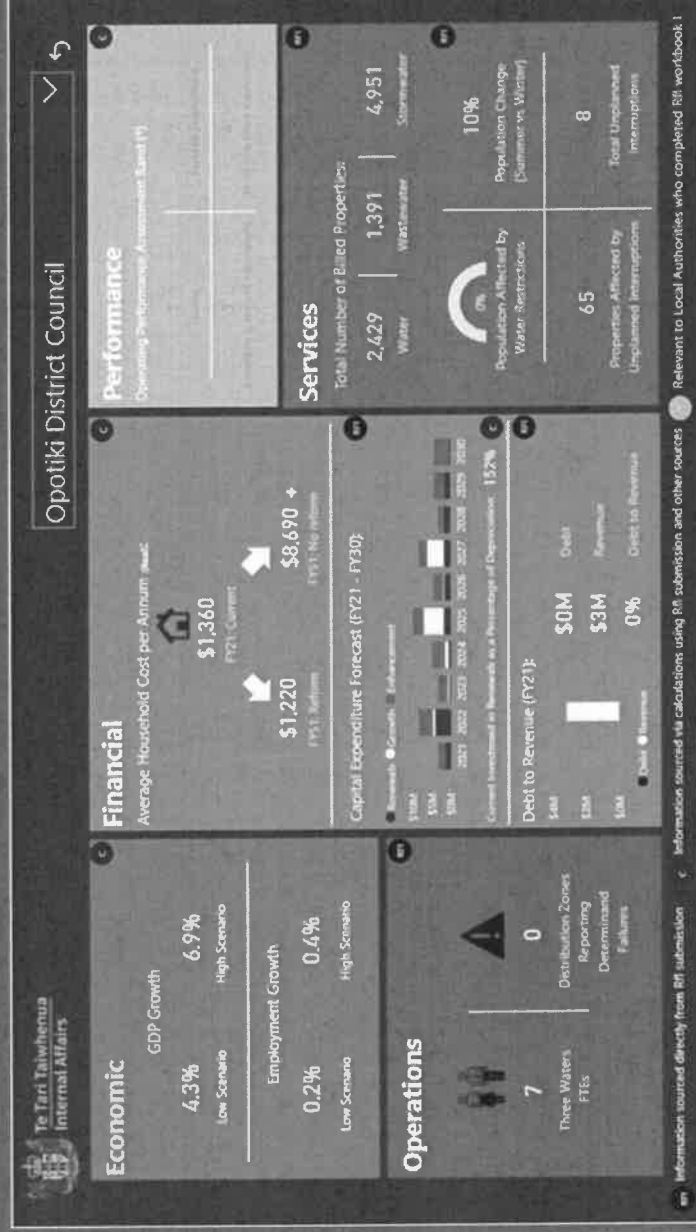


Scenario	Status quo (2021)	LTP Implemented (2031)	With reform
Score (%)	42	52	77



DIA Dashboard

- Rates dropping slightly, vs \$8,690 without reform
- Significant GDP uplift and job creation



Financial incentives for Council

- 'Better off' grant c\$18.7 million (approx. 89% of 2020 full council revenue)
- Costs of transition to be met by DIA (detail required)
- 'Stranded overheads' to be met by new water services entity, up to \$500m nationally
- Estimated \$170m* additional capex in water services over 30 years (\$15.4bn additional capex for WBOP per Deloitte modelling), approx. 8.1 times 2020 council revenue
- Estimated +9* new jobs in Opotiki (814 additional WBOP jobs)

* assume Opotiki gets its 1.1% population share of WBOP capex

From: Stavros Michael
Sent: Thursday, 19 August 2021 4:45 pm
To: Gina Rangī
Cc: Geoff Williams
Subject: DRAFT letter for Minister on 3 Waters Reforms
Attachments: DRAFT LETTER MINISTER 3 WATERS.docx

Follow Up Flag: Follow up
Flag Status: Flagged

Categories: Executive Team

Kia ora Gina

As briefly discussed the other day, Geoff proposed to draft a letter for the LG Minister on the 3 Waters Reforms. The letter basically tries to articulate that in the main we agree with the rationale for the reforms but have some serious concerns about the demarcation of roles between the new Entity and the Council and its partners. So we propose some form of key points agreement to address these concerns as the DIA seems focussed onto economic metrics predominantly.

So please see attached a DRAFT for your thoughts please.

I also started a DRAFT report for the joint committee to be discussed when ready.

Thanks and let's talk

Nga mihi

Stavros

Stavros Michael *DCE Infrastructure & Environment & Primary CDEM Controller –*
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ROTORUA
LAKES COUNCIL

DRAFT LETTER TO MINISTER ON 3 WATERS REFORMS

Hon Minister etc etc

RE: Rotorua Lakes Council – 3 Waters Reforms - Views

We write this to.....

Following our recent discussions this is to further elaborate on our views on the waters reforms and to offer suggestions that we believe would assist and support the core intentions of the proposed reforms by more effectively addressing some fundamental and critical gaps in the current DIA's proposals.

The proposed reform drivers and broad objectives are not in significant divergence from our own diagnosis of the three waters system challenges. A range of risk mitigations against those challenges have been adopted in our 30 years Infrastructure Strategies.

The main 3 waters issues are related to, an ageing physical infrastructure, a legacy of chronic underinvestment for networks economic renewals resulting in an overall poor asset condition, ability to achieve compliance with anticipated higher standards and regulations for system performance to better protect peoples' health and the environment, the significant growth driven investment required to address housing and the forthcoming acute scarcity of competent workforce.

RLC recognizes and broadly agrees with the rationale of the 3 waters proposed reforms and has already taken an active part in discussions and workshops to help the formation of viable long term options to address those challenges.

We see reasonable alignment in these proposals in terms of achieving scale advantage (cost absorption spread over a larger population base), better rationalisation and harmonisation of networks plans and standards, an enhanced economic leverage based on asset capacity enhancement and income potential to support growth investment, the attaining of a critical mass of expertise to attract, retain and develop competent staff resources and a more dedicated risk focus based on consequence intervention development. The aggregate effect of all of the benefits of scale should logically lead to improved 3 waters based services in the long term.

We do identify with concern though that aspects in the proposed reforms appear to be driven by an ill-informed understanding from the DIA officers of the core purpose of Local Government. This is more surprising because the Local Government purpose is clearly articulated and embedded in the relevant LGA which officers of the DIA should be well versed to.

The major part of the business case for change, built by DIA to date, is reliant on accounting and purely economic metrics. While the accuracy of those metrics can be challenged, the overall envelope of cost trends and future projections appear to be reasonably credible. Where we believe the current proposals fall short of credibility is in the area of the future interface and the assignment of lead agency roles between the proposed new entities and Local Government.

The purpose of local government is to enable democratic local decision-making and action by, and on behalf of, communities and to meet the current and future needs of their communities for good-quality local infrastructure, local public services, and the performance of regulatory functions in a way that is most cost-effective for ratepayers, households and businesses.

The Rotorua Lakes Council's Long Term Plan recognises that visionary leadership is required to address a range of confronting issues. Moreover, that no single agency can achieve the positive outcomes being sought for the community on their own. It acknowledges that it takes the combined effort of all, including its diverse communities and its various partners.

The Council, in order to make itself aware of and to have effective regard to the views of all of its communities including maintaining and improving opportunities for Māori to meaningfully contribute to local government decision-making processes within a partnering environment has built, extensive organisational local knowledge, multilevel relationship building capability, beneficial community networks and a unique, for Local Government in New Zealand, co-governance partnership with Te Arawa and the Te Arawa's constituent hapu.

The Council has the unique leadership role and the necessary institutional competence of formulating a unifying set of aspirational objectives for the district as a whole that cannot be readily replicated by any other single purpose agency. We are of the strong view, that any attempt to do so would be naïve, ineffective and will create an unnecessary burden of resource duplication. The Council, as a Local Authority, is the most appropriate organisation to continue to lead and to articulate complex community issues and outcomes. It is not always necessary for the Council to directly deliver the work programmes necessary to achieve the desired community outcomes. However the Council is the only organisation in the district that is able to monitor the attainment of and be accountable for such outcomes.

The Council has built intergenerational infrastructures that provide a key platform for its wider community aspirations. These infrastructures are not simple utility services but a means to pursue and enable broader communities' wellbeing objectives. Rotorua's 3 Waters Strategy provides a 50 year blueprint for the district's guiding decision making and in ensuring the best outcomes for our current and future communities. It is aligned with the Te Arawa Vision 2050 and the broader Rotorua Way. The Strategy informs our Infrastructure management and our diverse local relationships and approaches.

The aspects in the proposed reforms that should be of concern, if not adequately addressed, are based on the potential for the loss of a meaningful ability to lead our community's desirable outcomes. The potential for a siloed assets based management approach which can become unresponsive to iwi/community unique needs. The limitations to our ability to design locally influenced solutions (as we have done in numerous occasions) that are based on our local communities characteristics and to an overall disconnection between our aspired growth planning and infrastructure planning.

Key to these concerns is the lack of committed clarity in how the proposed 3 Waters Entity can recognise the RLC's legitimate reservations and how the Entity's mode of operation can be consistently and reliably responsive towards our objective of remaining the lead agency in the interface between the Entity and our community and in setting and defining outcomes and expectations to be delivered by the Entity. It seems highly possible that the economic benefits of scale can become dis-benefits for our community's voice in the clutter of a much larger population base to be served by the Entity.

The Council wishes to continue to support and to actively participate in the proposed reforms. The fundamentals of the proposal are well aligned with our own assessments. We are of the view that a critical element towards securing wide community confidence in the reforms would be an early agreement between the Council (and other Councils individually) and the Transitional Authority (of the new Entity) whereby;

The Council's crucial statutory and leadership role as the primary community authority that enables democratic local decision-making and action by, and on behalf of, communities is acknowledged.

The proposed new Entity may form, and indeed encouraged to do so, direct relationships with other community and especially mana whenua bodies as part of their core competency functions, the direct link to the Council's LGA mandate will reinforce an effective and integrated approach to jointly pursue agreed outcomes on the following basis;

1. A 3 Waters Strategy with clear outcomes for Rotorua is agreed between the Entity and RLC.
2. The Entity commits to giving full effect to the outcomes and the objectives of the agreed Rotorua 3 Waters Strategy in a manner that preserves and reinforces relationships with iwi and the discharge of our treaty obligations/partnerships that enables local decision-making.
3. The Entity agrees to work jointly with RLC to structure a Business Plan that clearly articulates the methodology by which the outcomes and the objectives of the 3 Waters Strategy will be pursued for the district.
4. The RLC and the Entity agree to work together and in partnership to give effect to the RLC's requirements as they evolve in progressive LTPs.
5. The Entity agrees to report regularly to RLC on progress against the agreed Business Plan and the Council's evolving LTP objectives including the status and health of relationships and partnerships with the communities and Te Arawa specifically.
6. The Entity agrees to report to RLC against investment in local employment, the development of skills and capability in the district.

The Council, faithful to its partnering with Te Arawa has, in July 2021, resolved to establish a joint committee to consider the impacts of the Three Waters Reform on Council's partnerships with mana whenua and to make recommendation to the Council and to mana whenua on the same. The Committee acts as a forum for governance oversight, to identify and develop shared concerns and aspirations, to understand the effects on relationship agreements, and to ensure well-informed, co-ordinated decision-making of the parties.

It is important that Council (and mana whenua) understand the impact of the proposed reforms on Council's existing partnerships, and are able to identify opportunities for a co-ordinated response to Government (as well as where there might be different Council/iwi views). That will ensure a more

robust, well-informed and co-ordinated approach to decision-making by Council and by mana whenua entities.

The Parties also recognise that the reform programme will give rise to rights and interests under the Treaty of Waitangi and both Parties acknowledge the role of the Treaty partner.

This includes maintaining Treaty settlement obligations and other statutory rights including under the Resource Management Act 1991 and the Local Government Act 2002. The outcome of discussions with iwi/Māori will inform the design of appropriate mechanisms to reflect Treaty interests. This will include clarity of roles and responsibilities.

We trust that this letter provides the Minister with helpful insights to Rotorua Lakes Council's views on the proposed reforms with a clear intention to be supportive and constructive in the effort towards a viable and sustainable new 3 waters management framework. We would be happy to discuss further these views as required.

ETC ETC

From: Stavros Michael
Sent: Tuesday, 24 August 2021 6:04 pm
To: Gina Rangi; Geoff Williams
Subject: RE: DRAFT LETTER MINISTER 3 WATERS
Attachments: DRAFT LETTER MINISTER 3 WATERS GR SM.docx

Kia ora thank you Gina.

I told you that you are better than me in this. Ok I have provided a responses to your questions/notes and some minor highlighted changes.

Looks much better now. If all happy please accept all changes and finalise so it can be delivered to the Minister.

Nga mihi

Stavros

Stavros Michael *DCE Infrastructure & Environment & Primary CDEM Controller –*
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From: Gina Rangi <Gina.Rangi@rotorualc.nz>
Sent: Tuesday, 24 August 2021 4:43 pm
To: Stavros Michael <Stavros.Michael@rotorualc.nz>; Geoff Williams <Geoff.Williams@rotorualc.nz>
Subject: DRAFT LETTER MINISTER 3 WATERS

Stavros, I have a few comment boxes seeking clarification. Also tracked my changes

I think the role of mana whenua needs to be carefully considered, and have made some suggestions on second to last page, but am happy to discuss this further as it's a key issue that we need to be clear about

G

DRAFT LETTER TO MINISTER ON 3 WATERS REFORMS

Hon Minister Nanaia Mahuta [any others?]

etc etc

Commented [SM1]: Check with Geoff

RE: Rotorua Lakes Council – 3 Waters Reforms - Views

Thank you for meeting with [us] on Monday 16 August. We thought it helpful to follow up with write this letter to set out our thinking

Following our recent discussions this is to further elaborate on our views on the waters reforms and to offer suggestions that we believe would assist and support the core intentions of the proposed reforms by more effectively addressing some fundamental and critical gaps in the current DIA's proposals.

The broad drivers for the proposed reform ~~drivers and broad objectives are do~~ not in significantly diverge from our own diagnosis of the ~~challenges facing managers of Three Waters system~~ challenges. A range of risk mitigations against those challenges have been adopted in our 30 years Infrastructure Strategies.

Those drivers for change include ~~main 3 waters issues are related to;~~ an ageing physical infrastructure, a legacy of chronic underinvestment ~~in for networks economic~~ renewals resulting in an overall poor asset condition, ~~ability to achieve compliance with anticipated the ongoing~~ introduction of higher standards and regulations for system performance to better protect peoples' health and the environment, the significant growth-driven investment required to address housing, ~~the impacts of climate change~~ and the forthcoming acute scarcity of competent workforce.

RLC ~~recognizes and broadly agrees with these~~ drivers for change and has already adopted a range of risk mitigations against those challenges in our 30 years Infrastructure Strategies. ~~rationale of the 3 waters proposed reforms and has~~ We are also taking ~~already taken~~ an active part in discussions and workshops with DIA and other local government agencies to help the formation of viable long-term options to address those challenges.

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Commented [GR2]: Stavros I don't really understand why asset capacity changes?

Commented [SM3R2]: Because as growth occurs the networks capacity has to increase at the point of growth but also within the network. Then growth pays for that capacity enhancement through DC Policies.

Commented [GR4]: What is consequence intervention?

Commented [SM5R4]: Every risk is defined by the probability of occurrence and the consequence of failure. Because of limited resources interventions always prioritise the need where the estimated consequences will be the highest i.e. health, environment damage etc.

We see reasonable alignment in these. The proposed reforms seek to achieve ~~in terms of~~ achieving scale advantage by absorbing emerging (costs ~~absorption spread~~ over a larger population base), ~~better~~ rationalisation and harmonisation of networks plans and standards, ~~an~~ enhanced economic leverage based on asset capacity enhancement and income potential to support growth investment, ~~the attaining of~~ a critical mass of expertise to attract, retain and develop competent staff, ~~resources and~~ a more dedicated risk-focus that is based on consequence intervention development. ~~Together, The aggregate effect of all of these~~ benefits of scale should logically lead to improved 3 Waters based services in the long term.

We do identify with concern though that aspects in the proposed reforms appear to be driven by an ill-informed understanding from the DIA officers of the core purpose of Local Government. This is more surprising because the Local Government purpose is clearly articulated and embedded in the relevant LGA which officers of the DIA should be well versed to.

The major part of ~~the DIA's~~ business case for change, ~~built by DIA to date, is reliant on~~ relies on accounting and purely economic metrics. While the accuracy of those metrics can be challenged, the overall envelope of cost trends and future projections ~~do indicate a~~ appear to be reasonably credible case for change.

Where ~~we believe~~ the current proposals fall short ~~of credibility~~ is in the ~~area of the~~ future interface and the assignment of lead agency roles between the proposed new entities and Local Government. ~~The lack of clear detail on how this will occur gives local government legitimate cause for concern.~~

The core purpose (and capability) of local government

The purpose of local government is to enable democratic local decision-making and action by, and on behalf of, communities and to meet the current and future needs of their communities for good-quality local infrastructure, local public services, and the performance of regulatory functions in a way that is most cost-effective for ratepayers, households and businesses. ~~We have learnt from experience the importance of working with local communities in the initiation and design of services, and that long-term (not simply project-based) sustainable and productive operational relationships are critical to success.~~

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Commented [GR6]: Stavros check this sentence – is it ok?

Commented [SM7R6]: Aye very good.

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The Rotorua Lakes Council's Long Term Plan recognises that visionary leadership is required to address a range of ~~complex, interrelated (and in some aspects, intergenerational) issues~~ confronting ~~issues~~our community. Moreover, ~~that~~ no single agency can achieve ~~on its own~~ the positive outcomes ~~being sought for~~ the community ~~seek on their own~~. ~~The~~ LTP acknowledges that it takes the combined effort of all, including ~~its~~ the efforts and contribution of our diverse communities and ~~its~~ our various partners – including central Government.

The Council ~~understands that it must, in order to make itself aware of and to understand and~~ have effective regard to the views of all of ~~its~~our communities, including maintaining and improving opportunities for Māori to meaningfully contribute to ~~local government~~ decision-making processes. ~~We have committed to establishing within a partnering environment, has built, extensive organisational local knowledge, growing our capability to deepen multilevel relationships building capability, and~~ beneficial community networks, ~~and we have established and~~ a unique, ~~(for Local Government in New Zealand),~~ co-governance partnership with Te Arawa and ~~the Te Arawa's its~~ constituent hapū and iwi.

The Council has the unique leadership role and the necessary institutional competence ~~to of~~ formulating a unifying set of aspirational objectives for the district. ~~That leadership role and competence, as a whole that~~ cannot be readily replicated by any other single-purpose agency. We are of the strong view, that any attempt to do so would be naïve, ineffective and will create an unnecessary burden of resource duplication. The Council, ~~as a Local Authority, in partnership with Te Arawa,~~ is the most appropriate organisation to continue to lead and ~~to~~ articulate complex

community issues and outcomes. It is not always necessary for the Council to directly deliver the work programmes **required** to achieve the desired community outcomes. However the Council (in partnership with Te Arawa) is the only organisation in the district ~~that is~~ able to monitor the attainment of and be accountable for such outcomes.

The purpose of 3 Waters infrastructure

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As noted above, the case for change relies primarily on the assumed **projected** economic benefits of the proposed reforms. But 3 Waters infrastructure assets are important not just for their financial significance. ~~They are important because of the environmental, social and cultural outcomes they achieve.~~ The Council has built intergenerational infrastructures ~~to enable that provide a key platform for its our~~ wider community aspirations – ~~these~~ ~~These infrastructures~~ are not simple utility services but a means to pursue and enable ~~the broader~~ communities' broader wellbeing objectives. Rotorua's 3 Waters Strategy provides a 50 year blueprint ~~to for the district's guiding guide our~~ decision making and ~~in-ensuring~~ the best outcomes for our communities now and into the future ~~current and future communities~~. It is aligned with the Te Arawa Vision 2050 and the broader Rotorua Way. The Strategy informs our Infrastructure management and our diverse local relationships and approaches.

The aspects in the proposed reforms that should be of concern, if not adequately addressed, are based on the potential ~~for the loss of the community's a meaningful~~ ability to define and lead the ~~our community's desirable outcomes~~ the community desires. There ~~is real~~ potential for a siloed assets-based management approach ~~that is which can become~~ unresponsive to iwi/community unique needs. ~~The limitations to This would limit~~ our ability to design locally-influenced solutions (as we have done in numerous occasions) ~~that are~~ based on our local communities' characteristics and ~~create to~~ an overall disconnection between our aspired growth planning and infrastructure planning.

Key to these concerns is the lack of committed clarity in how the proposed 3 Waters Entity can recognise these ~~RLC's~~ legitimate reservations. ~~and h~~How will the Entity's ~~mode of operating model~~ can be ensure consistently and reliably ~~responses give towards~~ our objective of remaining the lead agency in the interface between the Entity and our community and in community's needs? What are the processes that will ensure that territorial authorities as lead local agencies and in partnership with mana whenua are able to setting and defining the outcomes and expectations to be delivered by the Entity? How can our community ensure that the Entity delivers outcomes at least as good as already established? It seems highly possible that the economic benefits of scale can become dis-benefits for our community's voice in the clutter of a much larger population base to be served by the Entity.

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Ensuring the Entities Deliver on Community Outcomes

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The Council wishes to continue to support and ~~to~~ actively participate in the proposed reforms. The fundamentals of the proposal are well aligned with our own assessments. We are of the view that a critical element towards securing wide community confidence in the reforms would be an early agreement between the Council (and other Councils individually), mana whenua and the Transitional Authority (of the new Entity) that acknowledges whereby;

~~The~~ Council's crucial statutory ~~and leadership~~ role as the primary community authority, and the leadership that we provide in partnership with Te Arawa, ensuring that enables democratic local decision-making and intergenerational focus on the broader outcomes our communities need and deserve, and action by, and on behalf of, communities is acknowledged.

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The proposed new Entity may form, and indeed is encouraged to do so, direct relationships with other community and especially mana whenua bodies as part of their core competency functions. Nevertheless, the direct link to the Council's LGA mandate will reinforce an effective and integrated approach to jointly pursue agreed outcomes on the following basis:

Setting the Strategy

1. A 3-Waters Strategy with clear outcomes for Rotorua is agreed between the Entity ~~and~~ RLC and mana whenua.
2. The Entity commits to giving full effect to the outcomes and the objectives of the agreed Rotorua 3 Waters Strategy in a manner that preserves and reinforces relationships with iwi and the discharge of our treaty obligations/partnerships that enables local decision-making.

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Agreeing on Delivery

3. The Entity agrees to work jointly with RLC to structure a Business Plan (to be received and endorsed by Council and mana whenua) that clearly articulates the methodology by which the outcomes and the objectives of the 3 Waters Strategy will be pursued for the district.
4. The ~~RLC and the~~ Entity agrees to work together and in partnership with RLC and mana whenua to give effect to the future needs of Rotorua, as defined in RLC's requirements as they evolve in progressive future LTPs.

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Monitoring outcomes

5. The Entity ~~agrees to will~~ report regularly to RLC (in partnership with mana whenua) on progress against the agreed Business Plan and the progress towards Council's the evolving LTP objectives including the status and health of relationships and partnerships with the communities and ~~Te Arawa~~ specifically with mana whenua.
6. The Entity agrees to report to RLC (in partnership with mana whenua) against investment in local employment, the development of skills and capability in the district.

Commented [GR8]: Are you saying that RLC (and mana whenua) would continue to define the 3 Waters outcomes for Rotorua (using the LTP as the mechanism)? In other words the Entity has no say in defining the outcomes?

Commented [SM9R8]: No I am saying that RLC and IWI will identify outcomes by working closely with the Entity who provide subject matter expertise on feasibility, costs, effects etc.

Commented [GR10]: What do you mean progressive LTPs? Does this mean future LTPs?

Commented [SM11R10]: Yes LTPs evolve so one would expect the entity to be responsive to that progression.

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The Council, faithful to its partnershiping with Te Arawa has, in July 2021, resolved to establish a joint committee to consider the impacts of the Three Waters Reform on Council's partnerships with mana whenua and to make recommendation to the Council and to mana whenua on the same. The Committee acts as a forum for governance oversight, to identify and develop shared concerns and aspirations, to understand the effects on relationship agreements, and to ensure well-informed, co-ordinated decision-making of the parties.

It is important that Council (and mana whenua) understand the impact of the proposed reforms on Council's existing partnerships, and are able to identify opportunities for a co-ordinated response to Government (as well as where there might be different Council/iwi views). That will ensure a more robust, well-informed and co-ordinated approach to decision-making by Council and by mana whenua entities.

The Parties also recognise that the reform programme will give rise to rights and interests under the Treaty of Waitangi and both Parties acknowledge the role of the Treaty partner.

This includes maintaining Treaty settlement obligations and other statutory rights including under the Resource Management Act 1991 and the Local Government Act 2002. The outcome of discussions with iwi/Māori will inform the design of appropriate mechanisms to reflect Treaty interests. This will include clarity of roles and responsibilities.

Conclusion

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We trust that this letter provides the Minister with helpful insights to Rotorua Lakes Council's views on the proposed reforms with a clear intention to be supportive and constructive in the effort towards a viable and sustainable new 3 Wwaters management framework. We would be happy to discuss further these views as required.

ETC ETC

From: Shaun Jones <shaun.jones@tuhurapartners.co.nz>
Sent: Thursday, 26 August 2021 1:35 PM
To: Regan Fraser
Cc: Stavros Michael; Kevin Lavery; Andy Matthews; Paul Blair
Subject: RE: Council Impact Assessment - Rotorua

Hi Regan

6th September will be good. It is hard to see us being at a level where travel is permitted by then but I think we should proceed whether in person or remotely. We are finding the virtual sessions are productive and avoids the cost of travel. Can we make it a 10am start so that if it is in person we have time to travel.

Thanks, Shaun

From: Regan Fraser <Regan.Fraser@rotorualc.nz>
Sent: Tuesday, 24 August 2021 8:43 am
To: Shaun Jones <shaun.jones@tuhurapartners.co.nz>
Subject: FW: Council Impact Assessment - Rotorua

Kia ora Shaun,

Can we please book for an in face meeting on the morning of the 6th? If you can please confirm and I will book a room for us all.

Nāku noa, nā

Regan Fraser *Kaihautū Pakihi Tūāpapa - Infrastructure Business Manager*
P 07 351 8937 M 027 594 3610
E: regan.fraser@rotorualc.nz | W: rotorualakescouncil.nz
A: 1061 Haupapa St, Private Bag 3029, Rotorua Mail Centre, Rotorua 3046, New Zealand

ROTORUA
LAKES COUNCIL

From: Regan Fraser
Sent: Monday, 23 August 2021 9:08 AM
To: 'Shaun Jones' <shaun.jones@tuhurapartners.co.nz>
Subject: RE: Council Impact Assessment - Rotorua

Morena Shaun,

I've spoken with Stavros, we will be in touch again after today's announcement.

Nāku noa, nā

Regan Fraser *Kaihautū Pakihi Tūāpapa - Infrastructure Business Manager*
P 07 351 8937 M 027 594 3610
E: regan.fraser@rotorualc.nz | W: rotorualakescouncil.nz
A: 1061 Haupapa St, Private Bag 3029, Rotorua Mail Centre, Rotorua 3046, New Zealand

ROTORUA
LAKES COUNCIL

From: Shaun Jones <shaun.jones@tuhurapartners.co.nz>
Sent: Friday, 20 August 2021 4:40 PM
To: Regan Fraser <Regan.Fraser@rotorualc.nz>
Cc: Kevin Lavery <kevin.lavery@tuhurapartners.co.nz>; Andy Matthews <andy.matthews@tuhurapartners.co.nz>; Paul Blair <paul.blair@tuhurapartners.co.nz>
Subject: RE: Council Impact Assessment - Rotorua

Hi Regan

Looks like we definitely wont be travelling next week. We have found that the virtual sessions are still very productive, particularly because we have met before. Options for getting this assessment complete are:

1. Keep as virtual on 26th
2. Move to 30th, 31st Aug or 1st Sept – my guess is we still won't be travelling so should plan on virtual.
3. Move to week commencing 6 September – higher chance of being in person. Qn is whether it is too late in the 8 week period for you to effectively engage with politicians.

Feel free to give me a call to discuss options if you like. Calendar is full next week but does open up after than as noted above.

Cheers, Shaun

From: Regan Fraser <Regan.Fraser@rotorualc.nz>
Sent: Thursday, 19 August 2021 12:30 pm
To: Shaun Jones <shaun.jones@tuhurapartners.co.nz>
Subject: RE: Council Impact Assessment - Rotorua

Sounds good Shaun. Thank you.

Nāku noa, nā

Regan Fraser *Kaihautū Pakihi Tūāpapa - Infrastructure Business Manager*
P 07 351 8937 M 027 594 3610
E: regan.fraser@rotorualc.nz | W: rotorualakescouncil.nz
A: 1061 Haupapa St, Private Bag 3029, Rotorua Mail Centre, Rotorua 3046, New Zealand

ROTORUA
LAKES COUNCIL

From: Shaun Jones <shaun.jones@tuhurapartners.co.nz>
Sent: Thursday, 19 August 2021 12:27 PM
To: Regan Fraser <Regan.Fraser@rotorualc.nz>
Subject: RE: Council Impact Assessment - Rotorua

Hi Regan,

I suggest we keep it in the calendar for now and once we have a clear picture on what is happening with lockdown (ending vs extending) we can make the call together.

Agree?

Shaun

From: Regan Fraser <Regan.Fraser@rotorualc.nz>
Sent: Thursday, 19 August 2021 8:00 am

To: Shaun Jones <shaun.jones@tuhurapartners.co.nz>

Subject: RE: Council Impact Assessment - Rotorua

Hi Shaun,

We would prefer this workshop to be in person. I guess with what's going on its all a bit up in the air at the moment! We are happy to reschedule to accommodate.

Nāku noa, nā

Regan Fraser *Kaihautū Pakihi Tūāpapa - Infrastructure Business Manager*

P 07 351 8937 **M** 027 594 3610

E: regan.fraser@rotorualc.nz | **W:** rotorualakescouncil.nz

A: 1061 Haupapa St, Private Bag 3029, Rotorua Mail Centre, Rotorua 3046, New Zealand

ROTORUA
LAKES COUNCIL

-----Original Appointment-----

From: Shaun Jones <shaun.jones@tuhurapartners.co.nz>

Sent: Wednesday, 18 August 2021 4:11 PM

To: Regan Fraser

Subject: Accepted: Council Impact Assessment - Rotorua

When: Thursday, 26 August 2021 9:00 AM-12:00 PM (UTC+12:00) Auckland, Wellington.

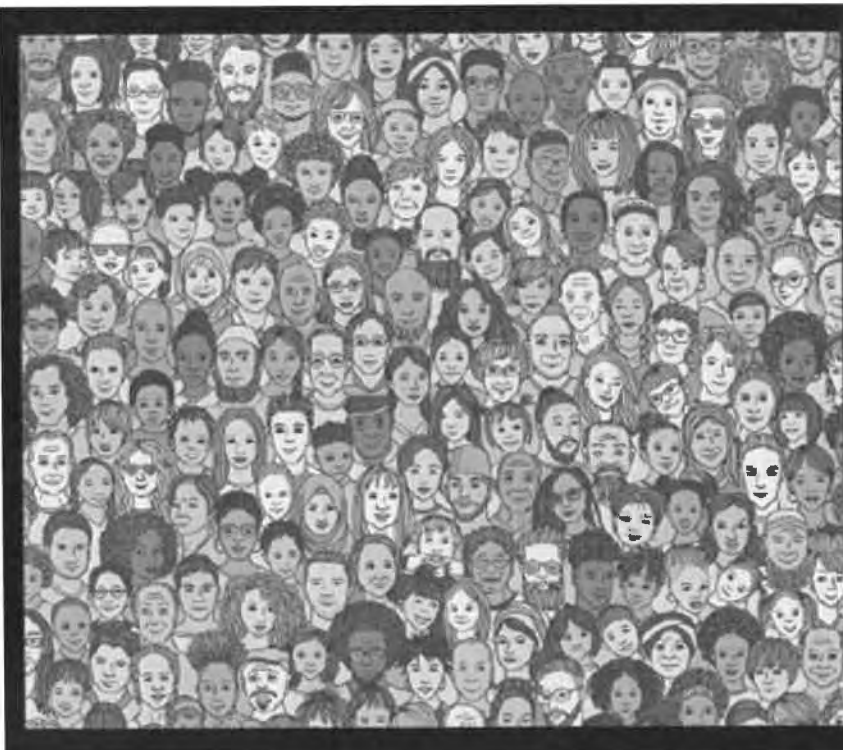
Where: Sportsdrome Board Room

Hi Regan

Assuming you are happy to do this virtually can you update invite with a Teams or Zoom link?

Thanks, Shaun





2022
TE AROTAKA
WHAKAAHUAHAN

8 Septem

From: Stavros Michael
Sent: Tuesday, 31 August 2021 12:36 pm
To: Gina Rangi; Geoff Williams
Subject: RE: DRAFT LETTER MINISTER 3 WATERS GR SM
Attachments: DRAFT LETTER MINISTER 3 WATERS GR SM.docx

Bravo great from me.

Just something missing here?

Ensuring the Entities Deliver on Community Outcomes

The Council wishes to continue to support and actively participate in the proposed reforms. We consider a critical element towards securing wide community confidence in the reforms would be an early ???

(Perhaps in principle commitment to address community leadership lead agency concerns??)

Happy with that thanks Gina

S

Stavros Michael *DCE Infrastructure & Environment & Primary CDEM Controller –*
Manahautū: Tūāpapa me te Rākau Whakamaruru
P: 07 351 8148 | **M:** 027 807 3847
E: stavros.michael@rotorualc.nz | **W:** rotorualakescouncil.nz
A: 1061 Haupapa St, Private Bag 3029, Rotorua Mail Centre, Rotorua 3046, New Zealand

ROTORUA
LAKES COUNCIL

From: Gina Rangi <Gina.Rangi@rotorualc.nz>
Sent: Tuesday, 31 August 2021 12:12 pm
To: Geoff Williams <Geoff.Williams@rotorualc.nz>; Stavros Michael <Stavros.Michael@rotorualc.nz>
Subject: DRAFT LETTER MINISTER 3 WATERS GR SM

Next version

DRAFT LETTER TO MINISTER ON 3 WATERS REFORMS

Hon Minister Nanaia Mahuta [any others?]

RE: Rotorua Lakes Council – 3 Waters Reforms - Views

Thank you for meeting with us on Monday 16 August. We thought it helpful to follow up with this letter to set out our thinking.

As a starting point, we acknowledge the broad drivers for the proposed reform. Those drivers do not significantly diverge from our own diagnosis of the challenges facing managers of Three Waters infrastructure: ageing physical infrastructure, a legacy of chronic underinvestment in network renewals often resulting in poor asset condition, higher standards and new regulations to better protect peoples' health and the environment, the significant growth-driven investment required to support new housing, the impacts of climate change and the forthcoming acute scarcity of competent workforce.

The proposed reforms seek to achieve scale advantage by absorbing costs over a larger population base, rationalising and harmonising network plans and standards, pulling together a critical mass to attract, retain and develop competent staff, and a more dedicated focus on managing risk. Together, these benefits of scale should logically lead to improved 3 Waters services in the long term.

Our position

Rotorua Lakes Council broadly agrees with the drivers for change and has already adopted a range of risk mitigations against those challenges in our 30-year Infrastructure Strategies. We are also taking an active part in discussions and workshops with DIA and other local government agencies to help the formation of viable long-term options to address those challenges.

Nevertheless, there are fundamental gaps in the current reform proposal that must be addressed in order to strengthen the proposal and uphold the reform's underlying core intentions.

The importance of Three Waters infrastructure to local government

The purpose of local government is to enable democratic local decision-making and action by, and on behalf of, communities, and to promote the social, economic, environmental and cultural wellbeing of communities in the present and for the future.

It is our job to ensure that the current and future needs of our communities for good-quality local infrastructure, for local public services, and for effective regulatory functions, are met in a way that is cost-effective for ratepayers, households and businesses. To fulfill our purpose (and the four well-beings) requires Three Waters infrastructure that is fit for our community's needs.

The case for the proposed reforms relies primarily on the assumed economic benefits. But 3 Waters infrastructure assets are important not just for financial reasons, but also for the environmental, social and cultural outcomes they achieve. Our great concern is that the Entities take a regressive view that infrastructure projects are simply engineering and financial problems. They are not. They are questions of community development and growth. As such, local government can only function effectively if necessary Three Waters infrastructure is provided in a timely and effective way.

Issues – defining the level of service

To deliver on our purpose, local government must understand and plan for growth, and our communities' environmental, cultural and social wellbeing needs. To do this, we must have the ability to define the infrastructure services we require. The lack of clear detail on how this will occur gives local government (and our communities) legitimate cause for concern.

How will the Entity's operating model ensure consistent and reliable responses to our community's needs? What are the processes that will ensure that territorial authorities as lead local agencies and in partnership with mana whenua are able to set and define the outcomes and expectations to be delivered by the Entity? How can our community ensure that the Entity delivers outcomes *at least* as good as already established? It seems highly possible that the economic benefits of scale can become dis-benefits for our community's voice in the clutter of a much larger population base served by the Entity.

Issues – operational relationships with local communities

The current proposals also do not adequately address how operational relationships will be developed with local government (and the communities we represent). There is real potential for a siloed, assets-based management approach that is unresponsive to the unique needs of iwi and communities.

It's also important to understand that those operational relationships are often with hapū and Māori land owners (who often have legal ownership and kaitiaki responsibilities for land underlying infrastructure assets). The complexity of those rights and interests is not currently reflected in the proposals.

We have learnt from experience the importance of working with local communities in the initiation and design of services. We have learnt from experience that successful delivery of infrastructure projects depends on developing long-term (not just project-based), sustainable and productive operating relationships. We simply cannot see how the Entities can viably develop those community relationships across super-regions, and this will limit the ability to design locally-influenced solutions (as we have done in numerous occasions) based on the needs and values of local communities.

Solution – defining the relationship

The Council (with our iwi partners) is the best-placed organisation to continue to define a set of unifying and aspirational objectives for the district, to articulate complex community issues, and to lead the collective response to those issues and outcomes. We have a unique leadership role and the necessary institutional competence to do so. Furthermore, that leadership role and competence cannot be readily replicated by a single-purpose agency. We are of the strong view, that any attempt to do so would be naïve, ineffective and will create an unnecessary burden of resource duplication.

We agree that it is not always necessary for the Council to directly deliver the work programmes required to achieve the desired community outcomes. However, in partnership with iwi, we are the only organisation in the district able to monitor the attainment of and be accountable for such outcomes.

Ensuring the Entities Deliver on Community Outcomes

The Council wishes to continue to support and actively participate in the proposed reforms. We consider a critical element towards securing wide community confidence in the reforms would be an early

These concerns could be allayed by establishing early agreements between each of the Councils, their respective mana whenua and the Entity (or its Transitional Authority). Those agreement should set out the detail of how we will work together to ensure democratic local decision-making is upheld, and that our communities receive the economic, social, cultural and environmental outcomes that they need and deserve. The proposed new Entity should also form direct relationships with mana whenua and other community bodies as part of their core competency.

Nevertheless, the direct link to the Council's LGA mandate will reinforce an integrated approach to jointly pursue agreed outcomes on the following basis:

Setting the Strategy

1. A 3-Waters Strategy with clear outcomes for Rotorua is agreed between the Entity, RLC and mana whenua.
2. The Entity commits to giving full effect to the outcomes and the objectives of the agreed Rotorua 3 Waters Strategy in a manner that enables local decision-making, reinforces relationships with iwi and discharges both the Crown's Treaty obligations and our partnership responsibilities.

Agreeing on Delivery

3. The Entity agrees to work jointly with RLC to structure a Business Plan (to be received and endorsed by Council and mana whenua) that clearly articulates the methodology by which the outcomes and the objectives of the 3 Waters Strategy will be pursued for the district.
4. The Entity agrees to work together and in partnership with RLC and mana whenua to give effect to the future needs of Rotorua. The partnership should be defined by a recognition that the Entity has subject matter expertise, while iwi and Council have much greater knowledge of local needs and values.

Monitoring outcomes

5. The Entity will report regularly to RLC (in partnership with mana whenua) on progress against the agreed Business Plan and the progress towards the evolving LTP objectives including the status and health of relationships and partnerships with the communities and specifically with mana whenua.
6. The Entity agrees to report to RLC (in partnership with mana whenua) against investment in local employment, the development of skills and capability in the district.

Te Arawa partnership

The Council, faithful to its partnership with Te Arawa has, in July 2021, resolved to establish a joint committee to consider the impacts of the Three Waters Reform on Council's partnerships with mana whenua and to make recommendation to the Council and to mana whenua on the same. The Committee acts as a forum for governance oversight, to identify and develop shared concerns and aspirations, to understand the effects on relationship agreements, and to ensure well-informed, co-ordinated decision-making of the parties.

It is important that these discussions are had with both Council and mana whenua, so that your officials (as well as Council and mana whenua) fully understand the practical complexities and impact of the proposed reforms, and so that we ensure a robust, well-informed and co-ordinated approach to decision-making by Council and by mana whenua entities.

We also reiterate and support the calls from iwi that the proposals have not adequately addressed the effect of the reform on existing Treaty settlements obligations. We are concerned that the proposed reforms must both protect existing settlements, as well as

ensure that the Crown (and local government and the Entities) continues to have the ability to continue to put right historic wrongs.

Conclusion

Our clear intention is to be supportive and constructive in the effort towards a viable and sustainable new 3 Waters management framework, and we hope our letter contributes to the further development of the reform proposals. We would be happy to discuss further these views as required.

ETC ETC

From: Stavros Michael
Sent: Wednesday, 1 September 2021 9:50 AM
To: Geoff Williams; Steve Chadwick; Dave Donaldson; Gina Rangi; Oonagh Hopkins; Craig Tiriana
Subject: RE: 3 waters working group feedback
Attachments: 3 waters working group feedback.docx

Ok down to Sportsdrome this morning but briefly;

- I am supportive of the position outlined
- The reality is that the metrics of the proposed reforms are and will be assessed for and by each individual Council through the Council Impacts Assessments to inform Councils' decision making. They will be different for each Council and a collective view is pointless. This proposed group will simply suck more scarce resources out of our limited capacity to replicate processes already underway. I can hardly see Mayors and CEs doing all that work by themselves and the DIA said "NO MORE MONEY FOR THIS TYPE OF ENTOSCOPIES"
- The key and fundamental issue for us (and should be for each TLA) is the MO between a potential Entity and each TLA. Our view supports the thesis that Entities must form a Kawenata type of agreement with each TLA to reflect the local community's aspirations. So having a collective view means we subscribe to the DIA worldview that all communities are the same and they are simply interested in getting water services. This is not our view.
- By having a self-appointed group (without clear structure and mandate) we simply defeat the key point of "not one size fits all". DIA and the Minister must do better in recognising unique local identities through the LGA mandated role of the TLAs..
- The future progress will depend on whether DIA wins the argument for ONE National Transition Agency or the creation of 4 proposed TAs. Our position should be on four so we can form an agreement with them that the Entities will be tasked to give effect to as per pour letter to the Minister.

Hope that's helpful.

Stavros

Stavros Michael *DCE Infrastructure & Environment & Primary CDEM Controller –*
Manahautū: Tūāpapa me te Rākau Whakamarumarū
P: 07 351 8148 | **M:** 027 807 3847
E: stavros.michael@rotorualc.nz | **W:** rotorualakescouncil.nz
A: 1061 Haupapa St, Private Bag 3029, Rotorua Mail Centre, Rotorua 3046, New Zealand

ROTORUA
LAKES COUNCIL

From: Geoff Williams <Geoff.Williams@rotorualc.nz>
Sent: Wednesday, 1 September 2021 8:29 am
To: Steve Chadwick <Steve.Chadwick@rotorualc.nz>; Dave Donaldson <Dave.Donaldson@rotorualc.nz>; Stavros Michael <Stavros.Michael@rotorualc.nz>; Gina Rangi <Gina.Rangi@rotorualc.nz>; Oonagh Hopkins <Oonagh.Hopkins@rotorualc.nz>; Craig Tiriana <Craig.Tiriana@rotorualc.nz>
Subject: 3 waters working group feedback

Attached is a rough draft of a communication for the Chair and Mayors regarding the 3 waters working group.

Be good to discuss tomorrow

Geoff

Dear Neil and Colleagues

Firstly, I'd like to acknowledge the efforts of the working group so far. A lot of discussions have taken place and it is clear to me that we are all working with the intent of doing what is right for each of our communities. Having said this, I have reached a position where I believe the drive to synthesise a collective position on the three waters reforms, at this stage in the process, is unnecessary and potentially counterproductive.

The Minister has given us time to consider the reform proposals and to provide feedback on each Council's position. In Rotorua, we have established a clear process, alongside Iwi, by which to finalise our feedback and will not be in a position to share this until the process has been completed. Notwithstanding this, our preliminary position is that we support the intent of the reforms however there are fundamental gaps in the current reform proposal that must be addressed to strengthen the proposal and uphold the reform's underlying core intentions.

Whilst I see merit in obtaining an overview of each Council's thinking across the 'entity B' area, I remain of the view that it is the prerogative of each Council to communicate their positions to the Minister. The assertion the working group could provide a conduit and co-ordinated point of contact for the Minister and DIA, and that a synthesized position be prepared and communicated to the Minister, may at best detract from the position of each Council and at worst could directly undermine them.

The proposed terms of reference also suggests the working group would 'Arrange and facilitate meetings for Councils in Entity B and execute all relevant work programmes, work to enhance relationships between Councils in the Entity B area and Mana Whenua, and should the reforms progress, work to ensure alignment of Entity B member Council transition'. My view is that none of this was discussed or even contemplated by the Mayors at Taupo and that we would be better consider the Government's implementation strategy for the reforms before setting in place a mechanism such as what is proposed.

I do think it is important that we continue to work collaboratively, and I am mindful of some Council's sense of urgency to progress the reform process. This said, these services and associated the infrastructure are seen as fundamental to each of our communities and there exists a wide divergence of views as to the desired shape of the future. I would like to suggest therefore that in order to hasten and make more effective longer term change our focus over the next few weeks should be on ensuring understanding and working with Iwi and our wider community to ensure robust feedback is provided to the Minister.

From: Gina Rangi
Sent: Wednesday, 1 September 2021 12:45 PM
To: Stavros Michael; Geoff Williams; Steve Chadwick; Dave Donaldson; Oonagh Hopkins; Craig Tiriana
Subject: RE: 3 waters working group feedback

I agree, no further comment from me

From: Stavros Michael <Stavros.Michael@rotorualc.nz>
Sent: Wednesday, 1 September 2021 9:50 AM
To: Geoff Williams <Geoff.Williams@rotorualc.nz>; Steve Chadwick <Steve.Chadwick@rotorualc.nz>; Dave Donaldson <Dave.Donaldson@rotorualc.nz>; Gina Rangi <Gina.Rangi@rotorualc.nz>; Oonagh Hopkins <Oonagh.Hopkins@rotorualc.nz>; Craig Tiriana <Craig.Tiriana@rotorualc.nz>
Subject: RE: 3 waters working group feedback

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- The reality is that the metrics of the proposed reforms are and will be assessed for and by each individual Council through the Council Impacts Assessments to inform Councils' decision making. They will be different for each Council and a collective view is pointless. This proposed group will simply suck more scarce resources out of our limited capacity to replicate processes already underway. I can hardly see Mayors and CEs doing all that work by themselves and the DIA said "NO MORE MONEY FOR THIS TYPE OF ENTOSCOPIES"
- The key and fundamental issue for us (and should be for each TLA) is the MO between a potential Entity and each TLA. Our view supports the thesis that Entities must form a Kawenata type of agreement with each TLA to reflect the local community's aspirations. So having a collective view means we subscribe to the DIA worldview that all communities are the same and they are simply interested in getting water services. This is not our view.
- By having a self-appointed group (without clear structure and mandate) we simply defeat the key point of "not one size fits all". DIA and the Minister must do better in recognising unique local identities through the LGA mandated role of the TLAs..
- The future progress will depend on whether DIA wins the argument for ONE National Transition Agency or the creation of 4 proposed TAs. Our position should be on four so we can form an agreement with them that the Entities will be tasked to give effect to as per pour letter to the Minister.

Hope that's helpful.

Stavros

Stavros Michael *DCE Infrastructure & Environment & Primary CDEM Controller –*
Manahautū: Tūāpapa me te Rākau Whakamarumarū
P: 07 351 8148 | **M:** 027 807 3847
E: stavros.michael@rotorualc.nz | **W:** rotorualakescouncil.nz
A: 1061 Haupapa St, Private Bag 3029, Rotorua Mail Centre, Rotorua 3046, New Zealand

ROTORUA
LAKES COUNCIL

From: Geoff Williams <Geoff.Williams@rotorualc.nz>
Sent: Wednesday, 1 September 2021 8:29 am
To: Steve Chadwick <Steve.Chadwick@rotorualc.nz>; Dave Donaldson <Dave.Donaldson@rotorualc.nz>;

Stavros Michael <Stavros.Michael@rotorualc.nz>; Gina Rangi <Gina.Rangi@rotorualc.nz>; Oonagh Hopkins <Oonagh.Hopkins@rotorualc.nz>; Craig Tiriana <Craig.Tiriana@rotorualc.nz>

Subject: 3 waters working group feedback

Attached is a rough draft of a communication for the Chair and Mayors regarding the 3 waters working group.

Be good to discuss tomorrow

Geoff

From: Shaun Jones <shaun.jones@tuhurapartners.co.nz>
Sent: Monday, 6 September 2021 10:18 AM
To: Regan Fraser; Stavros Michael; Kevin Lavery; Andy Matthews; Paul Blair; Thomas Colle; Greg Kieck; Gina Rang; Eric Cawte; Karlo Keogh; Oonagh Hopkins
Cc: Greg Manzano; Sarah Pauli
Subject: RE: Council Impact Assessment - Rotorua - 3-Waters Reform
Attachments: COUNCIL IMPACT ASSESSMENT_CONSIDERATION CRITERIA TEMPLATE_v_10.docx

-----Original Appointment-----

From: Regan Fraser <Regan.Fraser@rotorualc.nz>
Sent: Thursday, 26 August 2021 2:21 pm
To: Regan Fraser; Stavros Michael; Kevin Lavery; Andy Matthews; Paul Blair; Shaun Jones; Thomas Colle; Greg Kieck; Gina Rang; Eric Cawte; Karlo Keogh; Oonagh Hopkins
Cc: Greg Manzano; Sarah Pauli
Subject: Council Impact Assessment - Rotorua - 3-Waters Reform
When: Monday, 6 September 2021 10:00 am-1:00 pm (UTC+12:00) Auckland, Wellington.
Where: Sportsdrome Board Room - See attachment for Directions

Zoom details below :

Regan Fraser is inviting you to a scheduled Zoom meeting.

Topic: My Meeting
Time: Sep 6, 2021 10:00 AM Auckland, Wellington

Join Zoom Meeting
<https://rotorualc.zoom.us/j/84944320512>

Meeting ID: 849 4432 0512
Passcode: 338883
One tap mobile
+6436590603,,84944320512#,,,,*338883# New Zealand
+6448860026,,84944320512#,,,,*338883# New Zealand

Dial by your location
+64 3 659 0603 New Zealand
+64 4 886 0026 New Zealand
+64 9 884 6780 New Zealand

Meeting ID: 849 4432 0512
Passcode: 338883
Find your local number: <https://rotorualc.zoom.us/j/kdHzjIHV9e>

Kia ora koutou,

New time for this meeting. On-site hopefully, but if that is unachievable due to alert levels then via Zoom. A Link will be updated to this invitation if required.

Nāku noa, nā

Regan Fraser *Kaihautū Pakihi Tūāpapa - Infrastructure Business Manager*

P 07 351 8937 M 027 594 3610

E: regan.fraser@rotorualc.nz | W: rotorualakescouncil.nz

A: 1061 Haupapa St, Private Bag 3029, Rotorua Mail Centre, Rotorua 3046, New Zealand

**ROTORUA
LAKES COUNCIL**



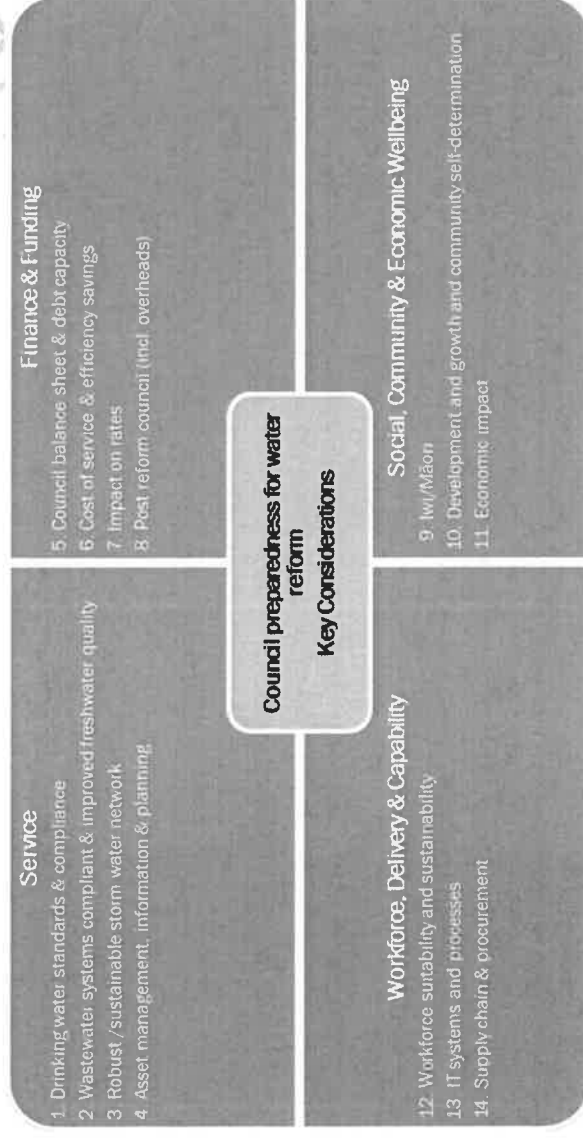
Three Waters Reform – Considerations and Criteria for Council Impact Assessment - Version 10: 13-08-21

The purpose of the ‘balanced scorecard’ impact assessment framework is to provide a structure through which Councils can consider a range of factors which may impact on Three Waters reform decision-making.

The assessment is divided into four quadrants, with each incorporating a range of considerations. A range of criteria have been developed to assess Councils current three waters position and risks compared to the those of the Reform proposal.

The criteria use council’s current (without reform) position as a Base, with a RAG status (Red, Amber, Green) assessment to be completed for each criteria. For some data driven criteria an assessment can be made for both “current/without reform” and for the “with reform” scenario. For others where the criteria is based on the assessing a risk to Council, a RAG assessment is to be completed for “without reform”, and a default assessment (e.g. “green” where reduced risk to Council is expected under reform) or a “yellow” to reflect and n/a assessment, or where the criteria is “non-binary” (i.e. it is not possible to make a comparative assessment under Reform). This will become evident as you progress through the assessment.

The assessment worksheet and summary will allow Councils to develop a graphic representation based on relative RAG status comparing “Without Reform” and “With Reform”. Weighting of various criteria can be considered on a council-by-council basis, but should not be necessary to provide a general comparative assessment.



1. Drinking Water Standards & compliance																
Rationale	The Drinking Water Standards for New Zealand (DWSNZ) set and provide the compliance criteria to be met by all public water supplies (including for small community schemes and private suppliers). Compliance with the DWSNZ requires appropriately built and installed infrastructure (capex) and operational (opex) activities with management oversight and compliance reporting and review, including appropriately qualified and competent operators. Achievement per supply with the DWSNZ, demonstrates a responsible attitude by the Supplier to public health, along with significantly reduced risk for consumers.															
Reform assumptions	<ul style="list-style-type: none"> It is presumed where a Council has achieved DWSNZ compliance for a particular supply then they will continue to maintain that compliance. This makes no allowance for the changing nature of the Standards. It is assumed that some (if not all) private supplies/schemes will default to local councils once the supplier(s) recognise the burden of future compliance. A 2018 national report by Beca identified the national cost to upgrade all known and registered water supplies for DWSNZ compliance, which can be used to estimate upgrade costs per scheme on a population (per person supplied) basis 															
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Other considerations:																
	<ul style="list-style-type: none"> Taumata Arowai is set to become the regulator for Drinking Water in NZ from late 2021. Marae water supplies are in many cases to be identified and prioritised for upgrade and compliance – the Crown has allocated a \$30M capex fund for a pilot Growth impacts to be separately considered 															

INDICATIVE ONLY

2. Wastewater systems compliance, and improved freshwater quality	
Rationale	Upgrading wastewater treatment plants (wwtp) & discharges to meet current and future standards is a major investment challenge. Major components of this challenge are that the Resource Management Act (RMA) reforms and subsequent consenting regimes, the implementation of the National Policy Statement for Freshwater Management (NPS-FM) by Regional and District Councils, and the elevation of Te Mana O Te Wai. This creates uncertainty around acceptable future discharge characteristics, from which appropriate treatment processes, and the necessary capex investment and operating practices, may be determined. To mitigate this uncertainty, responsible water entities will anticipate these challenges at a pan region level, then work with their communities, stakeholders, industry and service providers to appropriately consent their wastewater discharges. They will also look for shared opportunities. <u>Note:</u> The NPS-FM applies to freshwater bodies, i.e. all inland rivers, lakes and waterways.
Assumptions	<ul style="list-style-type: none"> Regional Councils to have National Policy Statement – Freshwater Management (NPS-FM) provisions in place by 2025 – to inform future consent discharge limits – this will apply to all discharges to inland waterways. Marine (Sea) discharges by ocean outfall are likely to come under greater scrutiny/more stringent limits and conditions on discharges Resource Management (RM) consenting regime set to change within next few years – expected to result in more stringent environmental conditions All of the above is expected to add input costs over and above the current settings Opportunities and optioneering for combined plants and discharges pan-region are unlikely to have been explored or costed in any detail
Criteria	
RAG Classification	
	Green
	Amber
	Red
2(a) System performance – consent compliance (per DIA Mandatory measures reporting) - for most recent reporting year – across all council schemes	No non-compliant discharges, consent condition breaches resulting in environmental condition exceedances, abatement notices, prosecution
2(b) System performance – whole network - no of overflows reported (past year, dry weather and wet-weather overflows)	No reported dry weather overflows, wet weather overflows within stated target
2(c) Freshwater management – future discharge conditions affected by NPS-FM. Do you have wwtp discharges to inland waterways as receiving waters as this presents a significant future risk?	All wwtp discharge to sea and/or to land based discharge
2(d) Consent expiry - Are your wastewater treatment plants operating on expired consents? Will any consents expire within the next 5 years?	All with current consents and expiry date >5 yrs away
2(e) Are the financial implications fully recognised in your long-term plan? Per options included in Infrastructure Strategy (IS)	Costs (capex and opex) all fully estimated and provisioned in 2021-31 LTP per preferred option in IS
	Some minor non-compliance in discharges; no consent condition breaches resulting in environmental condition exceedances, abatement notices, prosecution
	Few dry weather overflows, future targets for wet weather overflows in place
	Some discharge to inland waterways
	All with current consents but with expiry date for some or all <5 yrs away
	Capex estimates included in LTP; opex allowance included
	Non-compliant discharges, and/or consent condition breaches resulting in environmental condition exceedances, abatement notices, prosecution
	Dry weather overflows, and wet weather overflows exceedances
	All wwtp discharge to inland waterways
	Some or all operating on expired consents
	Some capex included; opex not allowed for (unknown). Options yet to be fully explored and estimated

Other considerations

- In future Taumata Arowai expected to also have a role in oversight of wastewater system performance and compliance (over and above the existing regional council role). To this end Taumata Arowai have indicated that they will seek to institute some form of national performance standard pertaining to wastewater infrastructure for expectations on discharge quality
- Growth impacts to be separately considered

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<p>3. Robust, sustainable stormwater network</p>	<p>Stormwater is emerging as a significant future investment challenge, driven primarily by growth and environmental quality improvement requirements. Are you confident you have sufficient investment in your long-term plan and are fully funding costs, including depreciation? The reform generates stormwater benefits that reduce statutory and regulatory complexity, address funding constraints, increase existing and future capacity and capability, enable urban growth, improve water quality, and respond to climate change. There is a growing trend towards stormwater quality management. The number of service providers with stormwater quality management plans has increased by 43% in the last three years (Water NZ NPR)</p>		
<p>Rationale</p>			
<p>Criteria</p>	<p>RAG Classification</p>		
	<p>Green</p>	<p>Amber</p>	<p>Red</p>
<p>3(a) Stormwater asset valuation using Optimised Replacement Cost (ORC) where soft assets are defined as land attenuation, swales, ponds, wetlands etc</p>	<p>Revalued with ORC including all hard and soft assets and/or Confidence rating in completeness and accuracy of asset data at A (high confidence)</p>	<p>ORC does not include soft assets and/or Confidence rating in completeness and accuracy of asset data at B or C (medium confidence)</p>	<p>ORC does not include all hard assets and no soft assets and/or Confidence rating in completeness and accuracy of asset data at D (low confidence)</p>
<p>3(b) Economic depreciation and renewals funding (per 10-year period of LTP 2021-31)</p>	<p>Long run renewals <u>funded</u> budget matches accrued depreciation for stormwater</p>	<p>Long run renewals <u>funded</u> budget <100%>50% accrued depreciation for stormwater</p>	<p>Long run renewals <u>funded</u> budget <50% accrued depreciation for stormwater</p>
<p>3(c) Climate change impacts on Levels of Service (LoS)</p>	<p>Current and future LoS determined taking into account changed rainfall patterns, and sea level rise impacts quantified</p>	<p>Future LoS unchanged from current LoS (which do incorporate some impacts of climate change)</p>	<p>Current LoS don't take into account climate change impacts</p>
<p>3(d) Service providers with stormwater quality and catchment management plans</p>	<p>Catchment management plans in place, implemented with active stormwater quality monitoring</p>	<p>Most or some catchment management plans in place, and some or no quality monitoring</p>	<p>No catchment management plans in place, and no quality monitoring</p>
<p>3(e) Discharge water quality – means to manage and improve discharge quality e.g. incorporation of Sensitive Urban Design (SUD) and Low Impact Design (LID) standards in design and operation of networks</p>	<p>Have discharge standards and practices to remove contaminants (may be tailored to sensitivity of receiving catchment)</p>	<p>Some discharge standards and practices to remove contaminants, but not applied across whole network</p>	<p>No discharge standards and practices to remove contaminants</p>
<p>Other considerations</p>			
<ul style="list-style-type: none"> • Yet to incorporate Iwi and Hapu views, and community and Regional Councils aspirations as to the quality of local water bodies (per the NPS-FM framework) • Growth impacts to be separately considered 			

4. Asset Management and Infrastructure Planning																								
Rationale	Things might look alright now but what are the implications for the future? Some councils have invested heavily recently in upgrading 3 waters assets, where for others this will be required in the next 10-30 years. Where are your assets in their lifecycle? The expected increased level of service will require a step change in standardised and enhanced asset information and operating systems. Are you confident that your Council with its current systems could deliver this?																							
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Other considerations	<ul style="list-style-type: none"> • There are many factors essential to good practice Asset Management, as covered in the IIMM, which should be treated as a primary reference for NZ context • Good practice, which has transformed utilities elsewhere, includes integration of such tools as working hydraulic models, overlaid with asset criticality, SCADA and Programmable Logic Control (PLCs) etc. for full analytical capability and future progression to artificial (programmed) intelligence in automating operational decision-making. 																							

5. Council balance sheets and debt capacity	
Rationale	Debt is prudent way for Councils to finance asset investment. This especially true of 3 Waters assets because they have very long lives over several generations. Users of asset then fund the asset through mechanisms such as development contributions where the investment is for growth; or by rates where the investment is to upgrade existing assets or service – with users paying as they receive the benefit of the investment over generations. But many Councils are reaching their maximum debt capacity. This has or will in future, put significant limitations on the ability for Councils to borrow to fund the required improvement in service levels in 3 waters activities and/or the investment required to respond to growth. In many cases the levels of borrowing attributable to 3 waters (reflected through a debt-to-income ratio) is significantly higher than that for the balance of Council activities. Separating the assets and debt relating to 3 waters activities (balance sheet separation) and consolidating this into a combined water entity with increased borrowing capacity than that afforded to Councils will increase the capacity for 3 waters investment, and lower the debt-to-income ratio of the residual Council entities, enabling greater borrowing capacity for other Council activities.
Reform Assumptions	<ul style="list-style-type: none"> The ability to incur debt is a critical enabler to the environmental and social outcomes desired through 3 waters reform The new 3 waters entities will acquire the 3 waters assets of each Council (excluding land?) and assume responsibility for these assets and service levels (some specific exceptions re Storm-water assets) The outstanding balance of external debt incurred by Councils investing in improvement to 3 waters infrastructure will transfer to the new Water Entity. Outstanding debt balances arising from asset investment, for which repayment provisions are incorporated in a Council Development Contributions Policy will also transfer. While, not yet confirmed it is assumed that where a Council has zero 3 waters debt, any cash/investment reserves held by Councils will either not transfer to the new WSE, or alternatively if transferred an equivalent reimbursement be made to the Council. The level of council debt that is transferred to the new WSE, will, when combined with future investment requirements must be sustainable i.e. will enable the entity to meet both its credit and economic regulation obligations.
Criteria	RAG Classification
5(a) 2020 Debt to Income ratio for 3 waters activities 2020	Green Debt to Income <100%
5(b) 2031 Debt to Income ratio forecast for 3 waters activities	Amber Debt to Income ratio 100%-250%
5(c) Debt to income ratio for 3 waters divided by debt-to-income ratio for balance of Council	Red Debt to Income ratio >250%
5(d) Development Contributions are used as an external funding source to offset rates burden. There is a challenge in how this will be managed by WSE due to the complexities associated with managing and forecasting growth. Proportion of 2021 3 waters debt balances, currently forecast to be repayable via Development Contributions reflecting that less reliance on DC's represents less risk to Council.	Debt to Income ratio >250% A negative variance ratio More than 30%
5(e) The removal of debt from Council balance sheet will generate additional headroom for borrowing in the future. Is the creation of additional Council debt capacity for non-three waters debt viewed by your Council positively or a negatively considering it will result in potentially higher operating cost/ funding requirements but improved levels of service?	A variance ratio between 0% and positive 100% 10% - 30% Viewed positively Neutral Viewed negatively
Other considerations	

- Some Councils have low debt levels. This may relate to the lower level of investment made in recent years. Councils should consider not only their current position but what debt requirements may be over the next 30 years. Councils with lower debt levels, may be likely to incur significant costs to upgrade 3 waters infrastructure in the future. With asset and balance separation this investment and borrowing that goes with it would become the responsibility of the new entity.
- Decision makers will need to ensure that under the new entity structure, there is a mechanism that ensures that investment prioritisation is given to meeting compliance with service level standards and that the relative needs of a smaller geographical areas are prioritised equally with larger ones.
- The Councils with highest debt are generally Councils that have experienced the highest population growth in recent years. This debt reflects a portion of the investment needed to meet the necessary infrastructure requirement.
- To ensure a continuation of investment Government could consider setting the level of 'Base' borrowing to be transferred as at 1 July 2022 and then require Councils to gain approval from the 'Interim Entity' for subsequent 3 waters capex projects to be funded by debt, up until formal debt transfer on 30 June 2024.
- Three waters balance sheet separation will increase investment capacity for the remaining activities of Councils. While generally viewed as a positive some may consider that the effective resetting of Council debt caps will encumber Council and their ratepayers. Is there a risk it may also shift investment from longer life (i.e., 3 waters infrastructure) towards shorter life assets with higher depreciation rates and proportionally higher funding requirements.

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6. Cost of service & efficiency savings	<p>The current cost of service varies significantly between councils, both regionally and nationally. This is caused by a range of factors including variable level of service, concentration of population & scale and physical /environmental factors. Increases in service levels requirements resulting in increased capital investment and operating costs are expected to place significant upward and potentially unsustainable upward pressure on 3 waters costs unless significant efficiencies can be achieved.</p> <p>For many Councils obtaining cost efficiency is limited by scale and having a small, generalist workforce. For capital projects pricing efficiency can also be limited by the one-off nature of projects and the lack of a delivery pipeline for contractors. For some Councils efficiency limitations extend to being able to access the right labour resources at the right time to meet work demands.</p> <ul style="list-style-type: none"> • Evidence from UK and Scotland (see WICS reports) indicates significant efficiencies can be achieved through agglomeration of water service provision into larger entities. WICS suggest that efficiency potential can only be maximised within water service organisations serving in excess of 800,000 people. • WICS identify a range of other factors that enable efficiencies to be achieved, including 'clarity of policy priority', 'robust water quality and environmental regulation' and 'excellence in management'. It is assumed these are all achieved under the reform scenario. • WICS modelling assumes costs are scaled up to account for existing service level gaps and then discounted by an efficiency factor, with greater comparative efficiencies assumed achievable in a consolidated entity for those Councils currently serving smaller populations. • While there is no certainty that 40% - 50% efficiencies are achievable in the New Zealand context, it is realistic to expect significant gains by taking advantage of economies of scale and shared expertise, improving procurement co-ordination & pipeline, standardising operating environments, and utilising technology advancement. 		
Rationale			
Reform Assumptions			
Criteria	RAG Classification		
6(a) WICS modelling assumes significantly greater opportunity for efficiency savings with scale. What population will be served with and without reform.	Green Greater than 800,000	Amber 60,000 – 800,000	Red Less than 60,000
6(b) Many Councils will find it difficult to manage future cost pressures. WICS modelling forecasts that reform will create efficiencies that significantly reduce the impact of increasing costs. What change in forecast operating costs per household (incl. Depreciation & in real terms) is expected over the next 10 years based on your 2021-2031 LTP.	Less than 50% increase in costs per household (i.e., less than 5% average year on year increase)	50%-100 %increase in costs per household (i.e., between 5% and 9% average year on year increase)	Greater than 100% increase in cost per household (i.e., greater than 9% year of year average increase)
6(c) Responding to the infrastructure requirements to support /population & housing growth has been a significant challenge for some Councils. Do your 2021-2031 LTP forecasts fully cover your growth expectations for your city/district.	Fully cover growth related capex expectations.	Not sure or within 10% -20%	Likely significantly short of fully meeting forecast growth requirements.
6(d) Councils with low current renewal requirements may face a bow-wave of expenditure in future. What proportion of depreciation expense is forecast to be invested in asset renewal	More than 100% invested in renewals	50% to 100% invested in renewals	Less than 50% invested in renewals
Other considerations			

7. Impact on rates / charges for 3 Waters			
Rationale	<p>There are some significant differences between Councils both regionally and nationally in”</p> <ul style="list-style-type: none"> - the level of rates currently levied to pay for 3 waters services - the degree to which costs are targeted to those that benefit specifically (targeted rates, water metered etc) - how rates balances & reserves are recorded and managed <p>We can also not presume that because three waters rates are currently low relative to other Councils, that they will be so in future. Current rates levels can be heavily influenced by service levels and the degree to which the cost of these waters services is fully funded.</p>		
Reform assumptions	<ul style="list-style-type: none"> • It is assumed that water charges will be harmonised across a ‘Water Services Entity’ (WSE) region over a period of 5 – 10 years from 1 July 2024. • It is assumed a mechanism will be identified and implemented to address differences in funding contributions (i.e. for capital investment) made between ratepayers within a particular targeted rating scheme. • The new entities will temporarily use debt to manage transition costs (i.e. to fund some operating costs until efficiencies are realised), but that after 5 years receivers of 3 waters services will be fully funding the cost of service, including economic depreciation. 		
Criteria	RAG Classification		
Green	Amber	Red	
<p>7(a) Compared to other Councils in the proposed Water Services Entity area current average water rates for your council are:</p>	<p>About the same or lower so there is likely to be a perception that ratepayers are paying less than others in the region.</p>	<p>Slightly higher so there may be a perception that ratepayers are paying more than others in the region.</p>	<p>Significantly higher (>20% higher than average) so there may be a perception that ratepayers are paying much more than others in the region.</p>
<p>7(b) Some Councils do not currently fully fund the cost of 3 waters services (e.g. depreciation). It is expected that under the economic regulator will require WSE’s will address this issue. Funding Impact Statements (FIS), provide an indication of the level of under-funding to be addressed. The combined ‘surplus/deficit’ of operating funding for 3 waters activities is:</p>	<p>Equal to or greater than 3 waters annual depreciation, indicating there is little or no funding gap to be addressed by reform.</p>	<p>80% to 100% of three waters annual depreciation, indicating there some funding gap that will need to be addressed.</p>	<p>Less than 80% of three waters annual depreciation, indicating a potentially significant funding gap to be addressed.</p>
<p>7(c) As reform aims to secure water services for the next 30 years and beyond, future rating impacts are an important consideration. Under reform these impacts will be reduced by both</p>	<p>Increasing by less than 50%, so not a lot of benefit will be achieved through rates harmonisation, based on LTP forecasts</p>	<p>Increasing between 50% and 150% so medium benefit achieved by harmonisation.</p>	<p>Increasing by more than 150% so significant benefit to gained through reform efficiency and rates harmonisation.</p>

<p>efficiency and rates harmonisation across the region, Council LTP forecasts show rate increasing over the next 10 years: (note: include the impact of fully funding depreciation)</p>			
<p>7(d) The analysis completed by WICS & incorporated in the DIA dashboard shows an estimated relative 30-year (i.e. 2051 forecast) cost per household for 3 waters services under the status quo vs a reform scenario. What does this indicate for your Council?</p>	<p>Council costs without reform are forecast to be lower than cost with reform</p>	<p>Council costs without reform are forecast to be 0-100% higher than cost with reform</p>	<p>Council costs without reform are forecast to be >100% higher than cost with reform</p>
<p>Other considerations:</p>			
<ul style="list-style-type: none"> ● Note that the quality of information in criteria (b) will be limited by the accuracy of asset value data i.e. if assets are undervalued, depreciation will be under-estimated and the under=lying funding gap may be greater than indicated. ● The application of rating differentials varies considerably between Councils. Some Councils have higher relative rates requirements on their business sector. It is important that the impact on businesses from reform and rates harmonisation is also considered. ● The WICS modelling assumes 70% of funding will come from households. More work is required to assess the accuracy and impact of this assumption in each proposed water service entity area. 			

8. Post reform council viability (including overheads)																
Rationale:	A key consideration for Councils is the impact of three waters reform and the separation of debt, asset, and service operations on the remaining Council during transition and post reform. Three waters activities make up between a quarter and third council costs, so most Councils allocate a significant proportion of their corporate overhead costs to three waters activities. Unless these costs can be removed, they risk becoming 'stranded' costs that ratepayers will still need to fund.															
Reform assumptions:	<ul style="list-style-type: none"> The report prepared for the government by WICS does not make specific provision for stranded overheads, preferring to assume that these costs will be managed out by Councils through resizing their organisations. Overhead costs that risk become stranded in post reform Councils include salaries & wages in Finance, HR, contracted services & asset ownership costs such in IT, some of which will still be needed to service the balance of the organisation post-reform. Some costs such as building space may be to be managed out over time, but this will be subject to lease commitments. It is reasonable to expect that Councils receive financial support from central government to cover a period of transition over which the organisation can be re-sized to manage stranded overheads. No consideration has yet been made of the Local Government Review considering the broader future form and function of local government. While it is possible that Local Government may acquire more functions as a result of this review, it is not possible to assess the degree to which stranded overheads may be reallocated to support new Council functions. 															
Criteria:	<table border="1"> <thead> <tr> <th colspan="3">RAG Classification</th> </tr> <tr> <th>Green</th> <th>Amber</th> <th>Red</th> </tr> </thead> <tbody> <tr> <td>8(a) The level of overheads currently allocated to three waters activities divided by non- 3 waters operating income provides an indication of the maximum potential for stranded overhead</td> <td>3W overhead allocation between 3% and 6% of non-3waters operating income</td> <td>3W overhead allocation more than 6% of non-3waters operating income</td> </tr> <tr> <td>8(b) There is a risk that removing three waters creates diseconomies of scope for your council. Equally the pending local government review and RMA reform may see other changes to local government functions which could offset the separation of three waters.</td> <td>3 waters opex between 20% - 30% Council opex <u>OR</u> total Council opex between \$50M - \$100M</td> <td>3 waters opex more than 30% of total Council opex <u>AND</u> total Council opex less than \$50M</td> </tr> <tr> <td>8(c) The proportion of council spend on three waters and the overall size of your council are potential indicators of likely ability to be able to reallocate or absorb stranded overheads. Will your Council have the critical mass to manage through reform?</td> <td>Our Council will be moderately impacted by the changes brought about by reform</td> <td>Our Council will have significant difficulty adjusting to the changes brought about by reform</td> </tr> </tbody> </table>	RAG Classification			Green	Amber	Red	8(a) The level of overheads currently allocated to three waters activities divided by non- 3 waters operating income provides an indication of the maximum potential for stranded overhead	3W overhead allocation between 3% and 6% of non-3waters operating income	3W overhead allocation more than 6% of non-3waters operating income	8(b) There is a risk that removing three waters creates diseconomies of scope for your council. Equally the pending local government review and RMA reform may see other changes to local government functions which could offset the separation of three waters.	3 waters opex between 20% - 30% Council opex <u>OR</u> total Council opex between \$50M - \$100M	3 waters opex more than 30% of total Council opex <u>AND</u> total Council opex less than \$50M	8(c) The proportion of council spend on three waters and the overall size of your council are potential indicators of likely ability to be able to reallocate or absorb stranded overheads. Will your Council have the critical mass to manage through reform?	Our Council will be moderately impacted by the changes brought about by reform	Our Council will have significant difficulty adjusting to the changes brought about by reform
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Other considerations:	<p>A number of other factors impacting on the Council entities that will remain post-reform a covered under other consideration areas. These include:</p> <ul style="list-style-type: none"> Debt capacity – covered under Balance Sheet & Debt capacity consideration Staff factors are covered under Workforce suitability & sustainability considerations 															

9. Iwi/Māori			
Rationale	The Government has stated that a key outcome of water reform will be co-governance with iwi/Māori, as required by the Treaty of Waitangi. Implementing Te Mana o Te Wai, the national freshwater framework which incorporates tikanga Māori values, is also expected to be a key outcome of system reform. The Waikato and Bay of Plenty regions have an estimated 47 iwi and population of almost 200,000 Māori, being 25% of the region's population. Critical success factors for Māori include partners in decision making, developing management & governance capability, protection of rights & obligations, addressing inequality, protecting traditional boundaries and water catchment areas and structural longevity.		
Reform Assumptions	<ul style="list-style-type: none"> • Iwi/ Māori timeframes are intergenerational which will bring longer term sustainability thinking to the fore • Iwi/ Māori rights and interests are matters which central government will need to manage, not local government • This process is not meant to 'put a price on water', however equity and allocation decisions are likely to raise economic value considerations • Social procurement will be a feature of a new water entity, with consequent opportunities for iwi/ Māori 		
Criteria	RAG Classification		
	Green	Amber	Red
9(a) Extent to which iwi co-governance is embedded in water delivery	Full co-governance arrangements and positive working relationship	Formalised governance arrangements (not full co-governance)	Informal relations and/or limited iwi engagement
9(b) Extent to which te ao Māori values, key outcomes, and close working relationships (as opposed to governance) are embedded within water delivery	Iwi/ Māori endorse that water KPIs appropriately recognise te ao Māori values and key outcomes	Some recognition of te ao Māori values and key outcomes in water KPIs, some working relationships exist	Limited/no recognition of te ao Māori values and key outcomes in water KPIs, limited working relationships
9(c) Iwi/ Māori access to training, employment and investment opportunities related to the water	At least 5% of all employment, investment & procurement options are with iwi/Māori #	2-5% of all employment, investment & procurement options are with iwi/Māori#	Less than 2% of all employment, investment & procurement options are with iwi/Māori#
9(d) Extent to which marae and papakainga have access to clean, compliant drinking water (wastewater hasn't been chosen – harder to measure)	All marae and papakainga are registered for DWS and are compliant	All marae and papakainga have registered for DWS but are not 100% compliant	Number of marae and papakainga in the area is unknown, or status of marae/papakainga compliance is unknown
Other considerations			
<ul style="list-style-type: none"> • Governance representation mechanisms will need to bridge between '1 iwi, 1 vote' across 47 iwi and the traditional Institute of Directors approach where somewhere between 6-8 directors is considered best practise 			
# New Government social procurement guidance rules for iwi (if this measure is unable to be calculated at present across all categories, assume 'Red')			

10. Development, growth & community self-determination			
Rationale	Councillors are responsible under the Local Government Act for delivering the wellbeing outcomes that matter most to their ratepayers. Councils (currently) and any future water service entity have to meet the requirements of the National Policy Statement on Urban Development, monitored through the <u>Urban Development Dashboard</u> . Water services touch the lives of all residents, and are a critical enabler of urban form, housing and business growth, jobs, environmental outcomes and many others. The proposed reform will remove the ability of councillors to directly control this element of wellbeing, raising concerns that the new larger entity will fail to appreciate, ignore or not deliver on local needs in the same manner as existing councils can. There are two criteria in this scenario 'reacting to' development and growth (arguably this is the state in many higher growth TLA's where there is an infrastructure deficit) and 'strategic planning' – a state where a TLA or new water body is able to plan and invest ahead of growth, reducing supply side constraints.		
Reform assumptions	<ul style="list-style-type: none"> The cumulative effect of reform of the Resource Management Act, the Zero Carbon Act, DHB reform, and the Future of Local Government review will all impact on an individual council's ability to shape and respond to development & growth. Uncertainty due to the reforms listed above will also impact on Council's decision making around water reform Water infrastructure is not the sole driver of development & growth, but it is a critical enabler, and without it house prices generally increase faster than the rate of inflation and business growth is constrained below its full potential Any new water entity will have more powers and funding tools to help in meeting NPS-UD requirements 		
Criteria	RAG Classification		
	Green	Amber	Red
10(a) For Tier 1 & Tier 2 councils, use the Housing & Business Development Capacity Assessment recently provided to Ministry for Environment on compliance with NPS-UD. For other councils, qualitative assessment of development capacity & capability for housing & business land.	Sufficient housing and business land capacity exists (planned, and with funding allocated) for short, medium and long-term demand	Housing and business land capacity may not meet short, medium or long-term demand	Insufficient housing and business land capacity exists (planned, and with funding allocated) for short, medium and long-term demand
10(b) Representation and timely delivery of local community concerns in regard to three waters decision making	More representation and timely delivery	Same representation and delivery times	Reduced representation and timely delivery
10(c) Extent to which a council or water entity can strategically plan and invest in water infrastructure ahead of demand (giving effect to council spatial plans), thus lowering costs and improving certainty for households and businesses	On a 10-year (LTP) view, water entity is able to meet all future regulatory and consumer demands	On a 10-year (LTP) view, water entity is able to partially meet future regulatory and consumer demands	On a 10-year (LTP) view, water entity is unable to meet future regulatory and consumer demands
Other considerations			

- Councillors and ratepayers will need to weigh up any loss of community representation and prospects of speedy delivery with the prospects of unlocking new investment from reform and the mechanisms proposed to ensure that focus on local issues, investment and outcomes is not lost in a larger scale entity
- Water investment is critical for unlocking infrastructure-serviced and, however water investment alone may not unlock land. Transport is the other primary investment consideration, with secondary focus on social infrastructure, telco and electricity investments.
- For some councils the level of growth included in the LTP may not be sufficient to meet the unconstrained needs of ratepayers

INDICATIVE ONLY

11. Economic impact													
Rationale	Water is an input into every business and household, driving widely distributed economic impact. The Government, regional and local economies including ratepayers all benefit from both additional investment itself s and as a basis for improving standards of living. A core driver of reform is to obtain productivity gains (up to 45% drop in operating costs) which drive a substantial increase in ability to fund capex, which will drive additional GDP. Beyond the boost to GDP from additional investment, businesses and households should benefit from increased certainty of high-quality water supply and water investment ahead of demand.												
Reform assumptions	<ul style="list-style-type: none"> • Provincial and rural councils will enjoy the highest economic impact relative to existing GDP, while metros will have the smallest relative gains nationally (but highest absolute gains). W/BoP is modelled as a metro by Deloitte • Deloitte models WAIBOP mid-point additional capex of \$15.4bn, GDP of +4.4%, 839 jobs, • Removing or substantially mitigating constrained funding for water investment should have second order benefits (reduced cost/uncertainty) for businesses and households • Organisational design of the new entity and a detailed transition plan will be required so councils can understand the distribution, timing and local impact of regional economic impacts 												
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Other considerations:													

- Increased GDP does not necessarily translate into more money directly available for local investment (e.g. water rates are not linked to GDP, they are a cost-recovery for local government today). Taxes on economic outputs will flow primarily to central government, but local areas will benefit through additional jobs and potentially investment
- There data available from central government focusses on households, but perhaps 30% of revenue is from businesses. There is little information on business rates, trade waste customers and impacts on these businesses of reform and rates standardisation
- 30% of NZers are small business owners, hence the economic impact on businesses may need further detail

INDICATIVE ONLY

12. Workforce suitability and sustainability	
Rationale	The 3 Waters workforce in WBOP has an average age of approximately 50, and a lot of critical information is held with older employees holding critical roles such as procurement and asset management. Staff are stretched delivering business as usual, so the potential stress of organisational change, maintaining business as usual standards and also delivering the new projects that additional capex will enable could be a 'perfect storm' for retaining key talent. Direct water employees may enjoy new and increased opportunities. However indirect / support staff may feel threatened by the change. Councils and any new water entities will need to have strong change management and innovation approaches to solving for the employee satisfaction, attraction, retention and training of staff for new ways of working, and potentially a new culture. In some areas, contractors are a critical extension to direct council staff, and are a key consideration
Reform Assumptions	<ul style="list-style-type: none"> Existing staff terms and conditions will be protected Care will be taken to avoid triggering redundancy during the transition process The new entities will have more specialist workforce structure and defined career pathways providing staff with many opportunities for promotion and career advancement There will need to be a re-sizing of support services which will mean job reductions
Criteria	
	RAG Classification
	Green
12(a) Direct water staff – perception of local job availability	More roles and opportunities
12(b) Direct water staff – perception of working conditions (ability to make decisions, specialist staff, team morale)	Improved
12(c) Well designed pathways for career development and training including graduate and apprenticeship programmes that are integrated with the sector supply chain	Opportunities are clear and integrated within business. Active participation with supply chain.
12(d) Indirect staff – perception of job availability	More roles and opportunities
12(e) Impact on contractors, consultants and local businesses in the supply chain	More contract value and employment for local businesses
	Amber
	Red
	Less roles and opportunities
	Reduced
	Little to no career development opportunities.
	Less roles and opportunities
	Less contract value and employment for local businesses
Other considerations	
	<ul style="list-style-type: none"> The timeframe for any transition and therefore impact on jobs is critical to give clarity to employees Technology and systems may be a critical way to mitigate knowledge loss, automate certain functions and improve employee experience Procurement (including social procurement policies) and partnering will be key to accessing long term capability outside the water entity – multi-year contracts may be required Leadership and cultural transformation programmes will be critical to unlock efficiencies and employee satisfaction. This includes diversity and inclusion that will drive more diverse workforce including leadership.

13. Information & Communications Technology (ICT) Systems

<p>Rationale:</p>	<p>Internationally the ICT maturity levels for high performing water entities are much further advanced than in New Zealand. Even New Zealand’s most advanced water utility operators are only beginning to develop the capabilities seen in the more advanced water operators. Technologies such as machine learning, data science, digital twins, data lakes and IOT deployment play a critical role in the future water entity capability. To achieve the step change efficiencies that are anticipated by reform these capabilities need to be developed and matured. A matured ICT system will enable optimised and prioritised decision making and create an immersive and holistic user experience. Cyber security threats are understood and the associated risks well managed.</p>		
<p>Reform assumptions:</p>	<p>The ICT capabilities post reform will be fully integrated from a data and asset management perspective enabling informed decision making and visibility for consumers. The scale associated with the new water entity will mean specialist capabilities can be secured to deliver the advanced system requirements.</p>		
<p>Criteria:</p>	<p style="text-align: center;">RAG Classification</p>		
<p>13(a) Do you have a modern underlying ICT platform that is scalable to deal with the challenges and opportunities of the future?</p>	<p>Green</p> <p>Has an advanced ICT roadmap that identifies optimal customer value, ensures reliable system operation and prioritises investment opportunity?</p> <p>Stage 1 maturity assessment rating 26-40</p>	<p>Amber</p> <p>An ICT platform that is suitable for the scale of operation but is not scalable and basic ICT road map developed.</p> <p>Stage 1 maturity assessment rating 16-25</p>	<p>Red</p> <p>No roadmap and disjointed systems.</p> <p>Stage 1 maturity assessment rating 8-15</p>
<p>13(b) Do you have advanced technological capabilities to transform service delivery and achieve the efficiency savings?</p>	<p>Fully integrated in terms of data and asset management. Decision making is optimised and efficiency gains are being realised.</p> <p>Includes access to all relevant information needed through interactive and up to date dashboard type interfaces. Human centred design is at the core of the experience.</p>	<p>Has less than ideal integration but sufficient to carry out core requirements. The ICT platform lacks intelligence in decision making.</p> <p>A marginally improved experience but with limitations that create contention for the customer</p>	<p>Little to no system integration. The tools and technology required to make informed and optimised decisions are not in place.</p> <p>diminish in the short to medium term as the customer currently has a high level of service.</p>
<p>13(c) Does your ICT system provide a rich customer experience including access to all relevant information?</p>	<p>Includes access to all relevant information needed through interactive and up to date dashboard type interfaces. Human centred design is at the core of the experience.</p>	<p>Has less than ideal integration but sufficient to carry out core requirements. The ICT platform lacks intelligence in decision making.</p> <p>A marginally improved experience but with limitations that create contention for the customer</p>	<p>Little to no system integration. The tools and technology required to make informed and optimised decisions are not in place.</p> <p>diminish in the short to medium term as the customer currently has a high level of service.</p>
<p>Other considerations:</p>	<p>ICT transition can take many years to fully integrate. The important considerations will be alignment & commonality during transition (to obtain efficiencies), the future state, and the roadmap time frames.</p> <p>International good practice has a clear separation (‘demilitarised zone’) between IT and OT to manage cyber security threats.</p>		

14. Supply Chain and Procurement	
Rationale:	A strong supply chain is critical to mitigate the risk of inflation and to support a thriving economy. Further, local businesses are at the heart of many smaller rural economies and maintaining/ enhancing these through this significant supply chain transformation will be crucial in creating a sustainable economy long term. It is also important that the benefits of scale procurement can be achieved. To do this there is a need to leverage best practice, engage and inform the supply chain, and facilitate the upscaling of contracts where efficiency gains are able to be realised (i.e. O&M contracts, large scale CAPEX programmes etc). In addition to scale there is a need to support social procurement outcomes. This is achieved through implementing a Broader Outcomes framework and ensuring the opportunities are integrated to procurement and the market place is informed.
Reform assumptions:	Broader Outcomes framework will be a foundation to the procurement strategy meaning that there will be a balance between efficiency buying and achieving wider social and community benefits. A full and complete pipeline will be developed as a priority and the platform for access is readily and freely available.
Criteria:	RAG Classification
	Green
14(a) World class procurement	Procurement prioritises more strategic partnering, utilises a range of commercial models to create optimal value and have dedicated specialist procurement staff. A healthy and competitive environment is facilitated. Prioritises buy local and proactively supports (including how to improve) local suppliers. Local suppliers are flexible and responsive to the needs of Council. We have regular engagement with the supply chain and they are well informed on the strategy and future pipeline of works.
14(b) Supplier relationships – local flexibility and responsiveness	Procurement undertakes limited strategic partnering and is limited to traditional contract models (NZS3910 etc).
14(c) Procurement approach to supply chain	Local buying is important but is balanced with the need to purchase at scale and achieve efficiency benefits. We engage with the supply chain on an intermittent basis and communicate generally about the future pipeline of work.
14(d) Implementing Broader Outcomes	We aspire to integrate Broader Outcomes and Social Procurement into our policies but have yet to fully execute. There are some social and environmental outcomes with no foreseeable opportunity for improvement.
Other considerations:	Procurement is limited in scope and scale primarily due to the limited budgets available. Local buying is not a priority due to either current buying trends (scale contracts etc) or insufficient capability in the local market. The only engagement that occurs with our supply chain is during the formal LTP period or during tendering. We do not have plans to delivery Broader Outcomes framework in our procurement function.
Utilities Act requires a 'do minimum' of annual presentation to the market of infrastructure pipeline.	

From: Stavros Michael
Sent: Monday, 6 September 2021 2:13 pm
To: Debbie Cossar; Geoff Williams; Gina Rangi; Steve Chadwick; Dave Donaldson; Craig Tiriana
Subject: RE: DRAFT LETTER MINISTER 3 WATERS Ver 2 Sept
Attachments: DRAFT LETTER MINISTER 3 WATERS Ver 2 Sept.docx

Thanks all clear from me. There are some grammar (says the Greek)/spelling matters Debbie can iron out.

Cheers

Stavros

Stavros Michael *DCE Infrastructure & Environment & Primary CDEM Controller –
Manahautū: Tūāpapa me te Rākau Whakamarumarū*
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ROTORUA
LAKES COUNCIL

From: Debbie Cossar <Debbie.Cossar@rotorualc.nz>
Sent: Monday, 6 September 2021 2:01 pm
To: Geoff Williams <Geoff.Williams@rotorualc.nz>; Stavros Michael <Stavros.Michael@rotorualc.nz>; Gina Rangi <Gina.Rangi@rotorualc.nz>; Steve Chadwick <Steve.Chadwick@rotorualc.nz>; Dave Donaldson <Dave.Donaldson@rotorualc.nz>; Craig Tiriana <Craig.Tiriana@rotorualc.nz>
Subject: RE: DRAFT LETTER MINISTER 3 WATERS Ver 2 Sept

Will do

Debbie Cossar *Policy Advisor, Mayoral Support*
P: 07 351 8098 | E: debbie.cossar@rotorualc.nz | W: rotorualakescouncil.nz

From: Geoff Williams <Geoff.Williams@rotorualc.nz>
Sent: Monday, 6 September 2021 1:47 PM
To: Stavros Michael <Stavros.Michael@rotorualc.nz>; Gina Rangi <Gina.Rangi@rotorualc.nz>; Steve Chadwick <Steve.Chadwick@rotorualc.nz>; Dave Donaldson <Dave.Donaldson@rotorualc.nz>; Craig Tiriana <Craig.Tiriana@rotorualc.nz>; Debbie Cossar <Debbie.Cossar@rotorualc.nz>
Subject: DRAFT LETTER MINISTER 3 WATERS Ver 2 Sept

Kia ora, attached is an updated letter – only relatively minor amendments.

Debbie, would you mind proof reading, formatting and adding anything you feel is missing.

Others – comments/edits to Debbie

Geoff

DRAFT LETTER TO MINISTER ON 3 WATERS REFORMS

Hon Minister Nanaia Mahuta [any others?]

RE: Rotorua Lakes Council – 3 Waters Reforms - Views

Thank you for meeting with us on Monday 16 August. We thought it helpful to follow up with this letter to set out our thinking.

As a starting point, we acknowledge the broad drivers for the proposed reform. Those drivers do not significantly diverge from our own diagnosis of the challenges facing managers of Three Waters infrastructure: ageing physical infrastructure, a legacy of chronic underinvestment in network renewals often resulting in poor asset condition, higher standards and new regulations to better protect peoples' health and the environment, the significant growth-driven investment required to support new housing, the impacts of climate change and the forthcoming acute scarcity of competent workforce.

The proposed reforms seek to achieve scale advantage by absorbing costs over a larger population base, rationalising and harmonising network plans and standards, pulling together a critical mass to attract, retain and develop competent staff, and a more dedicated focus on managing risk. Together, these benefits of scale should logically lead to improved 3 Waters services in the long term.

Our position

Rotorua Lakes Council broadly agrees with the drivers for change and has already adopted a range of risk mitigations against those challenges in our 30-year Infrastructure Strategies. We are also taking an active part in discussions and workshops with DIA and other local government agencies to help the formation of viable long-term options to address those challenges.

Nevertheless, there are fundamental gaps in the current reform proposal that must be addressed in order to strengthen the proposal and uphold the reform's underlying core intentions.

The importance of Three Waters infrastructure to local government

The purpose of local government is to enable democratic local decision-making and action by, and on behalf of, communities, and to promote the social, economic, environmental and cultural wellbeing of communities in the present and for the future.

It is our job to ensure that the current and future needs of our communities for good-quality local infrastructure, for local public services, and for effective regulatory functions, are met in a way that is cost-effective for ratepayers, households and businesses. To fulfill our purpose (and the four well-beings) requires Three Waters infrastructure that is fit for our community's needs.

The case for the proposed reforms relies primarily on the assumed economic benefits. But 3 Waters infrastructure assets are important not just for financial reasons, but also for the environmental, social and cultural outcomes they achieve. Our great concern is that the Entities take a regressive view that infrastructure projects are simply engineering and financial problems. They are not. They are questions of community development and growth. As such, local government can only function

effectively if Three Waters infrastructure is provided in a timely and effective manner and in according to the unique needs and aspirations of mana whenua and the broader community.

Communities must determine levels of service

Whilst national standards will ensure some consistency in the delivery of Three Water infrastructure, local factors will continue ultimately to be the overriding driver of services. To deliver on our purpose, local government must, alongside mana whenua, understand and plan for growth, and our communities' environmental, cultural and social wellbeing needs. To do this, we must have the ability to define the infrastructure services we require. The lack of clear detail on how this will occur gives local government (and our communities) legitimate cause for concern.

Currently much remains uncertain.

- How will the Entity's operating model ensure consistent and reliable responses to our community's needs?
- What are the processes that will ensure that territorial authorities as lead local agencies and in partnership with mana whenua are able to set and define the outcomes and expectations to be delivered by the Entity?
- How can our community ensure that the Entity delivers outcomes *at least* as good as already established?

It seems highly possible that the economic benefits of scale could easily be offset by dis-benefits a loss of community's voice in the clutter of a much larger population base served by the Entity. Moreover, in the absence of a clear mechanism to ensure the leadership role of local government is maintained, there is real potential for a siloed, assets-based management approach that is unresponsive to the unique needs of iwi and communities.

It's also important to understand that those operational relationships are often with hapū and Māori land owners (who often have legal ownership and kaitiaki responsibilities for land underlying infrastructure assets). The complexity of those rights and interests is not currently reflected in the proposals.

We have learnt from experience the importance of working with local communities in the initiation and design of services. We have learnt from experience that successful delivery of infrastructure projects depends on developing long-term (not just project-based), sustainable and productive operating relationships. We simply cannot see how the Entities can viably develop those community relationships across super-regions, and this will limit the ability to design locally-influenced solutions (as we have done in numerous occasions) based on the needs and values of local communities.

Te Arawa partnership

The Council, faithful to its partnership with Te Arawa has, in July 2021, resolved to establish a joint committee to consider the impacts of the Three Waters Reform on Council's partnerships with mana whenua and to make recommendation to the Council and to mana whenua on the same. The Committee acts as a forum for governance oversight, to identify and develop shared concerns and aspirations, to understand the effects on relationship agreements, and to ensure well-informed, co-ordinated decision-making of the parties.

It is important that these discussions are had with both Council and mana whenua, so that your officials (as well as Council and mana whenua) fully understand the practical complexities and impact of the proposed reforms, and so that we ensure a robust, well-informed and co-ordinated approach to decision-making by Council and by mana whenua entities.

We also reiterate and support the calls from iwi that the proposals have not adequately addressed the effect of the reform on existing Treaty settlements obligations. We are concerned that the proposed reforms must both protect existing settlements, as well as ensure that the Crown (and local government and the Entities) continues to have the ability to continue to put right historic wrongs.

The Solution

The Council (with our iwi partners) is the best-placed organisation to continue to define a set of unifying and aspirational objectives for the district, to articulate complex community issues, and to lead the collective response to those issues and outcomes. We have a unique leadership role and the necessary institutional competence to do so. Furthermore, that leadership role and competence cannot be readily replicated by a single-purpose agency. We are of the strong view, that any attempt to do so would be naïve, ineffective and will create an unnecessary burden of resource duplication.

We agree that it is not always necessary for the Council to directly deliver the work programmes required to achieve the desired community outcomes. However, in partnership with iwi, we are the only organisation in the district able to monitor the attainment of and be accountable for such outcomes.

Ensuring the Entities Deliver on Community Outcomes

Concerns regarding the reforms could be allayed by establishing early agreements between each of the Councils, their respective mana whenua and the Entity (or its Transitional Authority). Those agreements should set out the detail of how we will work together to ensure democratic local decision-making is upheld, and that our communities receive the economic, social, cultural and environmental outcomes that they need and deserve.

The direct link with Council and mana whenua could be achieved on the following basis;

Setting the Strategy

1. A 3-Waters Strategy with clear outcomes for Rotorua is agreed between the Entity, RLC and mana whenua. The strategy would include (but not limited to);
 - a. Future growth, urban intensification and land use aspirations
 - b. Partnerships with mana whenua
 - c. Mana O Te Wai objectives
 - d. Climate change mitigation and resilience
2. The Entity commits to giving full effect to the outcomes and the objectives of the agreed Rotorua 3 Waters Strategy in a manner that enables local decision-making, reinforces relationships with iwi and discharges both the Crown's Treaty obligations and our partnership responsibilities.

Agreeing on Delivery

3. The Entity agrees to work jointly with RLC to structure a Business Plan (to be received and endorsed by Council and mana whenua) that clearly articulates the methodology by which the outcomes and the objectives of the 3 Waters Strategy will be pursued for the district.
4. The Entity agrees to work together and in partnership with RLC and mana whenua to give effect to the future needs of Rotorua. The partnership should be defined by a recognition that the Entity has subject matter expertise, while iwi and Council have much greater knowledge of local needs and values.

Monitoring outcomes

5. The Entity will report regularly to RLC (in partnership with mana whenua) on progress against the agreed Business Plan and the progress towards the evolving LTP objectives including the status and health of relationships and partnerships with the communities and specifically with mana whenua.
6. The Entity agrees to report to RLC (in partnership with mana whenua) against investment in local employment, the development of skills and capability in the district.

Conclusion

Our clear intention is to be supportive and constructive in the effort towards a viable and sustainable new 3 Waters management framework, and we hope our letter contributes to the further development of the reform proposals. We would be happy to discuss further these views as required.

From: Stavros Michael
Sent: Wednesday, 8 September 2021 12:16 PM
To: 'Shaun Jones'
Cc: 'Paul Blair'; 'Kevin Lavery'; 'Andy Matthews'
Subject: RE: Rotorua Lakes Impact Assessment output

Thank you Shaun much appreciated.

Will revert to you if need be but this will be feeding into our wider report/assessment and recommendations to Council.

Again thank you all

Stavros

Stavros Michael DCE Infrastructure & Environment & Primary CDEM Controller –
Manahautū: Tūāpapa me te Rākau Whakamarumarū
P: 07 351 8148 | **M:** 027 807 3847
E: stavros.michael@rotorualc.nz | **W:** rotorualakescouncil.nz
A: 1061 Haupapa St, Private Bag 3029, Rotorua Mail Centre, Rotorua 3046, New Zealand

ROTORUA
LAKES COUNCIL

From: Shaun Jones <shaun.jones@tuhurapartners.co.nz>
Sent: Wednesday, 8 September 2021 8:50 am
To: Stavros Michael <Stavros.Michael@rotorualc.nz>
Cc: Paul Blair <paul.blair@tuhurapartners.co.nz>; Kevin Lavery <kevin.lavery@tuhurapartners.co.nz>; Andy Matthews <andy.matthews@tuhurapartners.co.nz>
Subject: Rotorua Lakes Impact Assessment output

Hi Stavros

Thanks very much to you and the team for the highly engaged session this week – great to see so many of your team involved.

Attached are the spreadsheet and a presentation output. This information can support your political engagement as you see fit.

If you have any questions please feel free to come back to me or anyone else in the team.

Thanks, Shaun



Shaun Jones
Tuhura Partners
Mobile (57(2)(a))
Email shaun.jones@tuhurapartners.co.nz

From: Stavros Michael
Sent: Wednesday, 8 September 2021 12:20 PM
To: Regan Fraser; Greg Manzano; Eric Cawte; Thomas Colle; Greg Kieck; Karlo Keogh; Gina Rang; Oonagh Hopkins
Subject: Rotorua Lakes Impact Assessment output
Attachments: 3W Council Impact Assessment Framework_v10_Rotorua.xlsx; Impact Assessment Matrix Presentation - Elected Members_Rotorua.pptx

Ok guys the attached are outcomes from last Monday's CIA session.

We will of course convert these into legible points in due time for our Council report but in the meantime it would be good if we all familiarise ourselves with the key data/inputs and see if we need to fine-tune any elements.

Thanks

Stavros

Stavros Michael *DCE Infrastructure & Environment & Primary CDEM Controller – Manahautū: Tūāpapa me te Rākau Whakamarumarū*
P: 07 351 8148 | M: 027 807 3847
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Thanks, Shaun



Shaun Jones
Tuhura Partners
Mobile **S7(2)(a)**
Email shaun.jones@tuhurapartners.co.nz

3 Waters Council Impact Assessment Rotorua Lakes District Council

Elected Member Workshop



Content

1. Purpose
2. Overview of Water Reform for Entity B
3. Key Council Stats
4. Overview of Council Impact Assessment
5. Results
6. Discussion
7. Wrap-up & next steps

Purpose of this workshop

- To bring the national and regional case for change into a locally relevant perspective
- To highlight your key threats and opportunities (risk)
- To support well informed elected members
- To hear further perspective from you to feed back to the Entity B view to LGNZ



SOLID FOUNDATIONS

* COLLABORATION

* IWI PARTNERSHIPS

* SUB-REGIONAL

PLANNING

* ALREADY WORKING TOGETHER
ON WATER

* MANY EXAMPLES OF INNOVATION



GOVERNMENT'S

CASE

THE GOOD,
THE BAD,
AND THE UGLY

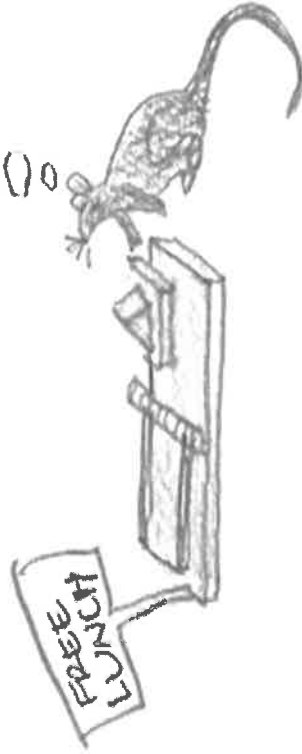


- * HIGH COSTS
- * HUGE DEFICIT
- * REGULATION TAKES OVER
- * MASSIVE CAPEX INCREASES
NEEDED
- * NOTHING LEFT FOR OTHER
THINGS
- * HUGE ANNUAL RATES
INCREASES

GOVERNMENT SEES REFORM AS THE SOLUTION

Hmm...

Boo



* NEW ENTITIES HAVE
X3 INVESTMENT

* CAPEX FUNDED BY
SAVINGS

* PRICES REMAIN
MODEST

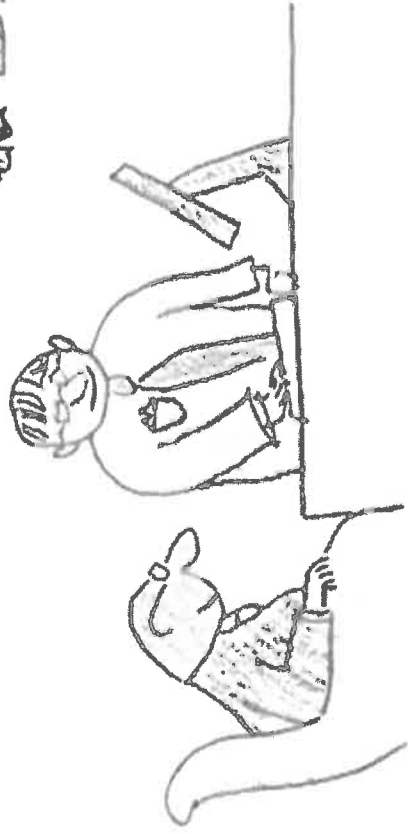
BASED ON WICS

ASSUMPTIONS

- * 30-YEAR FORECAST
- * ECONOMIC DEPRECIATION
- * 50% SAVINGS
- * 250% DEBT CAP
- * COSTS, NOT RATES
- * HARMONISATION



ARE THE SAVINGS REALISTIC?



- * EQUATES TO 1.5% PA
- * WATERCARE TARGET
- * SENSITIVITIES
- * FRAGMENTED SYSTEM

"PUSH THIS BUTTON TO
MAKE SAVINGS"

SOBERING FACTS

Average age of workforce

51

Perhaps 15-20,000 private schemes..
Only 63 registered today, 8% compliant

8%

26% municipal DWS non-compliant.
60% non-compliance outside big 4

26%

Wide variation in rates – 3.5x more
for most expensive council

3.5X

20% - 50% funding gap for renewals,
particularly stormwater

20-50%

Debt/income without 3W 70% in 2021, rising to
110% by 2031

110%

Asset replacement value

\$14B

3W debt \$1.4bn 2021, rising to \$3b 2031

\$3B

Planned investment to 2031

\$5.5B

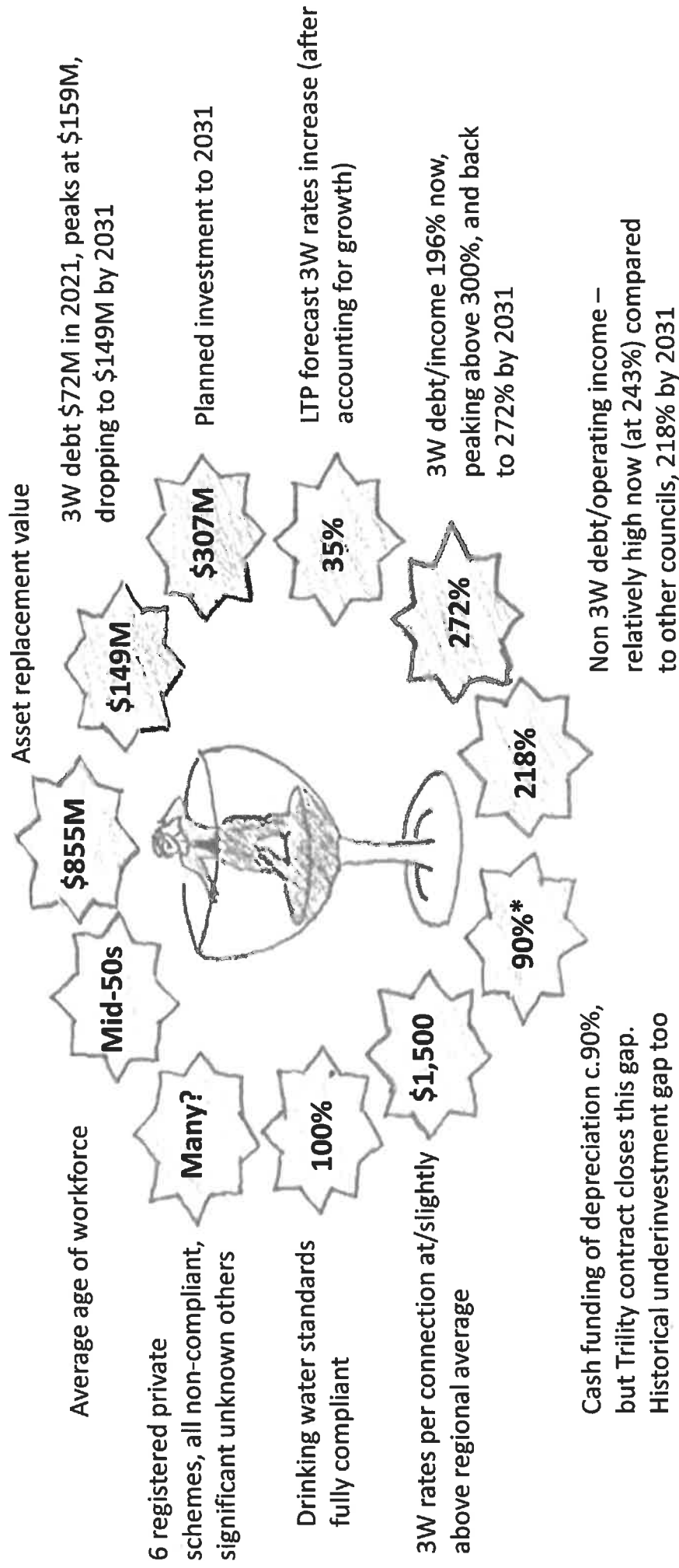
LTP forecast 3W rates increases

50-250%

3W debt/income 300% 2021, rising to 360% 2031

360%

WHAT ABOUT YOUR COUNCIL?



BUT THIS REALLY ABOUT PEOPLE

GOVERNMENT
- do it to them
or with them?

REGIONAL
COUNCILS - do we
help or hinder?

THESE ARE FINE.
WHAT'S IN IT FOR
ME?



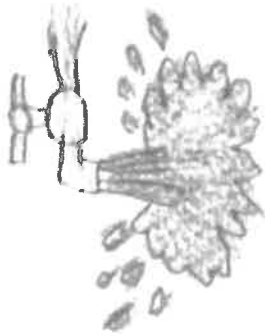
WORKFORCE
- do I have a
job?

COUNCILORS
- do we have a
role?

ini - can we
be involved?

MATRIX-BALANCED APPROACH

SERVICE/ENVIRONMENT



MONEY



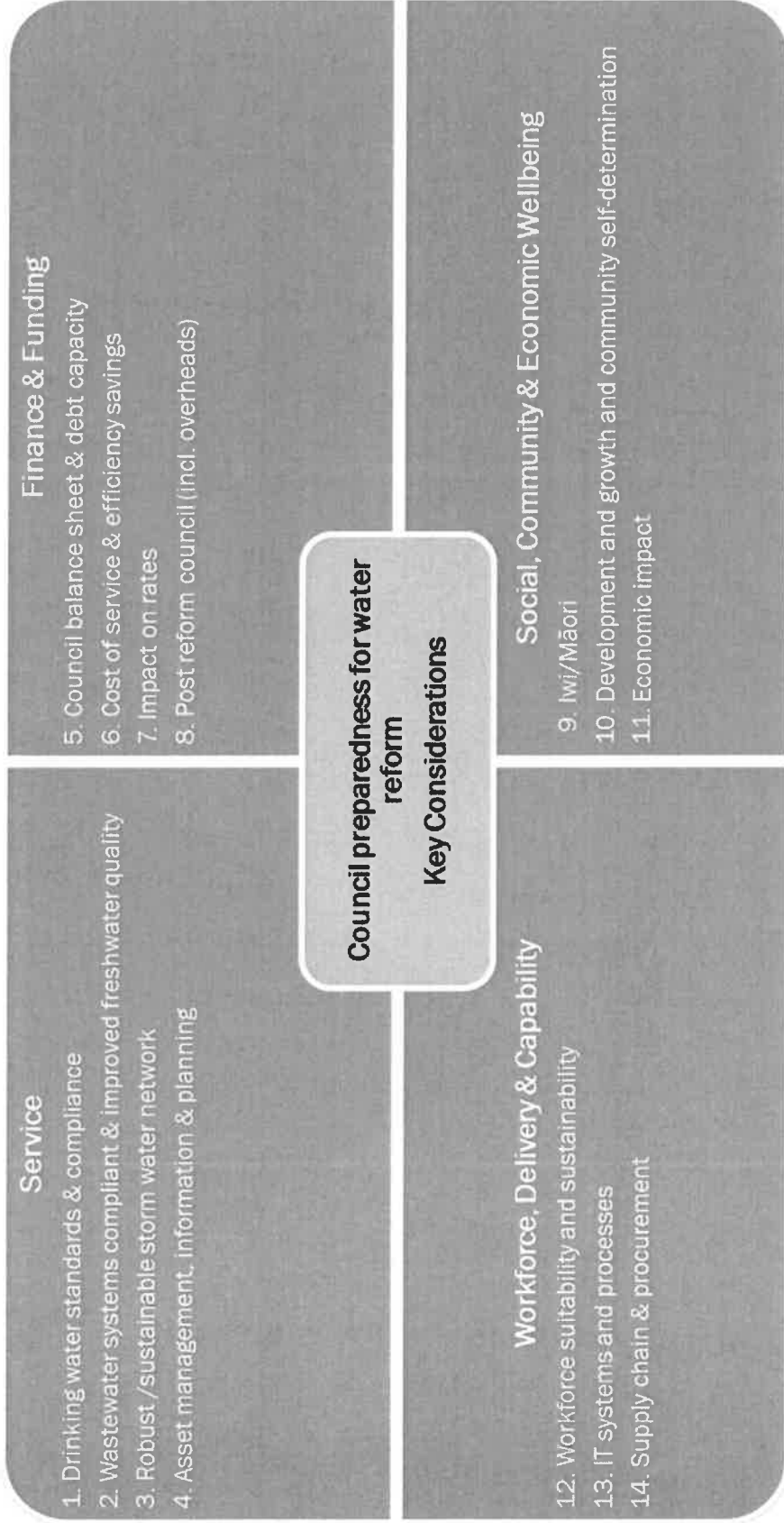
COMMUNITY
IMPACT
ASSESSMENT



PEOPLE



WELLBEING

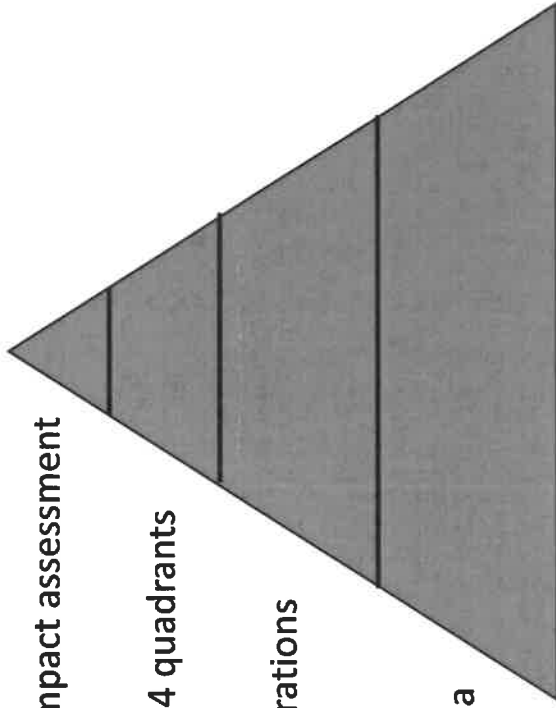


LGNZ Framework

Three tools to assist in impact assessment

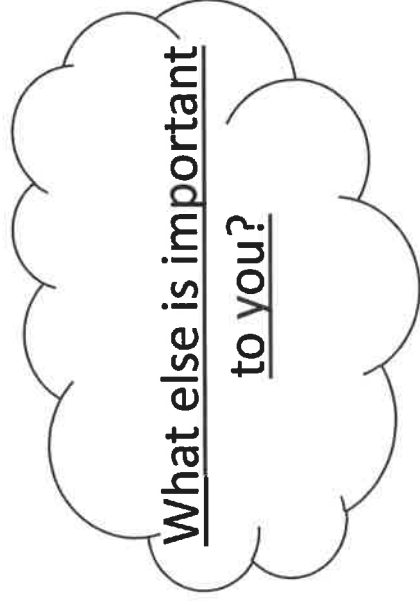


Impact Matrix



LGNZ Feedback Areas

- Community voice
- Effective representation
- Integrating planning and delivery for growth



What's going well in Rotorua Lakes?

- Drinking water fully compliant now and planned to be in the future
- Iwi and hapu relationships are strong and co-governance is embedded in water management
- Wastewater discharge to land is an advantage given NPS-FM standards
- All capital investment required to deliver plan is provisioned in LTP including reticulation to some rural areas
- Strategic partnership with Trility addressing the depreciation and renewal funding challenges
- \$115m climate change adaptation fund in place to address key risk areas
- Engaged workforce with strong culture

What's challenging for Rotorua Lakes?

- Discharge consent requirements are unknown, with risk they will be onerous
- Playing catch up on funding historical depreciation deficit
- Planning has been for low growth, but growth has surprised on the upside
- Private drinking water supplies are a significant unknown risk. 6 registered (all non-compliant) but many unidentified, and significant marae/papakainga also likely to be non-compliant
- 3W debt to income (and total council DTI) high now and increasing over LTP
- What will happen to the Trility partnership with a new entity?
- Incomplete asset management information

What are the opportunities with reform?

- New WSE will remove unknown or rising risks from council e.g. private supplies, climate change and regulatory standards
- New WSE will have much stronger financial capacity to invest, however the entity would need to have clear rules establishing prioritisation for Rotorua Lakes to benefit from this
- New WSE will provide more tools to manage systems (ICT, asset management, procurement)
- Staff working in the water sector will have more access to career development opportunities

Reform creates new challenges...

- Maori working relationships are currently very strong, further clarity is required to demonstrate these levels won't go backward
- Will Rotorua Lakes Council continue to lead community engagement on water? And how will the WSE respond to the community?
- Rotorua Lakes will no longer control the prioritisation of funding to deliver strategic growth plans
- Scepticism that WSE will be able to deliver cost efficiencies and/or social outcomes for communities

Other financial considerations

- 'Better off' grant c\$32.2 million (approx. 11% of LTP 3W capex, for comparison)
- Costs of transition to be met by DIA (detail required)
- 'Stranded overheads' to be met by new water services entity, up to \$500m nationally
- Estimated \$1,410m* growth & enhancement capex over 30 years under reform versus \$487m by council (reform delivers 2.9x level of investment). 2x level of capex overall (including renewals)
- Estimated +72* new jobs in Rotorua (814 additional WBOP jobs)
- Estimated additional GDP of \$235m* over 30 years (+\$2,738m GDP for Waikato-BOP region)

* assume Rotorua gets its 8.6% population share of WBOP outcomes

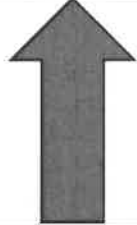


What does
the analysis
show?



Reform: opportunity or challenge?

Driver	Council Model	Reform Model
Service standards	Fully compliant water supply, opportunity for improvement in stormwater, wastewater consents and asset management	Greenfield approach to asset management (data collection, analysis etc) and access to more funding can accelerate investment programme and address historical underinvestment
Private supplies	Unknown number of private supplies including marae	WSE takes risk of compliance and has funding to deliver outcomes but questions remain about ability to deliver
Funding and finance	Council has ability to invest but increasing 3W debt and high non 3W debt limits the ability to address historical underinvestment	Under reform 2x the level of council capex is estimated which will lead to service standard improvement and address historical underinvestment
Iwi relationships and governance	Advanced level of governance and good engagement at project and delivery	Iwi governance built into WSE from inception, but how will this work in reality for RLC
Community voice	Strong ability to influence agenda	Real concern that local voice will be lost in much larger Entity B



Reform delivers better service but community outcomes are a challenge

Status quo
60

WITHOUT REFORM - STATUS QUO	
Service	Finance
Resourcing	Community

LTP implemented (2031)
74

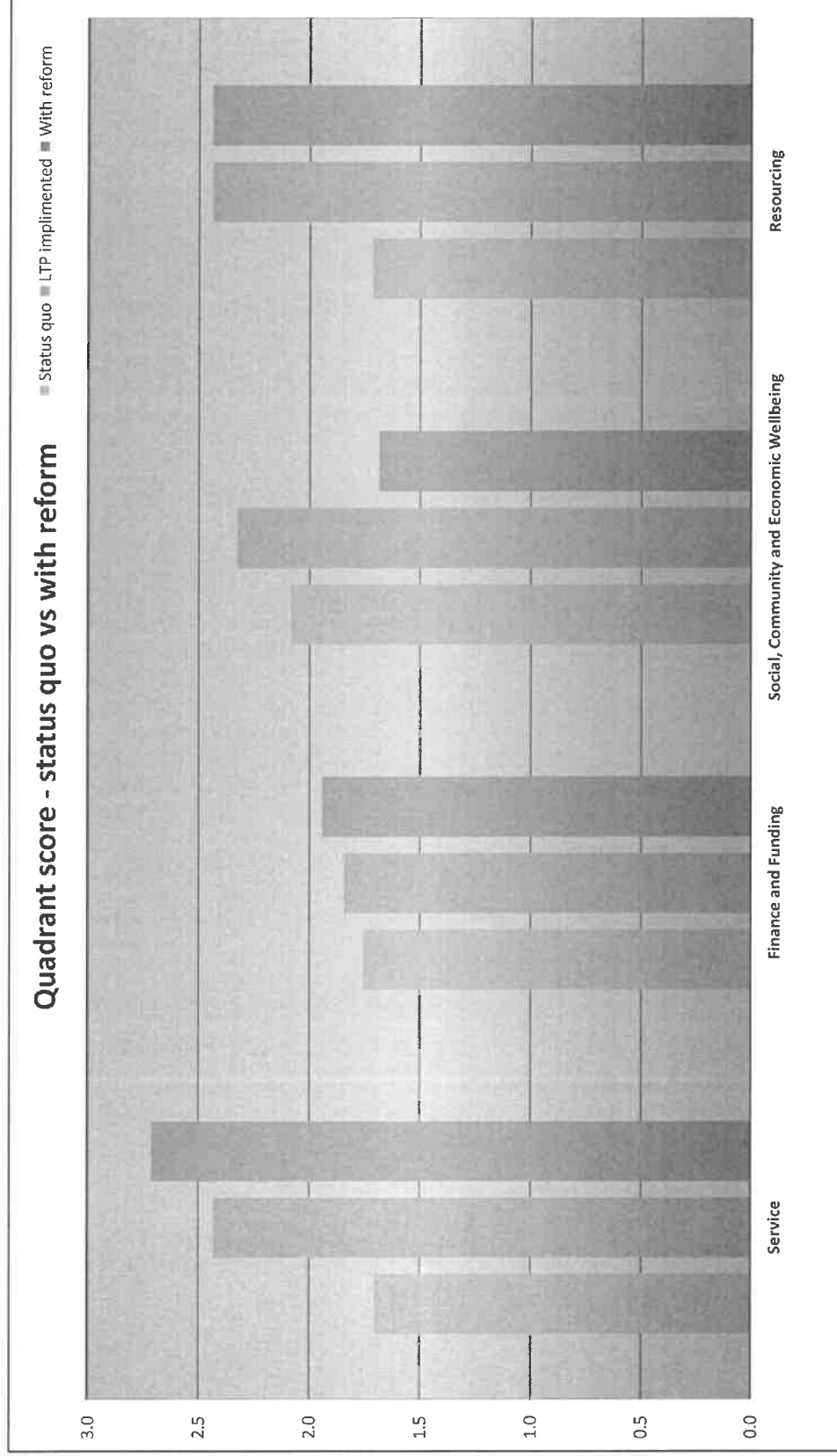
WITHOUT REFORM - IN 10 YRS	
Service	Finance
Resourcing	Community

With reform
73

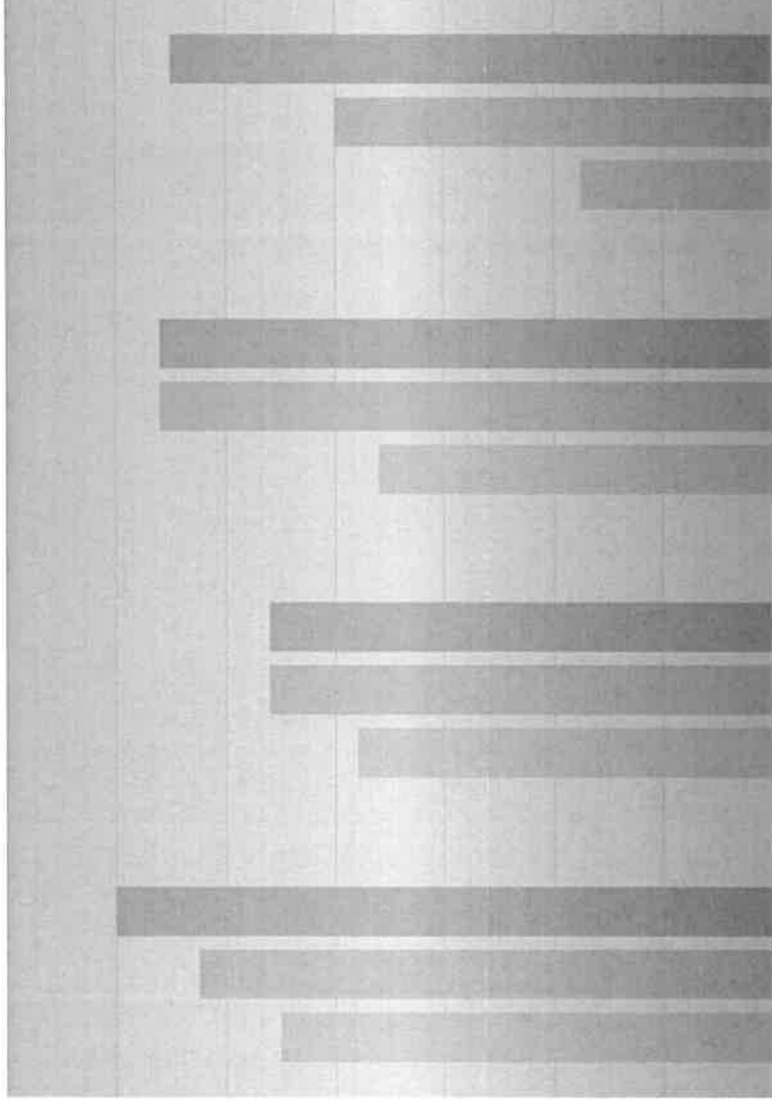
WITH REFORM	
Service	Finance
Resourcing	Community

SUMMARY SCORING KEY			
Score	Colour	Quality	Risk
3	Dark green	Much better	Significant opportunity
2	Light green	Better	Opportunity
1.5	Yellow	Neutral	Neutral
1	Orange	Worse	Threat
0	Red	Much worse	Significant threat
*refer 'Considerations and Criteria for Council Impact Assessment' for detailed assessment criteria			

Overall: positive trend, but community is a concern



Considerations in more detail -Service



1. Achieve drinking water standards and compliance

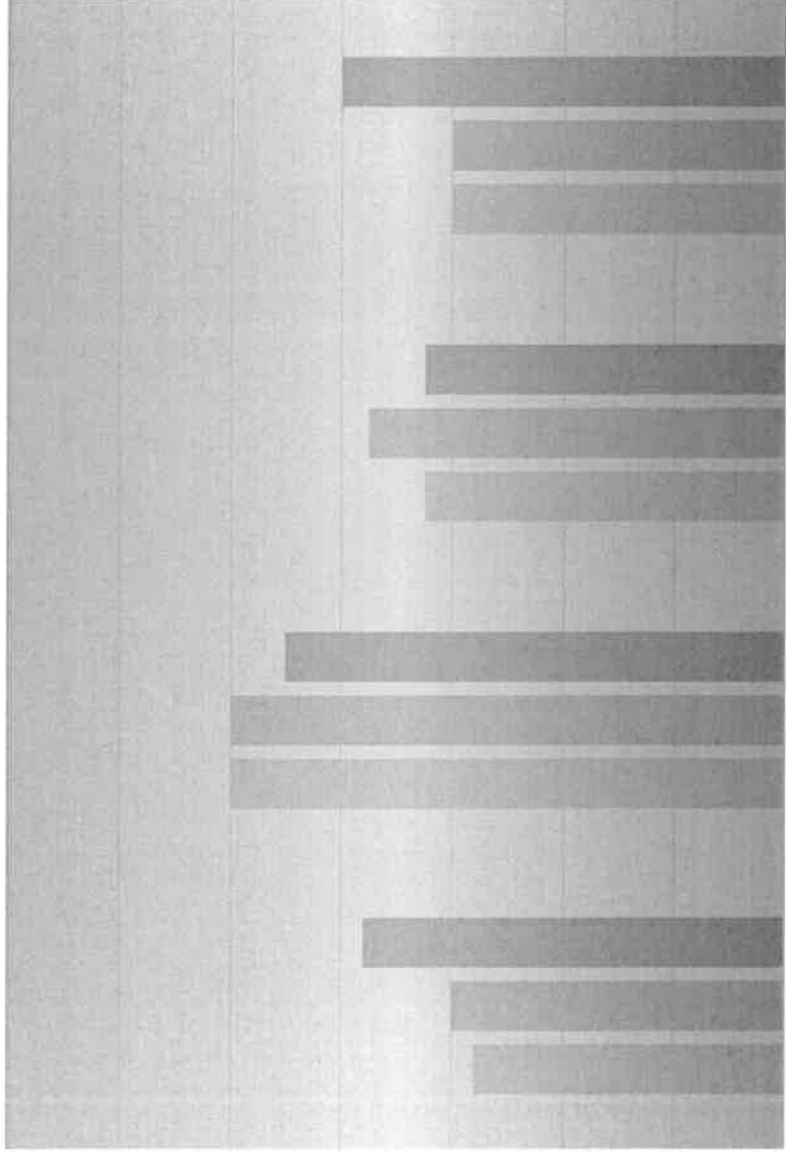
2. Wastewater systems compliant & support freshwater quality

3. Robust and sustainable stormwater network

4. Asset management & infrastructure planning

Service

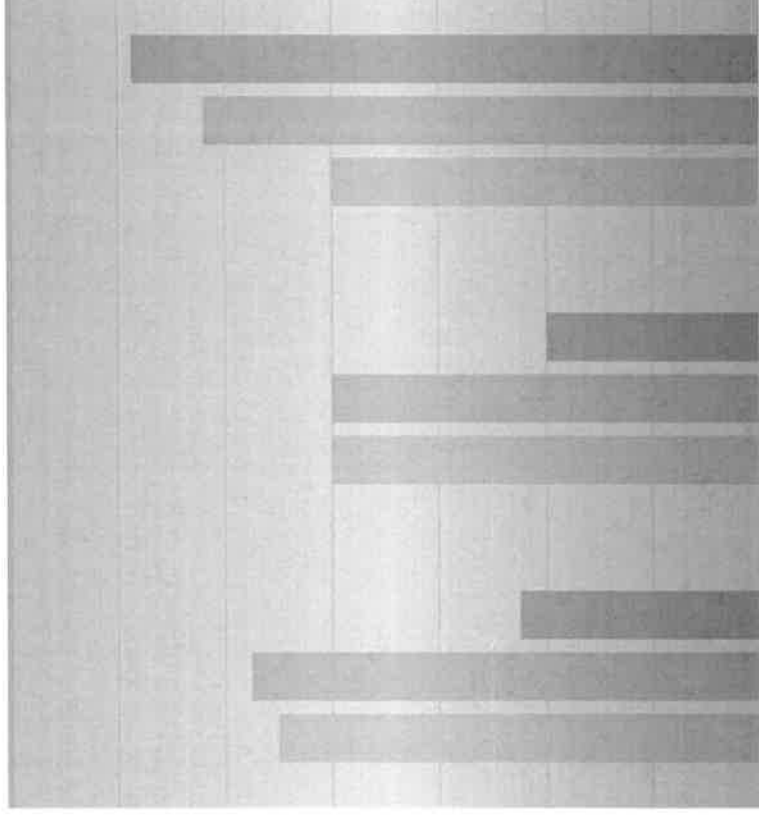
Considerations in more detail – Finance & Funding



5. Strong Council balance sheet / debt capacity 6. Cost of service & efficiency savings 7. Impact on rates 8. Post reform - Council viability

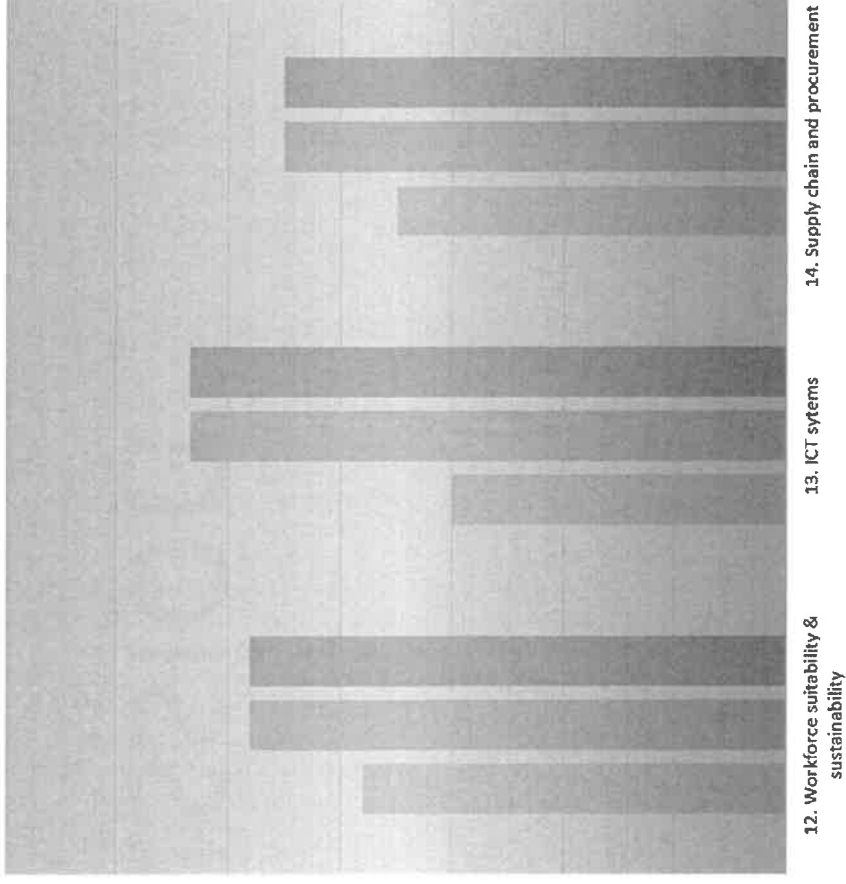
Finance and Funding

Considerations in more detail - wellbeing



Social, Community and Economic Wellbeing

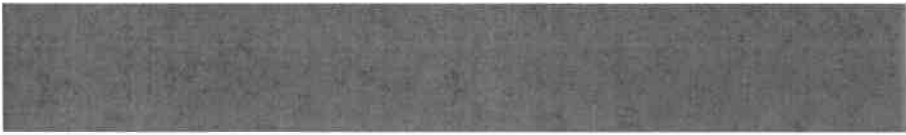
Considerations in more detail – people & resources

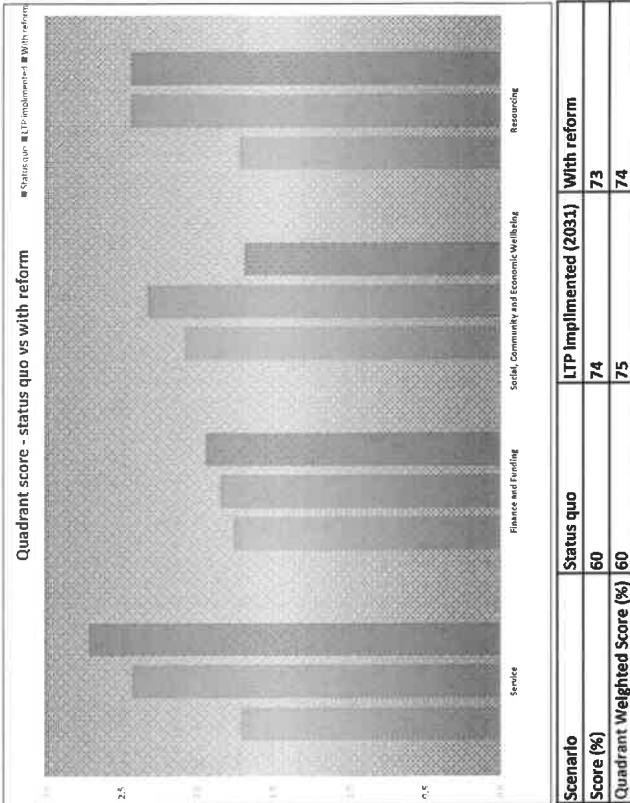


Workforce, Delivery and Capability

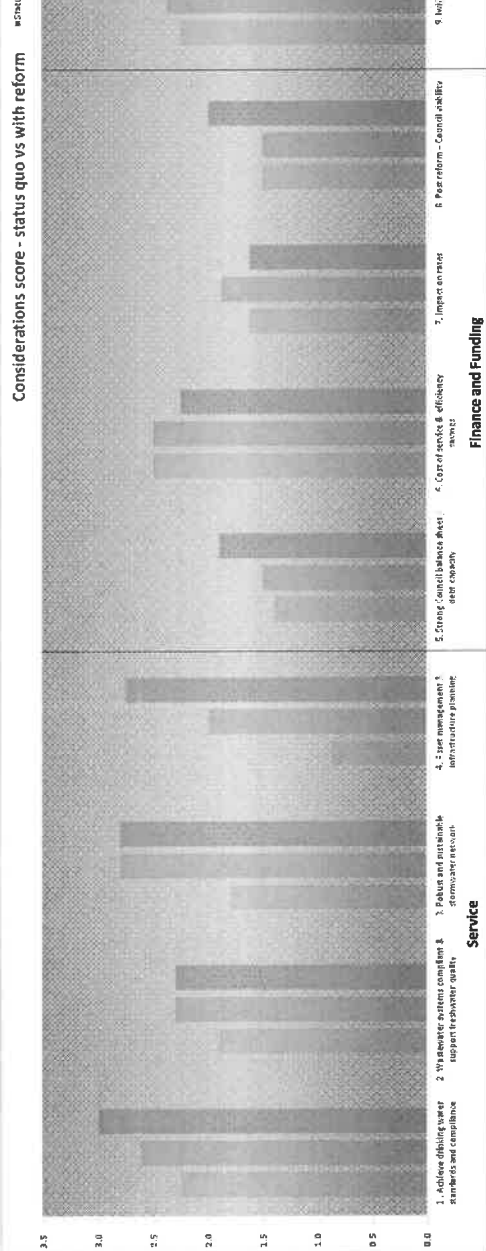
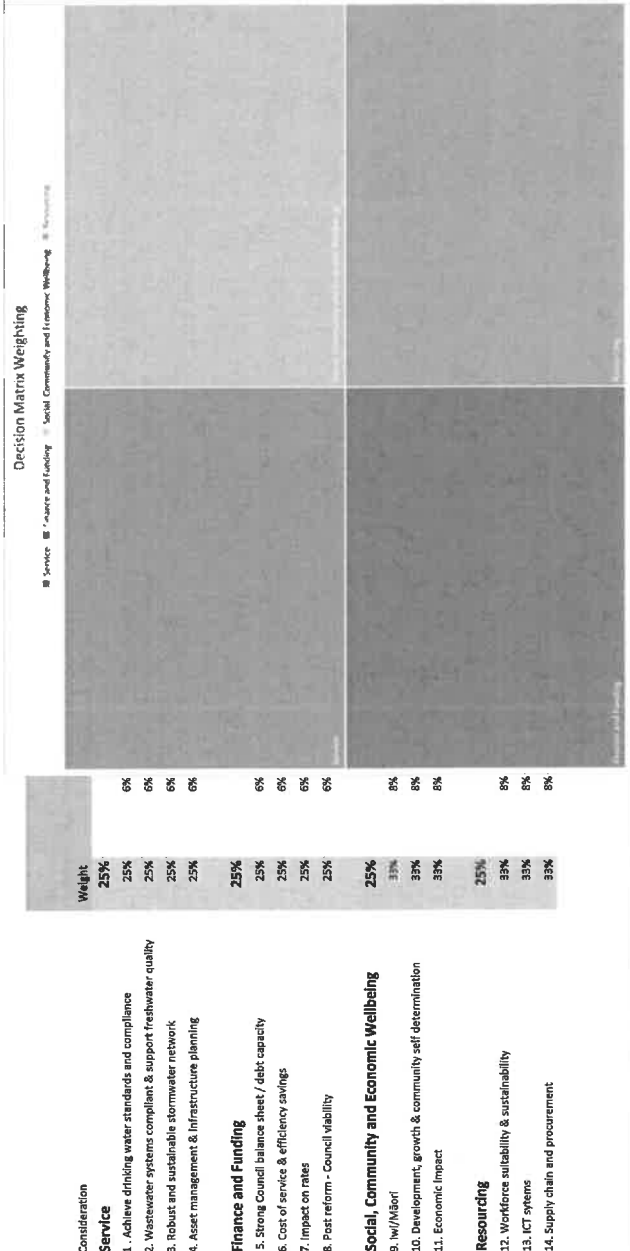
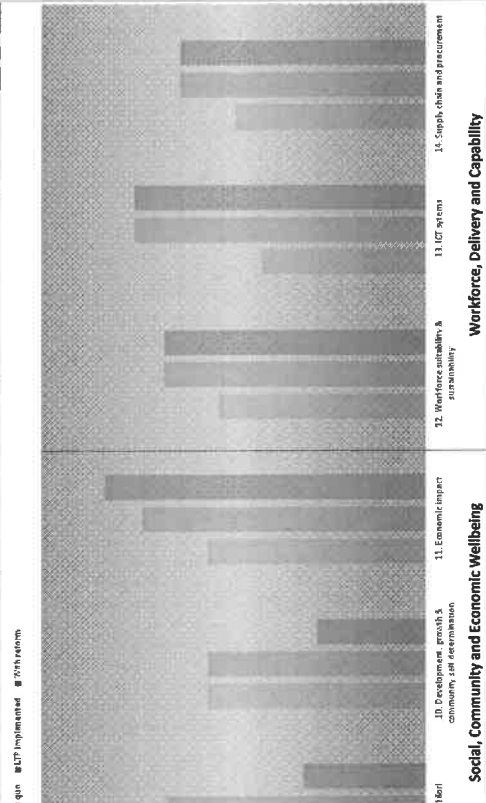


Discussion





Scenario	Status quo	LTP Implemented (2031)	With reform
Score (%)	60	74	73
Quadrant Weighted Score (%)	60	75	74



Category	Consideration	Status quo	LTP Implemented	With reform
Service	1. Achieve drinking water standards and compliance	0.5	1.0	1.5
	2. Wastewater systems compliant & support freshwater quality	0.5	1.0	1.5
	3. Robust and sustainable stormwater network	0.5	1.0	1.5
	4. Asset management & infrastructure planning	0.5	1.0	1.5
Finance and Funding	5. Strong Council balance sheet / debt capacity	0.5	1.0	1.5
	6. Cost of service & efficiency savings	0.5	1.0	1.5
	7. Impact on rates	0.5	1.0	1.5
	8. Post reform - Council viability	0.5	1.0	1.5
Social, Community and Economic Wellbeing	9. In/Work!	0.5	1.0	1.5
	10. Development, growth & community self-determination	0.5	1.0	1.5
	11. Economic Impact	0.5	1.0	1.5
	12. Workforce suitability & sustainability	0.5	1.0	1.5
Resourcing	13. ICT systems	0.5	1.0	1.5
	14. Supply chain and procurement	0.5	1.0	1.5
	15. Researching	0.5	1.0	1.5

Consideration	Ref	Criteria	Weighting	Council Assessment		Council assumption notes
				Status Quo / WITHOUT REFORM	With 10yr LTP Implemented WITHOUT REFORM	
1. Achieve drinking water standards and compliance	1 (a)	2020 Drinking Water Standard compliance	0.25			Mamatu now fully compliant (last 2 years)
	1 (b)	2024 intended DNS compliance - per Infrastructure Strategy	0.25			MA as this relates to the subject councils intent
	1 (c)	Water safety plans	0.25			Expect these will be a priority and can be feasible completed in timeframe
	1 (d)	Risk relating to non-council water supplies	0.25			Expect WSE to have registered all private supplies due to regulator involvement
	2 (a)	System performance - consent compliance DIA mandatory measures	0.20			5 private schemes registered, none compliant; likely to be many more
	2 (b)	System performance - dry & wet weather overflows	0.20			RIDC 2020 Annual Report
	2 (c)	Discharges to inland waterways	0.20			Likely that there will remain some minor exceedances but within time
	2 (d)	Expired or expiring (in next 5 years) treatment plant consents	0.20			Likely that there will remain some minor exceedances but within time
	2 (e)	Are costs of compliance fully recognised in IS and LTP	0.20			Expect all consents to be operative and up to date, after if consents
	3 (a)	Asset valuation completeness & confidence rating	0.20			All forward costs will be understood and provisioned for
	3 (b)	Fully funding SW depreciation in 2021-31 LTP	0.20			All valuations will be up to date in accordance with best practice
	3 (c)	IS & LTP account for future climate change impacts	0.20			NA on Reform as question relates to LTP, SQ defaults to 10 yr.
	3 (d)	SW catchment management plans in place	0.20			Expect WSE to incorporate all relevant climate change policies into d
	2. Wastewater systems compliant & support freshwater quality	4 (a)	Evidence of SW discharge standards to improve water quality	0.25		
4 (b)		Asset management maturity index score	0.25			Assume WSE AM design will be best practice and will draw on intern.
4 (c)		Asset information - completeness & condition rating	0.25			Assume that over the transition period all councils will lift data quality
4 (d)		Asset management system integration	0.25			Note that it is likely that priority will be given between 2024 and 203
5 (a)		Three waters debt-to-income ratio 2020	0.20			WSE is a Greenfield ICT scenario so will be designed with full integrat
5 (b)		Three waters debt-to-income ratio 2021 (per LTP)	0.20			
5 (c)		Three waters debt-to-income / Balance of Council debt-to-income	0.20			
5 (d)		Proportion of 3 waters debt related to Development Contributions	0.20			
5 (e)		Perception of additional council debt capacity	0.20			
6 (a)		Population served - as an indicator of efficiency potential	0.25			
6 (b)		Change in three waters operating expenditure in next 10 years - LTP forecast	0.25			
6 (c)		Does 2021/31 LTP include all infrastructure investment required to respond to forecast growth	0.25			
6 (d)		Proportion of 3W depreciation invested in renewals	0.25			
7 (a)		Three waters rates level compared to other councils in proposed WSE area	0.25			
3. Robust and sustainable stormwater network	7 (b)	Funding Investment Statement: operating surplus compared to deprn	0.25			
	7 (c)	Three waters rate increase forecast over next 10 years - LTP	0.25			
	7 (d)	WICS forecast average cost per household - Reform vs No reform	0.25			
	8 (a)	Proportion of Council of overheads currently allocated to three waters activities	0.33			
	8 (b)	Disproportion of scope - impact of removing three waters on Council	0.33			
	8 (c)	Size of council - indicator of ability to absorb stranded overheads	0.33			
	9 (a)	Extent to which Iwi co-governance is embedded in water delivery	0.25			
	9 (b)	Extent to which Iwi values and outcomes are embedded within water delivery	0.25			
	9 (c)	Iwi/Māori access to training, employment and investment opportunities in 3 waters	0.25			
	9 (d)	Extent to which marae and iwi/kaitiaki have access to clean, compliant drinking water	0.25			
	10 (a)	Assessment of delivery status on National Policy Statement - Urban Development	0.33			
	10 (b)	Representation of and Delivery in response to local community concerns	0.33			
	10 (c)	Ability to strategically plan and invest ahead of community demand	0.33			
	10 (d)	Water Infrastructure investments creates local benefit from GDP & jobs	0.33			
4. Asset management & infrastructure planning	11 (a)	DIA has assessed the relative benefits of reform on the economy (Deloitte) primarily driven by economic benefit	0.33			
	11 (b)	Increased investment in 3 waters infrastructure. Can this level of investment and resulting economic benefit be achieved without reform?	0.33			
	11 (c)	Constraints on ability to invest in 3W. Impacts negatively on the local economy, jobs and GDP	0.33			
	12 (a)	Direct water staff perception of local job availability - without and with reform	0.20			
	12 (b)	Perception of working conditions (ability to make decisions, specialist staff, team morale)	0.20			
	12 (c)	Pathways for career development	0.20			
	12 (d)	Indirect staff perception of job availability	0.20			
	12 (e)	Impact with and without reform on contractors and local businesses in the supply chain	0.20			
	13 (a)	ICT platform is scalable to deal with the challenges and opportunities of the future	0.33			
	13 (b)	Level of advanced technological capabilities & integration to transform service delivery and achieve effi	0.33			
	13 (c)	Does your ICT system provide a rich customer experience including access to all relevant information?	0.33			
	14 (a)	World class procurement - strategic partnering, utilises a range of commercial models, dedicated specialist procurement staff.	0.25			
	14 (b)	Supplier relationships - local flexibility and responsiveness	0.25			
	14 (c)	Procurement approach to supply chain - regular engagement, strategic approach & clear pipeline of contracts	0.25			
14 (d)	Implementing broader procurement outcomes - social and environmental outcomes for local community	0.25				
5. Strong Council balance sheet / debt capacity	14 (d)	Central govt procurement policy	0.25			
	15 (a)	Reform modelling indicates high efficiency	0.20			
	15 (b)	Reform modelling indicates high efficiency	0.20			
	15 (c)	Reform modelling indicates high efficiency	0.20			
	15 (d)	Reform modelling indicates high efficiency	0.20			
	15 (e)	Reform modelling indicates high efficiency	0.20			
	15 (f)	Reform modelling indicates high efficiency	0.20			
	15 (g)	Reform modelling indicates high efficiency	0.20			
	15 (h)	Reform modelling indicates high efficiency	0.20			
	15 (i)	Reform modelling indicates high efficiency	0.20			
	15 (j)	Reform modelling indicates high efficiency	0.20			
	15 (k)	Reform modelling indicates high efficiency	0.20			
	15 (l)	Reform modelling indicates high efficiency	0.20			
	15 (m)	Reform modelling indicates high efficiency	0.20			
6. Cost of service & efficiency savings	16 (a)	Reform modelling indicates high efficiency	0.20			
	16 (b)	Reform modelling indicates high efficiency	0.20			
	16 (c)	Reform modelling indicates high efficiency	0.20			
	16 (d)	Reform modelling indicates high efficiency	0.20			
	16 (e)	Reform modelling indicates high efficiency	0.20			
	16 (f)	Reform modelling indicates high efficiency	0.20			
	16 (g)	Reform modelling indicates high efficiency	0.20			
	16 (h)	Reform modelling indicates high efficiency	0.20			
	16 (i)	Reform modelling indicates high efficiency	0.20			
	16 (j)	Reform modelling indicates high efficiency	0.20			
	16 (k)	Reform modelling indicates high efficiency	0.20			
	16 (l)	Reform modelling indicates high efficiency	0.20			
	16 (m)	Reform modelling indicates high efficiency	0.20			
	7. Impact on rates	17 (a)	Reform modelling indicates high efficiency	0.20		
17 (b)		Reform modelling indicates high efficiency	0.20			
17 (c)		Reform modelling indicates high efficiency	0.20			
17 (d)		Reform modelling indicates high efficiency	0.20			
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17 (g)		Reform modelling indicates high efficiency	0.20			
17 (h)		Reform modelling indicates high efficiency	0.20			
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17 (k)		Reform modelling indicates high efficiency	0.20			
17 (l)		Reform modelling indicates high efficiency	0.20			
17 (m)		Reform modelling indicates high efficiency	0.20			
8. Post reform - Council viability		18 (a)	Reform modelling indicates high efficiency	0.20		
	18 (b)	Reform modelling indicates high efficiency	0.20			
	18 (c)	Reform modelling indicates high efficiency	0.20			
	18 (d)	Reform modelling indicates high efficiency	0.20			
	18 (e)	Reform modelling indicates high efficiency	0.20			
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	18 (g)	Reform modelling indicates high efficiency	0.20			
	18 (h)	Reform modelling indicates high efficiency	0.20			
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	18 (k)	Reform modelling indicates high efficiency	0.20			
	18 (l)	Reform modelling indicates high efficiency	0.20			
	18 (m)	Reform modelling indicates high efficiency	0.20			
	9. Iwi/Māori	19 (a)	Reform modelling indicates high efficiency	0.20		
19 (b)		Reform modelling indicates high efficiency	0.20			
19 (c)		Reform modelling indicates high efficiency	0.20			
19 (d)		Reform modelling indicates high efficiency	0.20			
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19 (l)		Reform modelling indicates high efficiency	0.20			
19 (m)		Reform modelling indicates high efficiency	0.20			
10. Development, growth & community self determination		20 (a)	Reform modelling indicates high efficiency	0.20		
	20 (b)	Reform modelling indicates high efficiency	0.20			
	20 (c)	Reform modelling indicates high efficiency	0.20			
	20 (d)	Reform modelling indicates high efficiency	0.20			
	20 (e)	Reform modelling indicates high efficiency	0.20			
	20 (f)	Reform modelling indicates high efficiency	0.20			
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	20 (k)	Reform modelling indicates high efficiency	0.20			
	20 (l)	Reform modelling indicates high efficiency	0.20			
	20 (m)	Reform modelling indicates high efficiency	0.20			
	11. Economic Impact	21 (a)	Reform modelling indicates high efficiency	0.20		
21 (b)		Reform modelling indicates high efficiency	0.20			
21 (c)		Reform modelling indicates high efficiency	0.20			
21 (d)		Reform modelling indicates high efficiency	0.20			
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21 (f)		Reform modelling indicates high efficiency	0.20			
21 (g)		Reform modelling indicates high efficiency	0.20			
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21 (l)		Reform modelling indicates high efficiency	0.20			
21 (m)		Reform modelling indicates high efficiency	0.20			
12. Workforce suitability & sustainability		22 (a)	Reform modelling indicates high efficiency	0.20		
	22 (b)	Reform modelling indicates high efficiency	0.20			
	22 (c)	Reform modelling indicates high efficiency	0.20			
	22 (d)	Reform modelling indicates high efficiency	0.20			
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	22 (k)	Reform modelling indicates high efficiency	0.20			
	22 (l)	Reform modelling indicates high efficiency	0.20			
	22 (m)	Reform modelling indicates high efficiency	0.20			
	13. ICT systems	23 (a)	Reform modelling indicates high efficiency	0.20		
23 (b)		Reform modelling indicates high efficiency	0.20			
23 (c)		Reform modelling indicates high efficiency	0.20			
23 (d)		Reform modelling indicates high efficiency	0.20			
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23 (l)		Reform modelling indicates high efficiency	0.20			
23 (m)		Reform modelling indicates high efficiency	0.20			
14. Supply chain and procurement		24 (a)	Reform modelling indicates high efficiency	0.20		
	24 (b)	Reform modelling indicates high efficiency	0.20			
	24 (c)	Reform modelling indicates high efficiency	0.20			
	24 (d)	Reform modelling indicates high efficiency	0.20			
	24 (e)	Reform modelling indicates high efficiency	0.20			
	24 (f)	Reform modelling indicates high efficiency	0.20			
	24 (g)	Reform modelling indicates high efficiency	0.20			
	24 (h)	Reform modelling indicates high efficiency	0.20			
	24 (i)	Reform modelling indicates high efficiency	0.20			
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	24 (k)	Reform modelling indicates high efficiency	0.20			
	24 (l)	Reform modelling indicates high efficiency	0.20			
	24 (m)	Reform modelling indicates high efficiency	0.20			
	15. Raw score (0 = red 1=amber 2= yellow)	25 (a)	Reform modelling indicates high efficiency	0.20		
25 (b)		Reform modelling indicates high efficiency	0.20			
25 (c)		Reform modelling indicates high efficiency	0.20			
25 (d)		Reform modelling indicates high efficiency	0.20			
25 (e)		Reform modelling indicates high efficiency	0.20			
25 (f)		Reform modelling indicates high efficiency	0.20			
25 (g)		Reform modelling indicates high efficiency	0.20			
25 (h)		Reform modelling indicates high efficiency	0.20			
25 (i)		Reform modelling indicates high efficiency	0.20			
25 (j)		Reform modelling indicates high efficiency	0.20			
25 (k)		Reform modelling indicates high efficiency	0.20			
25 (l)		Reform modelling indicates high efficiency	0.20			
25 (m)		Reform modelling indicates high efficiency	0.20			
16. Adjusted score / 100		26 (a)	Reform modelling indicates high efficiency	0.20		
	26 (b)	Reform modelling indicates high efficiency	0.20			
	26 (c)	Reform modelling indicates high efficiency	0.20			
	26 (d)	Reform modelling indicates high efficiency	0.20			
	26 (e)	Reform modelling indicates high efficiency	0.20			
	26 (f)	Reform modelling indicates high efficiency	0.20			
	26 (g)	Reform modelling indicates high efficiency	0.20			
	26 (h)	Reform modelling indicates high efficiency	0.20			
	26 (i)	Reform modelling indicates high efficiency				

xxxxxxx DISTRICT COUNCIL - QUADRANT STATUS SUMMARY

WITHOUT REFORM - STATUS QUO	
Service	Finance
Resourcing	Community

WITHOUT REFORM - IN 10 YRS	
Service	Finance
Resourcing	Community

WITH REFORM	
Service	Finance
Resourcing	Community

Service	1.71
Finance	1.76
Community	2.08
Resourcing	1.72

Service	2.43
Finance	1.84
Community	2.33
Resourcing	2.44

Service	2.71
Finance	1.94
Community	1.69
Resourcing	2.44

SUMMARY SCORING KEY			
Score Range	Colour	Quality	Risk
2.5-3	Dark green	Significant opportunity	Significant opportunity
1.76-2.5	Light green	Opportunity	Opportunity
1.26-1.75	Yellow	Neutral	Neutral
0.76-1.25	Orange	Threat	Threat
0-0.75	Red	Significant threat	Significant threat
*refer 'Considerations and Criteria for Council Impact Assessment' for detailed assessment criteria			

Background & context

Key points from half hour intro session. E.g. vision for council, key matters of importance, why weightings were chosen

Organisation Design Principles for new Water Services Entity

Key questions councils have about how the new entity will be established. Examples might be how they prioritise investment, service standards, independent CCO or partner to councils etc

Transition

Key questions councils have how, when, where, who is affected by transition. Examples could be debt transfer rules, how stranded overhead compensation is calculated, whether jobs will be lost locally etc

From: Kevin Lavery <kevin.lavery@tuhurapartners.co.nz>
Sent: Friday, 10 September 2021 5:35 PM
To: blair.bowcott@hcc.govt.nz; andrew.parsons@hcc.govt.nz; Stephen Halliwell; ian.cathcart@waidc.govt.nz; adrian.delaborde@hauraki-dc.govt.nz; bevan.gray@whakatane.govt.nz; andrea.houlihan@waitomo.govt.nz; Brent Sinclair; bruce.hinson@tcdc.govt.nz; david.bewley@whakatane.govt.nz; Dawn Inglis; martin.mould@waipadc.govt.nz; hanno.vandermerwe@kaweraudc.govt.nz; Karl.pavlovich@mpdc.govt.nz; kstrongman@taupo.govt.nz; kumaren.perumal@westernbay.govt.nz; Stephen Burton; Stavros Michael; nigel.ward@hcc.govt.nz; roger@otodc.govt.nz; ted.anderson@southwaikato.govt.nz; tony.hale@waitomo.govt.nz; sarah.omundsen@boprc.govt.nz; david.locke@waitomo.govt.nz; Brent Sinclair
Cc: Andy Matthews; Paul Blair; Dean Kimpton; Shaun Jones; Brent Manning; Rachel Beck; Kaine Thompson
Subject: Waikato/Bay of Plenty Water
Follow Up Flag: Follow up
Flag Status: Flagged

Hi everyone,

I hope all is well.

I attach a link for the deliverables that were part of the Phase 2 project.

 [210910 Final Deliverable Set](#)

Please note this excludes the 16 Council dashboards which were all updated with your LTP data. You have already been supplied with this information.

It also excludes the matrix assessments and Council reports on the 8-week LGNZ engagement. This work was funded separately by LGNZ. And, again, you have been supplied with the results and report for your council. In the end, we completed 21 out of 22 matrix assessments across Entity B, including the 8 councils that were not part of the Waikato/Bay of Plenty Consortium. We also supported a dozen Council workshops and we still have a few to do.

Our Team have really enjoyed working with all of you. We hope that once the DIA has determined how they will proceed with support for reform that we will have the opportunity to work with you again.

In the meantime, do get in touch if you need any other support.

Have a great weekend.

Regards,

Kevin

From: Stavros Michael
Sent: Monday, 13 September 2021 9:04 AM
To: Steve Chadwick; Dave Donaldson; Geoff Williams
Subject: RE: Letter from Christopher Luxon MP
Attachments: Letter to Mayors - National's position on water entities.pdf

Morena

Notwithstanding the obvious politics in this the key issues outlined are;

1. The future role of LG in specifying local outcomes – as per our letter to the Minister
2. Scale means some subsidisation. It is happening already at a local level for many services so nothing new here.
3. Letter does not explain how anticipated future costs are best managed (whether at a scale of \$180 billion or not it irrelevant. There will be higher costs) other than a form similar to NZTA's role. It does not offset costs it simply spreads it wider (subsidisation??) as unlike Transport there is no government method of collecting water related taxes (no fuel taxes ere) so any FAR rate on water will come from borrowings or national taxes as per the proposed entities my guess.
4. It does not address the scarcity of skills nor the future role of the private sector which might be less attracted in dealing with entities like Otorohanga of 3,000 people?

But there are are options as always.

Stavros

Stavros Michael *DCE Infrastructure & Environment & Primary CDEM Controller –*
Manahautū: Tūāpapa me te Rākau Whakamarumarū
P: 07 351 8148 | **M:** 027 807 3847
E: stavros.michael@rotorualc.nz | **W:** rotorualakescouncil.nz
A: 1061 Haupapa St, Private Bag 3029, Rotorua Mail Centre, Rotorua 3046, New Zealand

ROTORUA
LAKES COUNCIL

From: Steve Chadwick <Steve.Chadwick@rotorualc.nz>
Sent: Monday, 13 September 2021 8:19 am
To: Dave Donaldson <Dave.Donaldson@rotorualc.nz>
Cc: Stavros Michael <Stavros.Michael@rotorualc.nz>
Subject: Fwd: Letter from Christopher Luxon MP

Steve Chadwick

Begin forwarded message:

From: Christopher Luxon <Christopher.Luxon@parliament.govt.nz>
Date: 10 September 2021 at 5:17:45 PM NZST
To: Christopher Luxon <Christopher.Luxon@parliament.govt.nz>
Subject: Letter from Christopher Luxon MP

Reply-To: Christopher Luxon <Christopher.Luxon@parliament.govt.nz>, **Marek Townley** <Marek.Townley@parliament.govt.nz>

Dear Mayors,

Please find attached a letter to you setting out National's position on the Three Waters Reforms.

As always, if you have any questions or wish to discuss this letter or any other issues, please do not hesitate to contact me at christopher.luxon@parliament.govt.nz.

Kind regards,

Christopher Luxon
National Party Spokesperson for Local Government



Christopher Luxon
Spokesperson for Local Government
Authorised by Christopher Luxon, Parliament Buildings, Wellington

10 September 2021

Mayors of all Territorial Authorities
By email

Dear Mayors,

Three Waters Reforms: National's position on the water entity model

I am writing to set out the position National is taking on the Three Waters Reforms and the reasons we do not support the proposed model of four water entities, in light of developments since I last wrote to you on 12 July and spoke at the LGNZ Conference on 16 July.

It is clear that only a small number of your councils have explicitly supported the proposals, while the vast majority of you remain either opposed or uncommitted.

National supports the calls many of you have made for the Government to halt the process, in order for you to have the opportunity to digest the detail of the proposals and properly consult your communities. We believe the Government's consultation timeframe is poor and unreasonable, particularly in light of the missing detail and information that several of your councils are still requesting.

National opposes the water entities model for several key reasons:

- We believe the touted scale benefits as well as the financial assumptions and cost savings are unclear and have not been properly explained.
- We are concerned that ratepayers will end up cross-subsidising neighbouring communities.
- Our greatest concern is that the entity model will in effect be a power grab that will remove local control from communities. We are concerned by the convoluted structure of the proposed water entities and the distance this structure will create between decision-makers and the ratepayers to whom they are accountable. We fail to see how accessibility, accountability and democracy will be enhanced by the addition of several layers of representation, governance and management in the new model. We view the entity model as reflecting a continuation of the Labour Government's desire for greater centralisation and a shift of decision-making away from communities.

National's approach

1. We do agree with the Government that there are some improvements needed in our water management, but the problems are not uniform across the country – some councils manage their water services extremely well. A one-size-fits-all solution is therefore

inherently unfair. For example, while the Government has estimated a \$185 billion cost over the next 30 years, after the Havelock North water contamination, the Hastings district spent only around \$80 million to upgrade its water infrastructure.

2. We fully support Taumata Arowai, the new water regulator. New Zealand has never had a body to both set and – importantly – enforce drinking water standards. We believe this will be a game-changer and a very important organisation going forward.
3. We believe there are a range of options and actions available when councils fall short of the standards Taumata Arowai sets, such as:
 - Co-investment and joint funding partnerships between central government and local councils to fix specific water infrastructure challenges. This could be through the creation of a National Infrastructure Bank as National proposed at the 2020 election, or as happens today through well-established funding mechanisms for transport projects, for example.
 - Some councils may choose to collaborate with other neighbouring councils to pool their water management resources and capabilities, and others (as they already do today) may contract high-performing councils with good water management practice to manage their assets for them.

I hope this letter provides you with a good understanding of why National is opposing the Three Waters Reforms. I am always happy to have a discussion with you about our position on the reforms or any other matters relating to my role as National's Local Government spokesperson, so please feel welcome to contact me at any time.

Yours faithfully



Christopher Luxon
National Party Spokesperson for Local Government

From: Rick Dunn
Sent: Wednesday, 15 September 2021 8:18 AM
To: Executive Team
Subject: 3 Waters reform correspondence
Attachments: 20210914_052058.jpg

Morena

The attachment was received via the "Let's Talk" inbox and is addressed to the Mayor and Rotorua Lakes Councillors.

At the 23 September Council meeting there will be an item "3 Waters Reform – RLC's initial position".

Please advise when this letter can be forwarded on and should it be sent to all elected members i.e. Mayor, Councillors, Lakes Community Board, Rural Community Board and Te Tatou o Te Arawa.

Ngā mihi

Rick Dunn Kaea Taunaki – Governance Lead | **Ohu Taunaki** - Corporate Planning and Governance
07 351 8321 | rick.dunn@rotorualc.nz | rotorualakescouncil.nz

From: Lets Talk <letstalk@rotorualc.nz>
Sent: Tuesday, 14 September 2021 3:29 PM
To: Rick Dunn <Rick.Dunn@rotorualc.nz>; Craig Tiriana <Craig.Tiriana@rotorualc.nz>
Subject: FW: [#633A7Q]

Kia ora Rick,

Received this via the 'Let's Talk' email in box. Who does it go to as addressed to the Mayor & Councillors?
Craig – are you able to help?

Ngā mihi,

Rob Griffiths *Kaitohu Whakahono* – Partnership Advisor
Ohu Taunaki - Corporate Planning and Governance
Waea: 07 351 8186 | **Waea Pūkoro:** 027 473 2022
Īmera: robert.griffiths@rotorualc.nz | **Ipurangi:** rotorualakescouncil.nz
Taunga: 1061 Haupapa St, Private Bag 3029, Rotorua Mail Centre, Rotorua 3046, New Zealand

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LAKES COUNCIL

From: Info RDC <INFO@ROTORUALC.NZ>
Sent: Tuesday, September 14, 2021 9:13 AM
To: Lets Talk <letstalk@rotorualc.nz>
Subject: FW: [#633A7Q]

-----Original Message-----

From: s7(2)(a) LGOIMA
Sent: Tuesday, 14 September 2021 5:29 am

To: "info@rotorualc.nz" <info@rotorualc.nz>

Subject: FW:

THREE WATERS NOTES PP – 23 SEPT 21

PP2 (PURPOSE)

- The community at large has an active interest in the proposed 3 Waters reforms
- There is a lot of uncertainty and it is important that we take a stock take of where the reforms are at - at the moment.

PP3 (THE PROPOSAL'S OBJECTIVES)

- On the face of it the Government's objectives should be supported as these are not in conflict with our own objectives. Key matter is the HOW??

PP4 (3 WATERS NATIONAL CONCERNS)

- The Government has identified a number of concerns with regards to the current challenges faced by the 3 waters Services Managers across the country.
- We do share these concerns and our Planning Documents highlight similar challenges

PP5 (WHAT IT IS PROPOSED)

- The Government's proposed action plan is based on amalgamation of service delivery aiming to achieve integrated BENEFITS of SCALE
- At face value there are benefits of scale. We practice that ourselves through corporate shared services. Most of our current Local Authorities are a byproduct of historical amalgamations. One cannot see for example how viable would be today Boroughs for example.

- Key point here is How TLAs can practically maintain credible and effective influence over strategic and performance expectations through the proposals as they stand.

PP6 (THE PROPOSED WSEs)

- Entity B comprises 22 TLAs and some 800,000 population.

PP7 (PROPOSED GOVERNANCE)

- The proposed Governance structure
- Key element of concern here is **ACCOUNTABILITY and RESPONSIVENESS** to local communities' aspirations.
- The entity appears to be accountable only to the Regional Representative Group. But how **REPRESENTATIVE** this Group can be???

PP8 (WHAT WE HAVE ASKED TO DO NOW?)

- This is a major change. Each community must have the opportunity to be provided with adequate and clear information to enable them to provide meaningful inputs. We are not at that stage yet.
- While there is a reasonable acceptance on the metrics direction there is significant skepticism and risk in those numbers

PP9&10 (OUR ASSETS)

- High order of our 3 waters assets

PP11&12 (STATE OF ASSETS)

- Indicative of our assets consumed state. Roughly 50% consumed.
- Renewals are based on roughly 1.5% replacement value so there is a 30-35 years of legacy gap (liability)
- We have taken steps in the LTPs from 2015 onwards to minimize our risks but cannot affordably eliminate them in the short term.
- The Infrastructure strategy identifies the need to increase in future the Renewals Investment required and our operations expenditure.
- The future funding of water services will come from either charges (i.e, targeted rates) or Borrowings. If the depreciated value of the assets was to be paid back to TLAs by the WSEs then these costs will be recovered from the same ratepayers in higher charges. Giving by one hand taken by the other.
- The ratio of renewals costs to Operations/maintenance is roughly 1:2. For every dollar charged for renewals there are 2 dollars for Operations and maintenance.
- The idea of Scale benefits is to optimize these costs so charges can be kept to a minimum.

PP13/14/15 (THE CIA)

- While we meet our DW standards and our current WW consent conditions there are emerging higher demands and regulations. Scale should provide more investment capacity in services (proposed higher DIR and some efficiencies)
- Private water supplies is a risk.
- Stormwater standards are a risk
- Our Funding provisions are adequate but are constrained.
- **KEY RISK** is the loss of our local communities' voice and an erosion of Council's elected **leadership ROLE**. It is not a matter of local EGO trip here. It is a risk of potential unnecessary duplication, ineffective community engagement, fragmented strategic outcomes and ultimately

frustrating impotence to pursue locally agreed aspirations as defined through the democratic processes of Council's LTPs.

PP16 (ALIGNMENT)

- We accept that **SCALE** can offset some risks

PP17 (CONCERNS)

- Loss of identity and local voice without adequate leverage (70,000 people versus 800,000)

PP18 (THE PLUS & MINUs)

- Agree to identified challenges ahead
- Strong reservations against the loss of local leadership role

PP19 (what we want to see)

- An Effective Local Influence mechanism and;
- Effective accountability to the local communities

From: Regan Fraser
Sent: Wednesday, 15 September 2021 9:55 AM
To: Stavros Michael
Subject: FW: Rotorua Lakes Impact Assessment output
Attachments: 3W Council Impact Assessment Framework_v10_Rotorua.xlsx; Impact Assessment Matrix Presentation - Elected Members_Rotorua.pptx

Nāku noa, nā

Regan Fraser Kaihautū Pakihi Tūāpapa - Infrastructure Business Manager
P 07 351 8937 M 027 594 3610
E: regan.fraser@rotorualc.nz | W: rotorualakescouncil.nz
A: 1061 Haupapa St, Private Bag 3029, Rotorua Mail Centre, Rotorua 3046, New Zealand

ROTORUA
LAKES COUNCIL

From: Stavros Michael <Stavros.Michael@rotorualc.nz>
Sent: Wednesday, 8 September 2021 12:20 PM
To: Regan Fraser <Regan.Fraser@rotorualc.nz>; Greg Manzano <Greg.Manzano@rotorualc.nz>; Eric Cawte <Eric.Cawte@rotorualc.nz>; Thomas Colle <Thomas.Colle@rotorualc.nz>; Greg Kieck <Greg.Kieck@rotorualc.nz>; Karlo Keogh <Karlo.Keogh@rotorualc.nz>; Gina Rangi <Gina.Rangi@rotorualc.nz>; Oonagh Hopkins <Oonagh.Hopkins@rotorualc.nz>
Subject: Rotorua Lakes Impact Assessment output

Ok guys the attached are outcomes from last Monday's CIA session.

We will of course convert these into legible points in due time for our Council report but in the meantime it would be good if we all familiarise ourselves with the key data/inputs and see if we need to fine-tune any elements.

Thanks

Stavros

Stavros Michael DCE Infrastructure & Environment & Primary CDEM Controller –
Manahautū: Tūāpapa me te Rākau Whakamarumarū
P: 07 351 8148 | M: 027 807 3847
E: stavros.michael@rotorualc.nz | W: rotorualakescouncil.nz
A: 1061 Haupapa St, Private Bag 3029, Rotorua Mail Centre, Rotorua 3046, New Zealand

ROTORUA
LAKES COUNCIL

From: Shaun Jones <shaun.jones@tuhurapartners.co.nz>
Sent: Wednesday, 8 September 2021 8:50 am
To: Stavros Michael <Stavros.Michael@rotorualc.nz>
Cc: Paul Blair <paul.blair@tuhurapartners.co.nz>; Kevin Lavery <kevin.lavery@tuhurapartners.co.nz>;

Andy Matthews <andy.matthews@tuhurapartners.co.nz>

Subject: Rotorua Lakes Impact Assessment output

Hi Stavros

Thanks very much to you and the team for the highly engaged session this week – great to see so many of your team involved.

Attached are the spreadsheet and a presentation output. This information can support your political engagement as you see fit.

If you have any questions please feel free to come back to me or anyone else in the team.

Thanks, Shaun



Shaun Jones

Tuhura Partners

Mobile s7(2)(a)

Email shaun.jones@tuhurapartners.co.nz

From: Stavros Michael
Sent: Thursday, 16 September 2021 10:34 am
To: Geoff Williams; Gina Rangi; Thomas Colle; Regan Fraser; Craig Tiriana; Oonagh Hopkins
Subject: RE: Draft report 3 Waters Reforms Interim Position
Attachments: DRAFT 3 WATERS POSITION REPORT INTERIM.docx

Follow Up Flag: Follow up
Flag Status: Completed

I have had no response to the draft report forwarded on Tuesday.

I am concerned that the report needs to be finalised by tomorrow to be ready for Council meeting on the 23rd and to allow me to prepare a presentation. We have here made some additions to the draft report (see in red attached) to reflect a few of points raised by a review commissioned by DIA through "Farrierswier" on the WICS model of economic projections of the reform.

So unless changes are required we do need to finalise.

Regards

Stavros

Stavros Michael *DCE Infrastructure & Environment & Primary CDEM Controller –*
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ROTORUA
LAKES COUNCIL

From: Stavros Michael
Sent: Tuesday, 14 September 2021 9:35 pm
To: Geoff Williams <Geoff.Williams@rotorualc.nz>; Gina Rangi <Gina.Rangi@rotorualc.nz>; Thomas Colle <Thomas.Colle@rotorualc.nz>; Regan Fraser <Regan.Fraser@rotorualc.nz>; Craig Tiriana <Craig.Tiriana@rotorualc.nz>; Oonagh Hopkins <Oonagh.Hopkins@rotorualc.nz>
Subject: Draft report 3 Waters Reforms Interim Position

Ok I am sure a few pairs of fresh eyes will find lots to improve. Mine are ready for bed.

Talk later

Nga mihi

Stavros Michael *DCE Infrastructure & Environment & Primary CDEM Controller –*
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DRAFT

File No: xxxxxx
RDC-xxxxMayor and Members
RLC COUNCIL

THREE WATERS REFORM – PRELIMINARY COUNCIL POSITION

Report prepared by: Stavros Michael, Deputy Chief Executive Infrastructure, Rotorua Lakes Council ???

Reviewed:.....?????????

1. TE PŪTAKE PURPOSE

To bring the national case for the three waters proposed change into a locally relevant perspective by highlighting key issues, risks and opportunities so elected members are supported and well informed on the Council's proposed preliminary position on these reforms.

2. TE TUHINGA WHAKARĀPOPOTOTANGA EXECUTIVE SUMMARY

This report acknowledges the broad Government drivers for the proposed three waters reform. Those drivers do not significantly diverge from Rotorua Lakes Council's diagnosis of the challenges facing Rotorua's three Waters infrastructure: ageing physical infrastructure, a legacy of chronic underinvestment in network renewals often resulting in poor asset condition, higher performance standards and new regulations to better protect peoples' health and the environment, the significant growth-driven investment required to support new housing, the impacts of climate change and the forthcoming acute scarcity of a competent workforce.

The Government has formed the view that the preferred approach for the reform is to create four (4) new water services entities (WSE) that would improve the effectiveness and efficiency of service delivery. It cannot be assumed that the counterfactual i.e. "the Council model" means no change to the way current services and related costs will remain unchanged if the reforms do not proceed. For reasons explained in this report and in order to enable all communities to benefit from expected regulations and standards reform the "council model" will become significantly more expensive and more challenging to manage.

In this report we highlight that we broadly agree with the drivers for change and we have already adopted a range of risk mitigations against those challenges in our 30-year Infrastructure strategies. We are also taking an active part in discussions and workshops with DIA and other local government agencies to help the formation of viable long-term options to address those challenges.

Nevertheless, we believe that there are fundamental gaps in the current reform proposal that must be addressed in order to strengthen the proposal and to uphold the reform's underlying core intentions.

3. HE TŪTOHUNGA RECOMMENDATION

1. That the report “Three Waters Reform – Preliminary Council Position” be received.
2. That the Council notes officers’s assessments of likely Council Impacts arising from the proposed reforms.
3. That the Council notes the advice from the DIA that there is no need for full public consultation on this subject yet.
4. That the Council adopts and the proposed letter to the Minister articulating its Preliminary Position on the proposed Three Waters Reform.

4. TE TĀHUHU BACKGROUND/CONTEXT/ISSUES

Purpose of this section: To assist elected members to understand the drivers for the Government’s proposed three waters reform and note pertinent issues to Rotorua’s context.

The Government’s stated drivers for a new system for three waters

The Government states that they propose a national reform of the three waters system because they have ambitions to significantly improve the safety, quality, resilience, accessibility and performance of the three waters services in a way that it is efficient and affordable for New Zealanders. These ambitions, in their view, are critical for;

- Public health and wellbeing
- Improved environmental outcomes
- Economic growth and employment
- Housing and urban development
- Adapting to the impacts of climate change and
- Mitigating the effects of natural hazards

The Government also wants to ensure that it delivers on Treaty-related obligation, including by improving outcomes for iwi/Maori in relation to the three waters service delivery.

In the Government’s view (statement of intent) it is integral to achieving these ambitions that the reforms ensure effective infrastructure delivery, underpinned by an efficient, high-performing, financially-sustainable and transparent three waters system.

Key design features in these proposed reforms are;

1. Maintaining local authority ownership of water services entities
2. Protecting against privatization
3. Retaining influence of local authorities and mana whenua over strategic and performance expectations
4. Providing the necessary balance sheet separations from Local authorities and;
5. An integrated regulatory system

In developing the proposed reforms, the Government has (through an extensive collection of data from local authorities and subject matter expert advice) formed the view that the preferred approach is to create four (4) new water services entities (WSE) to enable all communities to benefit from reform.

The factors they considered in order to determine the number and boundaries of these proposed new entities were;

- A. The potential to achieve scale benefits from a larger water service delivery entity to a broader population user base
- B. Alignment of geographical boundaries to encompass natural communities of interest, belonging and identity including rohe/takiwa
- C. Relationship with relevant regulatory boundaries including to enable water to be managed from source the sea – ki uta ki tai.

Our views on our three waters system

The Government's reform drivers and key objectives are not in significant divergence from our own diagnosis of our three waters system as agreed and adopted in our 30 years Infrastructure Strategy. Our own assessment identifies similar key issues, emerging risks and service performance challenges.

RLC's adopted 30 year Infrastructure Strategy (2021-2051) identifies 7 key forward challenges;

Strategic issue	Implications
1. Maintaining assets in a stable, reliable, and safe condition	<p>We need to keep ahead so there is not an unsustainable investment deficit that becomes unaffordable to bridge for our current and future ratepayers.</p> <p>Investment is required to ensure that our assets meet the levels of service to our communities, comply with legislative requirements, and are resilient to service disruption.</p>
2. Meeting future demands on infrastructure	<p>Housing is one of the biggest issues the Rotorua community faces. Identified issues include a shortfall of thousands of homes, homeless, and increasing waiting list for social housing.</p> <p>As a result, Te Arawa and RLC have identified safe, secure housing for all our people as our top shared priority to ensure positive, thriving communities. This is a council priority for the 2021- 31 Long Term Plan.</p>
3. Managing the impacts of legislative and policy change	<p>There are significant emerging changes to legislation that are either planned or underway that will impact the costs and delivery of core infrastructure including Freshwater management, Zero Carbon, and other.</p>
4. Embedding cultural values into the way we manage our infrastructure	<p>It can take considerable and upfront time and cost to ensure our capital projects are culturally appropriate and are supported by our community. In some cases, we need to explore alternative to traditional options and stage appropriate solutions overtime.</p> <p>Increasingly, legislation is requiring that iwi have a greater role in the governance or decision making for key assets such as water.</p>

Strategic issue	Implications
5. Climate change and environmental sustainability	<p>We are preparing for the impacts of climate change on the infrastructure assets as we are already experiencing impacts such as prolonged droughts and higher temperatures. Increased frequency and intensity of high rainfall events, which creates flooding risks and a health risk for our potable / drinking water.</p> <p>It is expected that this will impact the core infrastructure particularly:</p> <ul style="list-style-type: none"> - Quantity and quality of water available from water supply sources - Flood management and hazard risk to infrastructure and property
6. Resilience of critical infrastructure	<p>A key focus is strengthening the infrastructural resilience of our core assets.</p> <p>Infrastructure resilience is tested in Rotorua as it is exposed to a variety of natural hazards including earthquake, geothermal activity, landslides, flooding, volcanic eruption and severe storms. These natural disasters can cause considerable damage to infrastructure assets and affect the reliable delivery of service.</p>
7. Maintaining institutional knowledge and capability (i.e. people resilience).	<p>Many of our senior experienced engineers are nearing the end of their careers. This reflects a national issue of limited replacement capability and capacity in the industry.</p> <p>It is recognised that there is a need for technical staff to be attracted, retained and developed and have real career progression opportunities within the industry long term.</p>

The proposed reforms seek to achieve scale advantage by absorbing costs over a larger population base, by rationalising and harmonising network plans and construction standards, by pulling together a critical mass to attract, retain and develop competent staff and a more dedicated focus on managing risk. Together, these benefits of scale should logically lead to improved 3 Waters services in the long term.

We broadly agree with the drivers for change and have already adopted a range of risk mitigations against those challenges in our 30-year Infrastructure strategies. We are also taking an active part in discussions and workshops with DIA and other local government agencies to help the formation of viable long-term options to address those challenges.

Nevertheless, we believe that there are fundamental gaps in the current reform proposal that must be addressed in order to strengthen the proposal and to uphold the reform's underlying core intentions.

5. ANTICIPATED REFORM IMPACTS AND COMMENTS

Purpose of this section: To provide elected members with a succinct summary of identified key Council Impacts Assessments arising from the proposed reforms as they currently stand.

In order to evaluate the reform effects (on the basis of information available from the Government and the Department of Internal Affairs) we have undertaken a high level Council Impacts Assessment. The assessment has addressed four clusters of considerations centred on (a) no change i.e. the Council model and (b) change i.e. the Reform model.

A summary of 14 considerations were grouped in four (4) quadrants;

QUADRANT	CONSIDERATIONS
Service	<ul style="list-style-type: none"> • Drinking water standards compliance • Wastewater compliant and freshwater outcomes • Robust/sustainable stormwater network • Asset management, information & planning
Workforce, Delivery and Capability	<ul style="list-style-type: none"> • Workforce suitability and sustainability • IT systems and processes • Supply chain and procurement
Finance and Funding	<ul style="list-style-type: none"> • Council balance sheet and debt capacity • Cost of service and efficiency savings • Impact on rates • Post reform council (including stranded costs)
Social, Community and Economic Wellbeing	<ul style="list-style-type: none"> • Iwi/Maori • Development / growth and community self determination • Economic impact

The Council model is performing well

The assessment highlights a good level of confidence in the Council's ability to continue to be able to

- meet and be compliant with drinking water standards,
- operate waste water in accordance with the National Policy Statement and Freshwater guidelines,
- maintain an appropriate internal/external skills balance for an engaged and competent engineering workforce,
- deploy appropriate and targeted procurement practices that reduce its operating and asset investment risks (i.e Trility PSOMC),
- build and maintain strong relationships and co-governance approaches with iwi/hapu that enable the delivery of mutually beneficial complex programmes of work,
- be able to allocate appropriately prudent capital investment by leveraging its balance sheet and as required to deliver its infrastructure strategy and;
- secure directly and through government partnerships the required investment to enable growth and to support climate change mitigation programmes.

Broadly the Council model on three waters services performs within the community's acceptable levels of service expectations. **However it is important to note that "Council Model" is not a static concept. In other words the current way Council addresses three waters services will continue to come under pressure for the reasons identified earlier resulting in a trend of increasing fiscal and resource demand.**

The main challenges under the Council model

There is a recognition that the establishment of the national three waters regulator office (Taumata Arowai) will gradually introduce additional community health safety standards and environmental

discharge limits requirements that will make reliable and sustainable compliance more challenging for local authorities.

While appropriate investment has been allocated for forward assets renewals, the bridging of legacy funding gaps in renewals and the anticipated escalating operational/maintenance costs driven by assets ageing and the combined goods cost price indices will become an affordability risk for the local communities and that these rising costs coupled with the need to fund growth related lead infrastructure cannot be sustained through a limited population base.

The alternative of leveraging higher debt levels to offset forecasted cost burden to current ratepayers is constrained by limitations to the Debt to Income ratios applicable to TLAs.

The expected need to address what are currently private drinking water supplies are a significant unknown risk. There are 6 registered private water supply schemes in the district that are non-compliant but there are many, as yet unidentified, supplies including marae/papakainga and rural that are likely to be non-compliant.

More investment will be required to bring asset condition knowledge and predictive failure information and deterioration data to a standard necessary for optimised and timely investment and to reduce the potential for critical service failure.

Opportunities arising from the proposed reform

The proposed Water Services Entity (WSE) will remove unknown and rising risks from Council in terms of private water supplies' compliance with new regulations and the effects/response to climate change impacts.

It is anticipated that the WSE will have a stronger financial capacity to invest in desirable levels of service improvements although this is likely to be moderated/constrained by yet unestablished rules that would assign Rotorua a high priority against any of the other 22 participating TLAs.

Due to the proposed scale of the new WSE it is more likely that better tools will be created to manage information systems (ICT, Asset data etc). Also that staff working for the sector will have more and better access to career development paths and professional growth opportunities.

The main reform challenges that must be considered carefully by Council

The purpose of local government is to enable democratic local decision-making and action by, and on behalf of communities and to promote the social, economic, environmental and cultural wellbeing of their communities in the present and for the future.

The business case for the proposed reforms, to date, relies heavily on assumed economic benefits. However the economic benefits that are promoted rely primarily on the ability of the WSE to deliver substantial cost efficiencies that attract a significant and healthy degree of scepticism and there appears to be a valid concern that our local communities would carry the burden of increasing service costs if such projected efficiencies cannot be attained and more importantly without the ability to hold the WSE to account.

It is noted that the Department of Internal Affairs has commissioned a review (by Farrierswier) of work completed by the Water Industry Commission of Scotland (WICS) to assess the potential benefits from amalgamating and reforming water, wastewater and stormwater services from 67 council areas in NZ into a small number of new operationally and financially independent water services entities subject to economic regulation and other stewardship reform.

The review findings (in summary) is that the overall approach adopted by WICS to modelling the potential impact that amalgamation of water entities and associated reforms could have on projected expenditure, financing costs, revenue and prices of water service providers should give reasonable estimates in terms of direction and order of magnitude. Due to the scope of the review they could not provide an opinion whether the forecasts and estimates generated by WICS by applying its methodology and assumptions are reasonable. The review focussed on whether the modelling is likely to give estimates that are appropriately either positive or negative (i.e. direction) and are at an appropriate scale (i.e. order of magnitude). Given the nature of that analysis their review was subject to limitations including that;

- Forecasts almost always turn out inaccurate, especially over a 30-year horizon
- Choices need to be made over a myriad of modelling approaches, inputs and assumptions that reasonable minds may disagree with
- Decisions on reform processes of this scale are typically undertaken while facing information challenges related to the quality and availability of relevant information needed to project long term outcomes
- There is still a wide range of unknowns, including as to what the eventual structure of the WSE sector will actually look like once the reform is implemented
- Sensitivity analysis shows that the estimated benefits in terms of average household costs in 2051 can vary materially if key assumptions were adopted differently

However in broad summary the review outcome is that it is not considered that the modelling undertaken by WICS and the choices it has made over how to do this, materially affect the direction of estimated benefits from amalgamation and associated reforms.

The 3 Waters infrastructure assets are important not just for financial reasons, but also for the environmental, social and cultural outcomes they are meant to achieve. The proposals, as they currently stand, do not provide clear confidence that the local communities' lead agency (the elected Council) would be able to continue to lead effectively community engagement on water services nor that the WSE will be appropriately responsive to the communities' evolving, diverse needs and aspirations.

The Council, has faithfully endeavored to give meaningful effect to its partnership commitments with Te Arawa. Our iwi/Maori/hapu relationships are currently very strong and these have been built over many years of solid commitment by all parties. The reform proposals have not as yet adequately addressed the possible effect of the reform on existing Treaty settlements obligations. There is a justified concern to ensure that the proposed reforms must both protect existing settlements, as well as ensure that the Crown (and local government and the Entities) continue to have the ability to put right historic wrongs and reinforce these relationships through direct and respectful mechanisms.

Other financial considerations for Council arising from the proposed reform

The reforms promise to generate significant capital investment for growth and systems enhancement and for these to be funded through the WSE's stronger balance sheet. Assuming a pro-rata attribution based on population share Rotorua may receive some \$1.4B of that over the next 30 years compared to its estimated \$0.487B considered in its 30 years IS.

It is stated by the DIA that the transition costs will be met by Government funding assistance. In addition some \$32m under the "better off" grant will be allocated to Rotorua and some \$4.0m of stranded costs will be met by the new WSE who have been allocated \$500m for that purpose at a national level.

Concerns have been raised about the proposed transfer of local three waters assets to the WSE. In some cases this proposed transfer is seen as "gifting" community funded assets. It must be noted that

the Council's Infrastructure information identifies that the three waters assets have a current replacement value of some \$900 mil. However the assets current depreciated value (fair value) is about half of that replacement value. In effect for every \$1 of remaining value there is roughly a \$1 of liability to replace the consumed part of the assets. The current consumed life of the three waters assets is about 45%, 55% and 65% for drinking water, waste water and stormwater respectively. Therefore and if assets are transferred to the proposed WSE so will their replacement, maintenance and upgrade costs liabilities that exceed by far their remaining depreciated values.

6. COMMUNITY ENGAGEMENT ISSUES

The proposed three waters reforms constitute a major inter-generational change. Full and effective community consultation will be required in order to give effect to the Council's community services stewardship responsibilities.

However, at this point in time we have no final and solid information to form the basis of such special consultation. The advice we have from the Department of Internal Affairs (DIA) on 30 July 2021, states;

“ What happens next – decision making and consultation

Following the engagement period, the Government will consider the feedback and suggestions provided by local authorities, in partnership with the joint steering committee. It will also consider the next steps, including the transition and implementation pathway, and revised timing for decision making, which could accommodate the time required for any community or public consultation.

The Government will not be taking further decisions until after this engagement period”

7. TE WHAKAKAPINGA SUMMARY AND CONCLUSION

The Government proposes to lead major changes to the three waters system in New Zealand. These changes will have intergenerational impacts on our communities. While there are logical conclusions of benefits of scale to be attained through the consolidation of three waters service delivery into four proposed Water Services Entities, there are also matters of pertinent concern that the proposals do not adequately address as they currently stand.

Whilst national standards will be designed to ensure some consistency in the delivery of Three Waters Services and the supporting infrastructure, local factors will continue ultimately to be the overriding driver of services. To deliver on its purpose local government must, alongside mana whenua, understand and plan for growth capacity and for their communities' environmental, cultural and social wellbeing needs. To effectively do this local government must have the ability to coordinate and define the infrastructure services required directly with their communities.

It is recognized that there are significant challenges ahead for the Council's three waters services. There are economic risks associated with an old system of assets, services performance and compliance risks from emerging standards and regulations, high investment demand from growth aspirations and the now emerging scarcity of competent expertise and skills in the sector. The proposed reforms, based on consolidation, promise significant efficiency gains through which will be able to better and more affordably address these risks and therefore reduce the future costs burden on the communities. However these efficiency gains are based on predictive modelling that **although appears to be reasonable in terms of direction it cannot be accurately validated over a 30-year horizon.**

To a large degree the reform proposals are based on the experience of Scotland who responded to the new European regulations of the 1990s by establishing a vertically integrated service delivery authority for the water services. It is to be noted though that a study undertaken by “Building Innovation Partnership” in July 2020 identified a recent years’ trend in Northern European countries of similar size to NZ to move way from services consolidation and towards re-municipalisation. While they incur relatively higher costs they do meet specified European standards and are more responsive to their communities.

Our three Waters Strategy, that informs our Infrastructure Strategy, provides a 50 year blueprint for the district’s guiding decision making and it is aiming to ensure optimum and balanced outcomes for our current and future communities. It is aligned with the Te Arawa Vision 2050 and the broader Rotorua Way.



Thriving Communities is our keystone principle. The core purpose of the three waters activities is to serve our communities by not only safeguarding their utilities services and wellbeing but by also strongly upholding the sense of place and purpose that connection to water brings.

It seems possible that the economic benefits of scale could easily be offset by dis-benefits, including a loss of the community voice in the clutter of a much larger population base served by the Entity. Moreover, in the absence of a clear mechanism to ensure that the mandated leadership role of local government is maintained, there is real potential for a siloed, assets-based, management approach that could be unresponsive to the unique needs of iwi and the community at large.

Our proposed approach is to be supportive and constructive in the national effort towards a demonstratively viable and sustainable new 3 Waters management framework, and it is recommended that Council adopts and communicates the preliminary reforms position paper to the Minister.

From: Stavros Michael
Sent: Thursday, 16 September 2021 2:55 pm
To: Craig Tiriana; Thomas Colle; Geoff Williams; Gina Rangi; Regan Fraser; Oonagh Hopkins
Subject: RE: Draft report 3 Waters Reforms Interim Position
Attachments: DRAFT 3 WATERS POSITION REPORT INTERIM.docx

Ok here is the version as it stands with the changes made.

Stavros Michael *DCE Infrastructure & Environment & Primary CDEM Controller –
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From: Craig Tiriana <Craig.Tiriana@rotorualc.nz>
Sent: Thursday, 16 September 2021 2:49 pm
To: Stavros Michael <Stavros.Michael@rotorualc.nz>; Thomas Colle <Thomas.Colle@rotorualc.nz>; Geoff Williams <Geoff.Williams@rotorualc.nz>; Gina Rangi <Gina.Rangi@rotorualc.nz>; Regan Fraser <Regan.Fraser@rotorualc.nz>; Oonagh Hopkins <Oonagh.Hopkins@rotorualc.nz>
Subject: RE: Draft report 3 Waters Reforms Interim Position

Gee you are a machine today! I'll follow up on the meeting. Letter went out to minita earlier in week through Mayor's office but I'll confirm also.

Also, thanks for all the work on the paper everybody, I'll start reading the new version now Stavros. I think I've got one more Zoom after this one I'm in.

Craig

From: Stavros Michael <Stavros.Michael@rotorualc.nz>
Sent: Thursday, 16 September 2021 2:43 PM
To: Thomas Colle <Thomas.Colle@rotorualc.nz>; Geoff Williams <Geoff.Williams@rotorualc.nz>; Gina Rangi <Gina.Rangi@rotorualc.nz>; Regan Fraser <Regan.Fraser@rotorualc.nz>; Craig Tiriana <Craig.Tiriana@rotorualc.nz>; Oonagh Hopkins <Oonagh.Hopkins@rotorualc.nz>
Subject: RE: Draft report 3 Waters Reforms Interim Position

Will do says the foreigner!!

Craig – I have incorporated Oonagh's and Thomas feedback so far.

Couple of things

1. Do we have a meeting to discuss this tomorrow? (not in calendar and if one it to be set we are busy till 11.00 am please note)
2. Is the letter to the Minister finalised? Do you know as we will need to attach to the report)

Cheers

s

Stavros Michael *DCE Infrastructure & Environment & Primary CDEM Controller –
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From: Thomas Colle <Thomas.Colle@rotorualc.nz>
Sent: Thursday, 16 September 2021 2:09 pm
To: Stavros Michael <Stavros.Michael@rotorualc.nz>; Geoff Williams <Geoff.Williams@rotorualc.nz>; Gina Rangi <Gina.Rangi@rotorualc.nz>; Regan Fraser <Regan.Fraser@rotorualc.nz>; Craig Tiriana <Craig.Tiriana@rotorualc.nz>; Oonagh Hopkins <Oonagh.Hopkins@rotorualc.nz>
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And just noticed my bad grammar...which hopefully someone will correct 😊

From: Stavros Michael <Stavros.Michael@rotorualc.nz>
Sent: Thursday, 16 September 2021 1:36 PM
To: Thomas Colle <Thomas.Colle@rotorualc.nz>; Geoff Williams <Geoff.Williams@rotorualc.nz>; Gina Rangi <Gina.Rangi@rotorualc.nz>; Regan Fraser <Regan.Fraser@rotorualc.nz>; Craig Tiriana <Craig.Tiriana@rotorualc.nz>; Oonagh Hopkins <Oonagh.Hopkins@rotorualc.nz>
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Thy will shall be done!!

Thank you Thomas

Stavros Michael *DCE Infrastructure & Environment & Primary CDEM Controller –
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Sent: Thursday, 16 September 2021 1:21 pm
To: Stavros Michael <Stavros.Michael@rotorualc.nz>; Geoff Williams <Geoff.Williams@rotorualc.nz>; Gina Rangi <Gina.Rangi@rotorualc.nz>; Regan Fraser <Regan.Fraser@rotorualc.nz>; Craig Tiriana <Craig.Tiriana@rotorualc.nz>; Oonagh Hopkins <Oonagh.Hopkins@rotorualc.nz>
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Reads well, suggest a couple of amendments re the finance section

Cheers T

Other financial considerations for Council arising from the proposed reform

The reforms promise to generate significant capital investment for growth and systems enhancement and for these to be funded through the WSE's stronger balance sheet. Technically incorrect, as the new entities will have weaker balance sheets due to being heavily leverage as they will carry up to 4 time more debt than Councils. Rather than saying "stronger balance sheet" say "funded through WSE's ability to borrow more than 3 to 4 times more than Councils due to having a higher allowable debt limits.. Assuming a pro-rata attribution based on population share Rotorua may receive some \$1.4B of that over the next 30 years compared to its estimated \$0.487B considered in its 30 years IS.

It is stated by the DIA that the transition costs will be met by Government funding assistance. In addition some \$32m under the "better off" grant will be allocated to Rotorua and modeling indicates up to \$4.0m of costs may be stranded with Council, the new WSE who have been allocated \$500m at a national level for that purpose of mitigating these costs during the transition. (rewrote this sentence)

Concerns have been raised about the proposed transfer of local three waters assets to the WSE. In some cases this proposed transfer is seen as "gifting" community funded assets. It must be noted that the Council's Infrastructure information identifies that the three waters assets have a current replacement value of some \$900 mil. However the assets current depreciated value (fair value) is about half of that replacement value. In effect for every \$1 of remaining value there is roughly a \$1 of liability to replace the consumed part of the assets. The current consumed life of the three waters assets is about 45%, 55% and 65% for drinking water, waste water and stormwater respectively. Therefore and if assets are transferred to the proposed WSE so will their replacement, maintenance and upgrade costs liabilities that exceed by far their remaining depreciated values.

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So unless changes are required we do need to finalise.

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From: Stavros Michael
Sent: Tuesday, 14 September 2021 9:35 pm
To: Geoff Williams <Geoff.Williams@rotorualc.nz>; Gina Rangi <Gina.Rangi@rotorualc.nz>; Thomas Colle <Thomas.Colle@rotorualc.nz>; Regan Fraser <Regan.Fraser@rotorualc.nz>; Craig Tiriana <Craig.Tiriana@rotorualc.nz>; Oonagh Hopkins <Oonagh.Hopkins@rotorualc.nz>
Subject: Draft report 3 Waters Reforms Interim Position

Ok I am sure a few pairs of fresh eyes will find lots to improve. Mine are ready for bed.

Talk later

Nga mihi

Stavros Michael *DCE Infrastructure & Environment & Primary CDEM Controller –*
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ROTORUA
LAKES COUNCIL

DRAFT

File No: xxxxxx
RDC-xxxx

Mayor and Members
RLC COUNCIL

THREE WATERS REFORM – PRELIMINARY COUNCIL POSITION

Report prepared by: Stavros Michael, Deputy Chief Executive Infrastructure, Rotorua Lakes Council ???
Reviewed:.....???????????

**1. TE PŪTAKE
PURPOSE**

To bring the national case for the three waters proposed change into a locally relevant perspective by highlighting key issues, risks and the opportunities. In addition, this serves to communicate the Council’s proposed preliminary position on these reforms.

**2. TE TUHINGA WHAKARĀPOPOTOTANGA
EXECUTIVE SUMMARY**

This report acknowledges the broad Government drivers for the proposed three waters reform. Those drivers do not significantly diverge from Rotorua Lakes Council’s diagnosis of the challenges facing Rotorua’s three Waters infrastructure: ageing physical infrastructure, a legacy of chronic underinvestment in network renewals often resulting in poor asset condition, higher performance standards and new regulations to better protect peoples’ health and the environment, the significant growth-driven investment required to support new housing, the impacts of climate change and the forthcoming acute scarcity of a competent workforce.

The Government has formed the view that the preferred approach for the reform is to create four (4) new water services entities (WSE). It is their belief these would improve the effectiveness and efficiency of service delivery. It cannot be assumed that the counterfactual i.e. “the Council model” means no change to the way current services and related costs will remain unchanged if the reforms do not proceed. For reasons explained in this report and in order to enable all communities to benefit from expected regulations and standards reform the “council model” will become significantly more expensive and more challenging to manage.

In this report we highlight that we broadly agree with the drivers for change and we have already adopted a range of risk mitigations against those challenges in our 30-year Infrastructure strategies. We are also taking an active part in discussions and workshops with DIA and other local government agencies to help the formation of viable long-term options to address those challenges.

Nevertheless, we believe that there are fundamental gaps in the current reform proposal that must be addressed in order to strengthen the proposal and to uphold the reform’s underlying core intentions.

3. HE TŪTOHUNGA RECOMMENDATION

1. *That the report "Three Waters Reform – Preliminary Council Position" be received.*
2. *That the Council notes officers' assessments of likely Council Impacts arising from the proposed reforms.*
3. *That the Council notes the advice from the DIA that there is no need for full public consultation on the subject at this stage.*
4. *That the Council adopts the proposed letter to the Minister articulating its Preliminary Position on the proposed Three Waters Reform.*

4. TE TĀHUHU BACKGROUND/CONTEXT/ISSUES

Purpose of this section: To provide the drivers for the Government's proposed three waters reform and note pertinent issues to Rotorua's context.

4.1 The Government's stated drivers for a new system for three waters

The Government states that they propose a national reform of the three waters system because they have ambitions to significantly improve the safety, quality, resilience, accessibility and performance of the three waters services in a way that it is efficient and affordable for New Zealanders. These ambitions, in their view, are critical for;

- Public health and wellbeing
- Improved environmental outcomes
- Economic growth and employment
- Housing and urban development
- Adapting to the impacts of climate change and
- Mitigating the effects of natural hazards

The Government also wants to ensure that it delivers on Treaty-related obligation, including by improving outcomes for iwi/Maori in relation to the three waters service delivery.

In the Government's view (statement of intent) it is integral to achieving these ambitions that the reforms ensure effective infrastructure delivery, underpinned by an efficient, high-performing, financially-sustainable and transparent three waters system.

Key design features in these proposed reforms are;

1. Maintaining local authority ownership of water services entities
2. Protecting against privatization
3. Retaining influence of local authorities and mana whenua over strategic and performance expectations
4. Providing the necessary balance sheet separations from Local authorities and;
5. An integrated regulatory system

In developing the proposed reforms, the Government has (through an extensive collection of data from local authorities and subject matter expert advice) formed the view that the preferred approach is to create four (4) new water services entities (WSE) to enable all communities to benefit from reform.

The factors they considered in order to determine the number and boundaries of these proposed new entities were;

- A. The potential to achieve scale benefits from a larger water service delivery entity to a broader population user base
- B. Alignment of geographical boundaries to encompass natural communities of interest, belonging and identity including rohe/takiwa
- C. Relationship with relevant regulatory boundaries including to enable water to be managed from source the sea – ki uta ki tai.

4.2 Challenges for Rotorua Lakes Council in the three waters system

The Government's reform drivers and key objectives are not significantly different to the assessment of our own identified key issues, emerging risks and service performance challenges as agreed and adopted in our 30 years Infrastructure Strategy 2021-2051. These are outlined in the table below.

Strategic issue	Implications
1. Maintaining assets in a stable, reliable, and safe condition	<p>We need to keep ahead so there is not an unsustainable investment deficit that becomes unaffordable to bridge for our current and future ratepayers.</p> <p>Investment is required to ensure that our assets meet the levels of service to our communities, comply with legislative requirements, and are resilient to service disruption.</p>
2. Meeting future demands on infrastructure	<p>Housing is one of the biggest issues the Rotorua community faces. Identified issues include a shortfall of thousands of homes, homeless, and increasing waiting list for social housing.</p> <p>As a result, Te Arawa and RLC have identified safe, secure housing for all our people as our top shared priority to ensure positive, thriving communities. This is a council priority for the 2021- 31 Long Term Plan.</p>
3. Managing the impacts of legislative and policy change	<p>There are significant emerging changes to legislation that are either planned or underway that will impact the costs and delivery of core infrastructure including Freshwater management, Zero Carbon, and other.</p>
4. Embedding cultural values into the way we manage our infrastructure	<p>It can take considerable and upfront time and cost to ensure our capital projects are culturally appropriate and are supported by our community. In some cases, we need to explore alternative to traditional options and stage appropriate solutions overtime.</p> <p>Increasingly, legislation is requiring that iwi have a greater role in the governance or decision making for key assets such as water.</p>

Strategic issue	Implications
5. Climate change and environmental sustainability	<p>We are preparing for the impacts of climate change on the infrastructure assets as we are already experiencing impacts such as prolonged droughts and higher temperatures. Increased frequency and intensity of high rainfall events, which creates flooding risks and a health risk for our potable / drinking water.</p> <p>It is expected that this will impact the core infrastructure particularly:</p> <ul style="list-style-type: none"> – Quantity and quality of water available from water supply sources – Flood management and hazard risk to infrastructure and property
6. Resilience of critical infrastructure	<p>A key focus is strengthening the infrastructural resilience of our core assets.</p> <p>Infrastructure resilience is tested in Rotorua as it is exposed to a variety of natural hazards including earthquake, geothermal activity, landslides, flooding, volcanic eruption and severe storms. These natural disasters can cause considerable damage to infrastructure assets and affect the reliable delivery of service.</p>
7. Maintaining institutional knowledge and capability (i.e. people resilience).	<p>Many of our senior experienced engineers are nearing the end of their careers. This reflects a national issue of limited replacement capability and capacity in the industry.</p> <p>It is recognised that there is a need for technical staff to be attracted, retained and developed and have real career progression opportunities within the industry long term.</p>

The proposed reforms seek to achieve scale advantage by;

- absorbing costs over a larger population base,
- rationalising and harmonising network plans and construction standards
- pulling together a critical mass to attract, retain and develop competent staff
- a more dedicated focus on managing risk.

Together, these benefits of scale should, logically, lead to improved 3 Waters services in the long term.

Rotorua Lakes Council broadly agree with the drivers for change and have already adopted a range of risk mitigations against those challenges in our 30-year Infrastructure strategies.

Rotorua Lakes Council agreed last year (2020) to take an active part in discussions and workshops with DIA and other local government agencies to help the formation of viable long-term options to address those challenges.

Nevertheless, staff believe that there are fundamental gaps in the current reform proposal that must be addressed in order to strengthen the proposal and to uphold the reform's underlying core intentions.

5. ANTICIPATED REFORM IMPACTS AND COMMENTS

Purpose of this section: To provide a succinct summary of identified key Council Impacts Assessments arising from the proposed reforms as they currently stand.

In order to evaluate the reform effects (on the basis of information available from the Government and the Department of Internal Affairs) staff have undertaken a high level Council Impacts Assessment. The assessment has addressed four groups of considerations centred on (a) no change i.e. the Council model and (b) change i.e. the Reform model. There have been 14 considerations adopted by DIA/LGNZ in order to undertake the impacts assessment. These have are summarised in the table below.

GROUP/QUADRANT	CONSIDERATIONS
Service	<ul style="list-style-type: none"> ● Drinking water standards compliance ● Wastewater compliant and freshwater outcomes ● Robust/sustainable stormwater network ● Asset management, information & planning
Workforce, Delivery and Capability	<ul style="list-style-type: none"> ● Workforce suitability and sustainability ● IT systems and processes ● Supply chain and procurement
Finance and Funding	<ul style="list-style-type: none"> ● Council balance sheet and debt capacity ● Cost of service and efficiency savings ● Impact on rates ● Post reform council (including stranded costs)
Social, Community and Economic Wellbeing	<ul style="list-style-type: none"> ● Iwi/Maori ● Development / growth and community self determination ● Economic impact

5.1 The Council model is performing well

The assessment highlights a good level of confidence in the Council's ability to continue to be able to;

- meet and be compliant with drinking water standards,
- operate waste water in accordance with the National Policy Statement and Freshwater guidelines,
- maintain an appropriate internal/external skills balance for an engaged and competent engineering workforce,
- deploy appropriate and targeted procurement practices that reduce its operating and asset investment risks (i.e Trility PSOMC),
- build and maintain strong relationships and co-governance approaches with iwi/hapu that enable the delivery of mutually beneficial complex programmes of work,
- be able to allocate appropriately prudent capital investment by leveraging its balance sheet and as required to deliver its infrastructure strategy and;
- secure directly and through government partnerships the required investment to enable growth and to support climate change mitigation programmes.

Broadly the Council model on three waters services performs within the community's acceptable levels of service expectations. However it is important to note that "Council Model" is not a static concept. In other words the current way Council addresses three waters services will continue to come under pressure for the reasons identified earlier resulting in a trend of increasing fiscal and resource demand.

5.2 The main challenges under the Council model going forward

Compliance

The establishment of the national three waters regulator office (Taumata Arowai) will gradually introduce additional community health safety standards and environmental discharge limits requirements that will make reliable and sustainable compliance more challenging for local authorities.

Funding and Investment

While appropriate investment has been allocated for forward assets renewals, the funding and investment required long term poses significant financial sustainability issues. These are driven by bridging of legacy funding gaps in renewals (over the past 30 years), the anticipated escalating operational/maintenance costs driven by old assets, the rising costs in the combined goods cost price indices and the need to fund growth related lead infrastructure.

The alternative of leveraging higher debt levels to offset forecasted cost burden to current ratepayers is constrained by limitations to the Debt to Income ratios applicable to TLAs.

Current private water supplies

The expected need to address current private drinking water supplies is a significant unknown risk. There are 6 registered private water supply schemes in the district that are non-compliant but there are many, as yet unidentified, supplies including marae/papakainga and rural that are likely to be non-compliant.

Asset condition assessment

More investment will be required to bring asset condition knowledge and predictive failure information and deterioration data to a standard necessary for optimised and timely investment and to reduce the potential for critical service failure.

5.3 Opportunities arising from the proposed reform

The proposed Water Services Entity (WSE) will remove unknown and rising risks from Council in terms of private water supplies' compliance with new regulations and the effects/response to climate change impacts.

It is anticipated that the WSE will have a stronger financial capacity to invest in desirable levels of service improvements although this is likely to be moderated/constrained by yet unestablished rules that would assign Rotorua a high priority against any of the other 22 participating TLAs.

Due to the proposed scale of the new WSE it is more likely that better tools will be created to manage information systems (ICT, Asset data etc). Also that staff working for the sector will have more and better access to career development paths and professional growth opportunities.

5.4 The main reform challenges that must be considered carefully by Council

The purpose of local government is to enable democratic local decision-making and action by, and on behalf of communities and to promote the social, economic, environmental and cultural wellbeing of their communities in the present and for the future.

The 3 Waters infrastructure assets are important not just for financial reasons, but also for the environmental, social and cultural outcomes they are meant to achieve.

The business case for the proposed reforms, to date, relies heavily on assumed economic benefits. However the economic benefits that are promoted rely primarily on the ability of the WSE to deliver substantial cost efficiencies. This attracts a significant and healthy degree of scepticism. There appears to be a valid concern that our local communities would carry the burden of increasing service costs if such projected efficiencies cannot be attained and more importantly without the ability to hold the WSE to account.

It is noted that the Department of Internal Affairs has commissioned a review (by **Farrierswier**) of work completed by the Water Industry Commission of Scotland (WICS) to assess the potential benefits from amalgamating and reforming water, wastewater and stormwater services from 67 council areas in NZ into a small number of new operationally and financially independent water services entities subject to economic regulation and other stewardship reform.

The review findings (in summary) is that the overall approach adopted by WICS to modelling the potential impact that amalgamation of water entities and associated reforms could have on projected expenditure, financing costs, revenue and prices of water service providers should give reasonable estimates in terms of direction and order of magnitude. Due to the scope of the review they could not provide an opinion whether the forecasts and estimates generated by WICS by applying its methodology and assumptions are reasonable. The review focussed on whether the modelling is likely to give estimates that are appropriately either positive or negative (i.e. direction) and are at an appropriate scale (i.e. order of magnitude). Given the nature of that analysis their review was subject to limitations including that;

- Forecasts almost always turn out inaccurate, especially over a 30-year horizon
- Choices need to be made over a myriad of modelling approaches, inputs and assumptions that reasonable minds may disagree with
- Decisions on reform processes of this scale are typically undertaken while facing information challenges related to the quality and availability of relevant information needed to project long term outcomes
- There is still a wide range of unknowns, including as to what the eventual structure of the WSE sector will actually look like once the reform is implemented
- Sensitivity analysis shows that the estimated benefits in terms of average household costs in 2051 can vary materially if key assumptions were adopted differently

However in broad summary the review outcome is that it is not considered that the modelling undertaken by WICS and the choices it has made over how to do this, materially affect the direction of estimated benefits from amalgamation and associated reforms.

The proposals, as they currently stand, do not provide clear confidence that the local communities' lead agency (the elected Council) would be able to continue to lead effectively community engagement on water services nor that the WSE will be appropriately responsive to the communities' evolving, diverse needs and aspirations.

The Council, has faithfully endeavored to give meaningful effect to its partnership commitments with Te Arawa. Our iwi/Maori/hapu relationships are currently very strong and these have been built over many years of solid commitment by all parties. The reform proposals have not as yet adequately addressed the possible effect of the reform on existing Treaty settlements obligations. There is a justified concern to ensure that the proposed reforms must both protect existing settlements, as well as ensure that the Crown (and local government and the Entities) continue to have the ability to put right historic wrongs and reinforce these relationships through direct and respectful mechanisms.

5.5 Other financial considerations for Council arising from the proposed reform

The reforms promise to generate significant capital investment for growth and systems enhancement and for these to be funded through the WSE's ability to borrow 3 to 4 times more than Councils due to having a higher allowable debt limit. Assuming a pro-rata attribution based on population share Rotorua may receive some \$1.4B of that over the next 30 years compared to its estimated \$0.487B considered in its 30 years Infrastructure Strategy.

It is stated by the DIA that the transition costs will be met by Government funding assistance. In addition some \$32m under the "better off" grant will be allocated to Rotorua and modelling indicate up to \$4.0m costs may be stranded with Council. The proposed new WSE who have been allocated some \$500m at a national level for that purpose will be mitigating these costs during the transition.

Concerns have been raised about the proposed transfer of local three waters assets to the WSE. In some cases this proposed transfer is seen as "gifting" community funded assets. It must be noted that the Council's Infrastructure information identifies that the three waters assets have a current replacement value of some \$900 mil. However the assets current depreciated value (fair value) is about half of that replacement value. In effect for every \$1 of remaining value there is roughly a \$1 of liability to replace the consumed part of the assets. The current consumed life of the three waters assets is about 45%, 55% and 65% for drinking water, waste water and stormwater respectively. Therefore and if assets are transferred to the proposed WSE so will their replacement, maintenance and upgrade costs liabilities that exceed by far their remaining depreciated values.

6. COMMUNITY ENGAGEMENT ISSUES

The proposed three waters reforms constitute a major inter-generational change. Full and effective community consultation will be required in order to give effect to the Council's community services stewardship responsibilities.

However, at this point in time we have no final and solid information to form the basis of such special consultation. The advice we have from the Department of Internal Affairs (DIA) on 30 July 2021, states;

" What happens next – decision making and consultation

Following the engagement period, the Government will consider the feedback and suggestions provided by local authorities, in partnership with the joint steering committee. It will also consider the next steps, including the transition and implementation pathway, and revised timing for decision making, which could accommodate the time required for any community or public consultation.

The Government will not be taking further decisions until after this engagement period"

7. TE WHAKAKAPINGA SUMMARY AND CONCLUSION

The Government proposes to lead major changes to the three waters system in New Zealand. These changes will have intergenerational impacts on our communities. While there are logical conclusions of benefits of scale to be attained through the consolidation of three waters service delivery into four proposed Water Services Entities, there are also matters of pertinent concern that the proposals do not adequately address as they currently stand.

Whilst national standards will be designed to ensure some consistency in the delivery of Three Waters Services and the supporting infrastructure, local factors will continue ultimately to be the overriding driver of services. To deliver on its purpose local government must, alongside mana whenua, understand and plan for growth capacity and for their communities' environmental, cultural and social wellbeing needs. To effectively do this local government must have the ability to coordinate and define the infrastructure services required directly with their communities.

It is recognized that there are significant challenges ahead for the Council's three waters services. There are economic risks associated with an old system of assets, services performance and compliance risks from emerging standards and regulations, high investment demand from growth aspirations and the now emerging scarcity of competent expertise and skills in the sector. The proposed reforms, based on consolidation, promise significant efficiency gains through which will be able to better and more affordably address these risks and therefore reduce the future costs burden on the communities. However these efficiency gains are based on predictive modelling that although appears to be reasonable in terms of direction it cannot be accurately validated over a 30-year horizon.

To a large degree the reform proposals are based on the experience of Scotland who responded to the new European regulations of the 1990s by establishing a vertically integrated service delivery authority for the water services. It is to be noted though that a study undertaken by "Building Innovation Partnership" in July 2020 identified a recent years' trend in Northern European countries of similar size to NZ to move away from services consolidation and towards re-municipalisation. While they incur relatively higher costs they do meet specified European standards and are more responsive to their communities.

Our three Waters Strategy, that informs our Infrastructure Strategy, provides a 50 year blueprint for the district's guiding decision making and it is aiming to ensure optimum and balanced outcomes for our current and future communities. It is aligned with the Te Arawa Vision 2050 and the broader Rotorua Way.



Thriving Communities is our keystone principle. The core purpose of the three waters activities is to serve our communities by not only safeguarding their utilities services and wellbeing but by also strongly upholding the sense of place and purpose that connection to water brings.

It seems possible that the economic benefits of scale could easily be offset by dis-benefits, including a loss of the community voice in the clutter of a much larger population base served by the Entity. Moreover, in the absence of a clear mechanism to ensure that the mandated leadership role of local government is maintained, there is real potential for a siloed, assets-based, management approach that could be unresponsive to the unique needs of iwi and the community at large.

Our proposed approach is to be supportive and constructive in the national effort towards a demonstratively viable and sustainable new 3 Waters management framework, and it is recommended that Council adopts and communicates the preliminary reforms position paper to the Minister.

From: Stavros Michael
Sent: Thursday, 16 September 2021 4:05 pm
To: Gina Rangi; Thomas Colle; Oonagh Hopkins; Craig Tiriana; Regan Fraser; Geoff Williams; Kim McGrath
Subject: RE: DRAFT 3 WATERS POSITION REPORT INTERIM
Attachments: DRAFT 3 WATERS POSITION REPORT INTERIM.docx

Ok thank you Gina.

I have now incorporated most elements inputs from Thomas, Oonagh and Gina (with some notes below).

Kim – Can you please now take this document under your stewardship for finalisation (trimming etc) as formation, macrons and stuff are beyond this old man’s competence. Thank you.

Gina a couple of notes;

1. Yes we do have poor asset condition (it is clearly in our IS) but we introduced risk mitigation, not elimination, actions.
2. I wanted to make the point, in the second para of the executive summary, that when people say or think “Don’t Change – Stay as we are in the Council model” this is unattainable. Because they mean no higher rates or debt costs but we want you to meet all new standards, regulations, poor condition, growth capacity, lack of skills, higher levels service concurrently. i.e the counter factual is a dream.

Ok talk it over tomorrow.

Stavros

Stavros Michael *DCE Infrastructure & Environment & Primary CDEM Controller –*
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ROTORUA
LAKES COUNCIL

From: Gina Rangi <Gina.Rangi@rotorualc.nz>
Sent: Thursday, 16 September 2021 2:57 pm
To: Stavros Michael <Stavros.Michael@rotorualc.nz>; Thomas Colle <Thomas.Colle@rotorualc.nz>; Oonagh Hopkins <Oonagh.Hopkins@rotorualc.nz>; Craig Tiriana <Craig.Tiriana@rotorualc.nz>; Regan Fraser <Regan.Fraser@rotorualc.nz>; Geoff Williams <Geoff.Williams@rotorualc.nz>
Subject: DRAFT 3 WATERS POSITION REPORT INTERIM

I haven’t included Thomas’ comments as I was already working in the doc.

Oonagh in blue and mine in red. Mostly just clarification – I liked your comments Stavros regarding impact for Te Arawa

DRAFTFile No: xxxxxx
RDC-xxxxMayor and Members
RLC COUNCIL**THREE WATERS REFORM – PRELIMINARY COUNCIL POSITION****Report prepared by: Stavros Michael, Deputy Chief Executive Infrastructure, Rotorua Lakes Council ???****Reviewed:.....???????????****1. TE PŪTAKE****PURPOSE**

To bring the national case for the three waters proposed change into a locally relevant perspective by highlighting key issues, risks and the opportunities. In addition, this serves to communicate the Council's proposed preliminary position on these reforms.

2. TE TUHINGA WHAKARĀPOPOTOTANGA**EXECUTIVE SUMMARY**

This report acknowledges the broad Government drivers for the proposed three waters reform. Those drivers do not significantly diverge from Rotorua Lakes Council's diagnosis of the challenges facing managers of three Waters infrastructure: ageing physical infrastructure, a national legacy of chronic underinvestment in network renewals often resulting in poor asset condition, the on-going introduction higher performance standards and new regulations to better protect peoples' health and the environment, the significant growth-driven investment required to support new housing, the impacts of climate change and the forthcoming acute scarcity of a competent workforce. While Rotorua Lakes Council has already recognized those challenges, and put in place some appropriate planning to respond to the issues, that has not been the case in all districts.

The Government has formed the view that the preferred approach for the reform is to create four (4) new water services entities (WSE). It is their belief these would improve the effectiveness and efficiency of service delivery. It cannot be assumed that the counterfactual i.e. "the Council model" means no change to the way current services and related costs will remain unchanged if the reforms do not proceed. For reasons explained in this report and in order to enable all communities to benefit from expected regulations and standards reform the "council model" will become significantly more expensive and more challenging to manage.

In this report Council officers highlight that we broadly agree with the drivers for change and note that Council has already adopted a range of risk mitigations against those challenges in its 30-year Infrastructure strategies. Council officers are also taking an active part in discussions and workshops with DIA and other local government agencies to help the formation of viable long-term options to address those challenges.

Nevertheless, we believe that there are fundamental gaps in the current reform proposal that must be addressed in order to strengthen the proposal and to uphold the reform's underlying core intentions.

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1. *That the report "Three Waters Reform – Preliminary Council Position" be received.*
2. *That the Council notes officers' assessments of likely Council Impacts arising from the proposed reforms.*
3. *That the Council notes the advice from the DIA that timeframes for full public consultation will be announced in the coming months.*
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- Public health and wellbeing
- Improved environmental outcomes
- Economic growth and employment
- Housing and urban development
- Adapting to the impacts of climate change and
- Mitigating the effects of natural hazards

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

In the Government's view (statement of intent) the reforms are the best option to achieve those ambitions.

Key design features in these proposed reforms are;

1. Creation of new water services entities to have responsibility for the Three Waters Infrastructure services.
2. Transfer of existing Council-owned three waters assets and responsibilities to the new water services entities to own and manage.

3. Providing that local authorities will jointly “own” the water services entities ownership of water services entities.
4. Protecting against privatization of those assets.
5. Retaining influence of local authorities and mana whenua over strategic and performance expectations
6. Providing the necessary balance sheet separations from Local Authorities and;
7. An integrated regulatory system

In developing the proposed reforms, the Government has (through an extensive collection of data from local authorities and subject matter expert advice) formed the view that the preferred approach is to create four (4) new water services entities (WSE) to enable all communities to benefit from reform.

The factors they considered in order to determine the number and boundaries of these proposed new entities were;

- A. The potential to achieve scale benefits from a larger water service delivery entity to a broader population user base
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2. Meeting future demands on infrastructure	<p>Housing is one of the biggest issues the Rotorua community faces. Identified issues include a shortfall of thousands of homes, homeless, and increasing waiting list for social housing.</p> <p>As a result, Te Arawa and RLC have identified safe, secure housing for all our people as our top shared priority to ensure positive, thriving communities. This is a council priority for the 2021- 31 Long Term Plan.</p>
3. Managing the impacts of legislative and policy change	<p>There are significant emerging changes to legislation that are either planned or underway that will impact the costs and delivery of core infrastructure including Freshwater management, Zero Carbon, and other.</p>

Strategic issue	Implications
4. Embedding cultural values into the way we manage our infrastructure	<p>It can take considerable and upfront time and cost to ensure our capital projects are culturally appropriate and are supported by our community. In some cases, we need to explore alternative to traditional options and stage appropriate solutions overtime.</p> <p>Increasingly, legislation is requiring that iwi have a greater role in the governance or decision making for key assets such as water.</p>
5. Climate change and environmental sustainability	<p>We are preparing for the impacts of climate change on the infrastructure assets as we are already experiencing impacts such as prolonged droughts and higher temperatures. Increased frequency and intensity of high rainfall events, which creates flooding risks and a health risk for our potable / drinking water.</p> <p>It is expected that this will impact the core infrastructure particularly:</p> <ul style="list-style-type: none"> - Quantity and quality of water available from water supply sources - Flood management and hazard risk to infrastructure and property
6. Resilience of critical infrastructure	<p>A key focus is strengthening the infrastructural resilience of our core assets.</p> <p>Infrastructure resilience is tested in Rotorua as it is exposed to a variety of natural hazards including earthquake, geothermal activity, landslides, flooding, volcanic eruption and severe storms. These natural disasters can cause considerable damage to infrastructure assets and affect the reliable delivery of service.</p>
7. Maintaining institutional knowledge and capability (i.e. people resilience).	<p>Many of our senior experienced engineers are nearing the end of their careers. This reflects a national issue of limited replacement capability and capacity in the industry.</p> <p>It is recognised that there is a need for technical staff to be attracted, retained and developed and have real career progression opportunities within the industry long term.</p>

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- a more dedicated focus on managing risk.

Together, these benefits of scale should, logically, lead to improved 3 Waters services in the long term.

Rotorua Lakes Council broadly agree with the drivers for change and have already adopted a range of risk mitigations against those challenges in our 30-year Infrastructure strategies.

Rotorua Lakes Council agreed last year (2020) to take an active part in discussions and workshops with DIA and other local government agencies to help the formation of viable long-term options to address those challenges.

Nevertheless, staff believe that there are fundamental gaps in the current reform proposal that must be addressed in order to strengthen the proposal and to uphold the reform's underlying core intentions.

5. ANTICIPATED REFORM IMPACTS AND COMMENTS

Purpose of this section: To provide a succinct summary of identified key Council Impacts Assessments arising from the proposed reforms as they currently stand.

In order to evaluate the reform effects (on the basis of information available from the Government and the Department of Internal Affairs) staff have undertaken a high level Council Impacts Assessment. The assessment has addressed four groups of considerations centred on (a) no change i.e. the Council model and (b) change i.e. the Reform model. There have been 14 considerations adopted by DIA/LGNZ in order to undertake the impacts assessment. These have are summarised in the table below.

GROUP/QUADRANT	CONSIDERATIONS
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- Deploy appropriate and targeted procurement practices that reduce its operating and asset investment risks (i.e Trility PSOMC),
- Build and maintain strong relationships and co-governance approaches with iwi/hapu that enable the delivery of mutually beneficial complex programmes of work,
- Be able to allocate appropriately prudent capital investment by leveraging its balance sheet and as required to deliver its infrastructure strategy and;
- Secure directly and through government partnerships the required investment to enable growth and to support climate change mitigation programmes.

Broadly the Council model for three waters services performs within the community's acceptable levels of service expectations. However it is important to note that the "Council Model" is not a static concept. In other words the current way Council addresses three waters services will continue to come under pressure for the reasons identified earlier resulting in a trend of increasing fiscal and resource demand.

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While appropriate investment has been allocated for forward assets renewals, the funding and investment required long term poses significant financial sustainability issues. These are driven by bridging of legacy funding gaps in renewals (over the past 30 years), the anticipated escalating operational/maintenance costs driven by old assets, the rising costs in the combined goods cost price indices and the need to fund growth related lead infrastructure.

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The reforms are promoted on the basis that the WSE will have a stronger financial capacity to invest in desirable levels of service improvements. On the other hand it is unclear how priority will be established (noting that Rotorua will be just one of 22 participating TLAs).

Due to the proposed scale of the new WSE it is more likely that better tools will be created to manage information systems (ICT, Asset data etc). Also that staff working for the sector will have more and better access to career development paths and professional growth opportunities.

5.4 The main reform challenges that must be considered carefully by Council

The purpose of local government is to enable democratic local decision-making and action by, and on behalf of communities and to promote the social, economic, environmental and cultural wellbeing of their communities in the present and for the future.

The 3 Waters infrastructure assets are important not just for financial reasons, but also for the environmental, social and cultural outcomes they are meant to achieve.

The business case for the proposed reforms, to date, relies heavily on assumed economic benefits. However the economic benefits that are promoted rely primarily on the ability of the WSE to deliver substantial cost efficiencies. This attracts a significant and healthy degree of scepticism. There appears to be a valid concern that our local communities would carry the burden of increasing service costs if the projected efficiencies cannot be attained and more importantly without the ability to hold the WSE to account.

It is noted that the Department of Internal Affairs has commissioned a review (**by Farrierswier**) of work completed by the Water Industry Commission of Scotland (WICS) to assess the potential benefits from amalgamating and reforming water, wastewater and stormwater services from 67 council areas in NZ into a small number of new operationally and financially independent water services entities subject to economic regulation and other stewardship reform.

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However in broad summary the review considered that the WICS modelling (and the methodology that WICS uses) does not materially affects the direction of estimated benefits from the amalgamation proposed by the reforms.

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on water services nor that the WSE will be appropriately responsive to the communities' evolving, diverse needs and aspirations.

The Council, has faithfully endeavored to give meaningful effect to its partnership commitments with Te Arawa. Our iwi/Maori/hapu relationships are currently very strong and these have been built over many years of solid commitment by all parties. The reform proposals have not as yet adequately addressed the possible effect of the reform on those relationship commitments, nor on the Crown's existing Treaty settlements obligations. There is a justified concern to ensure that the proposed reforms must both protect existing settlements, as well as ensure that the Crown (and local government and the Entities) continue to have the ability to put right historic wrongs and reinforce these relationships through direct and respectful mechanisms.

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6. COMMUNITY ENGAGEMENT ISSUES

The Government has released high-level discussion documents and is seeking initial views from Councils and from Iwi. Once it has received those initial views, Government will further develop the proposal and announce the next steps including timeframes for consultation and decision-making.

The proposed three waters reforms constitute a major inter-generational change. Full and effective community consultation will be required in order to give effect to the Council's community services stewardship responsibilities. At this point in time, there is not adequate Government information to allow Councils to begin a properly informed special consultation process, however we expect that this will be part of the next suite of Government announcements.

7. TE WHAKAKAPINGA SUMMARY AND CONCLUSION

The Government proposes to lead major changes to the three waters system in New Zealand. These changes will have intergenerational impacts on our communities. While there are logical conclusions

of benefits of scale to be attained. There are also matters of pertinent concern that the proposals do not adequately address as they currently stand.

Whilst national standards will be designed to ensure some consistency in the delivery of Three Waters Services and the supporting infrastructure, local factors will continue ultimately to be the overriding driver of services. To deliver on its purpose local government must, alongside mana whenua, understand and plan for growth capacity and for their communities' environmental, cultural and social wellbeing needs. To effectively do this local government must have the ability to coordinate and define the infrastructure services required directly with their communities.

It is recognized that there are significant challenges ahead for the Council's three waters services. There are economic risks associated with an old system of assets, services performance and compliance risks from emerging standards and regulations, high investment demand from growth aspirations and the now emerging scarcity of competent expertise and skills in the sector. The proposed reforms, based on consolidation, promise significant efficiency gains through which will be able to better and more affordably address these risks and therefore reduce the future costs burden on the communities. However these efficiency gains are based on predictive modelling that although appears to be reasonable in terms of direction it cannot be accurately validated over a 30-year horizon.

To a large degree the reform proposals are based on the experience of Scotland who responded to the new European regulations of the 1990s by establishing a vertically integrated service delivery authority for the water services. It is to be noted though that a study undertaken by "Building Innovation Partnership" in July 2020 identified a recent years' trend in Northern European countries of similar size to NZ to move way from services consolidation and towards re-municipalisation. While they incur relatively higher costs they do meet specified European standards and are more responsive to their communities.

Our three Waters Strategy, that informs our Infrastructure Strategy, provides a 50 year blueprint for the district's guiding decision making and it is aiming to ensure optimum and balanced outcomes for our current and future communities. It is aligned with the Te Arawa Vision 2050 and the broader Rotorua Way.



Thriving Communities is our keystone principle. The core purpose of the three waters activities is to serve our communities by not only safeguarding their utilities services and wellbeing but by also strongly upholding the sense of place and purpose that connection to water brings.

It seems possible that the economic benefits of scale could easily be offset by dis-benefits, including a loss of the community voice in the clutter of a much larger population base served by the Entity. Moreover, in the absence of a clear mechanism to ensure that the mandated leadership role of local government is maintained, there is real potential for a siloed, assets-based, management approach that could be unresponsive to the unique needs of iwi and the community at large.

Our proposed approach is to be supportive and constructive in the national effort towards a demonstratively viable and sustainable new 3 Waters management framework, and it is recommended that Council adopts and communicates the preliminary reforms position paper to the Minister.

From: Kim McGrath
Sent: Friday, 17 September 2021 1:07 PM
To: Stavros Michael; Regan Fraser; Gina Rangi
Subject: 3 Waters Reform report
Attachments: Three Waters Reform - Preliminary Council Position - report to Council meeting 23 September 2021.DOCX

Here's a copy of the final version of the report for you to start working on the presentation.

I've let Oonagh and Rick know the TRIM number.

Kim McGrath *Tiheru Ohu Toihautū* | *Executive Support Officer, Chief Executive's Office*
Waea: 07 351 8142 | **Waea pūkoro:** 0276288045
Īmera: kim.mcgrath@rotorualc.nz | **Ipurangi:** rotorualakescouncil.nz
Taunga: 1061 Haupapa St, Private Bag 3029, Rotorua Mail Centre, Rotorua 3046, New Zealand



Mayor
Members
COUNCIL

THREE WATERS REFORM – PRELIMINARY COUNCIL POSITION

Report prepared by: Stavros Michael, Deputy Chief Executive Infrastructure and Environmental Solutions
Reviewed: Geoff Williams, Chief Executive

1. TE PŪTAKE PURPOSE

To bring the national case for the three waters proposed change into a locally relevant perspective by highlighting key issues, risks and the opportunities. In addition, this serves to communicate the Council's proposed preliminary position on these reforms.

2. TE TUHINGA WHAKARĀPOPOTOTANGA EXECUTIVE SUMMARY

This report acknowledges the broad Government drivers for the proposed three waters reform. Those drivers do not significantly diverge from Rotorua Lakes Council's diagnosis of the challenges facing managers of Three Waters infrastructure: ageing physical infrastructure, a national legacy of chronic under-investment in network renewals often resulting in poor asset condition, the ongoing introduction of higher performance standards and new regulations to better protect people's health and the environment, the significant growth-driven investment required to support new housing, and the impacts of climate change and the forthcoming acute scarcity of a competent workforce. While Rotorua Lakes Council has already recognised those challenges, and put in place some appropriate planning to respond to the issues, that has not been the case in all districts.

The Government has formed the view that the preferred approach for the reform is to create four (4) new water services entities (WSE). It is their belief these would improve the effectiveness and efficiency of service delivery. It cannot be assumed that the counterfactual i.e. "the Council model" means no change to the way current services and related costs will remain unchanged if the reforms do not proceed. For reasons explained in this report and in order to enable all communities to benefit from expected regulations and standards reform, the "council model" will become significantly more expensive and more challenging to manage.

In this report Council officers highlight that we broadly agree with the drivers for change and note that Council has already adopted a range of risk mitigations against those challenges in its 30-year Infrastructure strategies. Council officers are also taking an active part in discussions and workshops with DIA and other local government agencies to help the formation of viable long-term options to address those challenges.

Nevertheless, we believe that there are fundamental gaps in the current reform proposal that must be addressed in order to strengthen the proposal and to uphold the reform's underlying core intentions.

3. HE TŪTOHUNGA RECOMMENDATION

1. That the report “Three Waters Reform – Preliminary Council Position” be received.
2. That the Council notes officers’ assessments of likely Council impacts arising from the proposed reforms.
3. That the Council notes the advice from the DIA that timeframes for full public consultation will be announced in the coming months.
4. That the Council notes this is the preliminary position arrived at by Council following a series of elected member fora.
5. That the Council endorses the attached preliminary position paper and support officers continuing to work with DIA.

4. TE TĀHUHU BACKGROUND/CONTEXT/ISSUES

Purpose of this section: To provide the drivers for the Government’s proposed three waters reform and note pertinent issues to Rotorua’s context.

4.1 The Government’s stated drivers for a new system for three waters

The Government states that they propose a national reform of the three waters system because they have ambitions to significantly improve the safety, quality, resilience, accessibility and performance of the three waters services in a way that it is efficient and affordable for New Zealanders. These ambitions, in their view, are critical for:

- Public health and wellbeing,
- Improved environmental outcomes,
- Economic growth and employment,
- Housing and urban development,
- Adapting to the impacts of climate change; and
- Mitigating the effects of natural hazards.

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

In the Government’s view (statement of intent) the reforms are the best option to achieve those ambitions.

Key design features in these proposed reforms are;

1. Creation of new water services entities to have responsibility for the Three Waters Infrastructure services,
2. Transfer of existing Council-owned three waters assets and responsibilities to the new water services entities to own and manage,
3. Providing that local authorities will jointly “own” the water services entities ownership of water services entities,
4. Protecting against privatisation of those assets,

5. Retaining influence of local authorities and mana whenua over strategic and performance expectations,
6. Providing the necessary balance sheet separations from Local Authorities; and
7. An integrated regulatory system.

In developing the proposed reforms, the Government has (through an extensive collection of data from local authorities and subject matter expert advice) formed the view that the preferred approach is to create four (4) new water services entities (WSE) to enable all communities to benefit from reform.

The factors they considered in order to determine the number and boundaries of these proposed new entities were:

- A. The potential to achieve scale benefits from a larger water service delivery entity to a broader population user base.
- B. Alignment of geographical boundaries to encompass natural communities of interest, belonging and identity including rohe/takiwa.
- C. Relationship with relevant regulatory boundaries including to enable water to be managed from source the sea – ki uta ki tai.

4.2 Challenges for Rotorua Lakes Council in the three waters system

The Government's reform drivers and key objectives are not significantly different to the assessment of our own identified key issues, emerging risks and service performance challenges as agreed and adopted in our 30 years Infrastructure Strategy 2021-2051. These are outlined in the table below:

Strategic issue	Implications
1. Maintaining assets in a stable, reliable, and safe condition	We need to keep ahead so there is not an unsustainable investment deficit that becomes unaffordable to bridge for our current and future ratepayers. Investment is required to ensure that our assets meet the levels of service to our communities, comply with legislative requirements, and are resilient to service disruption.
2. Meeting future demands on infrastructure	Housing is one of the biggest issues the Rotorua community faces. Identified issues include a shortfall of thousands of homes, homeless, and increasing waiting list for social housing. As a result, Te Arawa and RLC have identified safe, secure housing for all our people as our top shared priority to ensure positive, thriving communities. This is a council priority for the 2021- 31 Long Term Plan.
3. Managing the impacts of legislative and policy change	There are significant emerging changes to legislation that are either planned or underway that will impact the costs and delivery of core infrastructure including freshwater management, zero carbon, and others.
4. Embedding cultural values into the way we manage our infrastructure	It can take considerable and upfront time and cost to ensure our capital projects are culturally appropriate and are supported by our community. In some cases, we need to explore alternative to traditional options and stage appropriate solutions overtime. Increasingly, legislation is requiring that iwi have a greater role in the governance or decision making for key assets such as water.
5. Climate change and environmental sustainability	We are preparing for the impacts of climate change on the infrastructure assets as we are already experiencing impacts such as prolonged droughts and higher temperatures. Increased frequency and

Strategic issue	Implications
	<p>intensity of high rainfall events, which creates flooding risks and a health risk for our potable / drinking water.</p> <p>It is expected that this will impact the core infrastructure particularly:</p> <ul style="list-style-type: none"> – Quantity and quality of water available from water supply sources – Flood management and hazard risk to infrastructure and property
6. Resilience of critical infrastructure	<p>A key focus is strengthening the infrastructural resilience of our core assets.</p> <p>Infrastructure resilience is tested in Rotorua as it is exposed to a variety of natural hazards including earthquake, geothermal activity, landslides, flooding, volcanic eruption and severe storms. These natural disasters can cause considerable damage to infrastructure assets and affect the reliable delivery of service.</p>
7. Maintaining institutional knowledge and capability (i.e. people resilience).	<p>Many of our senior experienced engineers are nearing the end of their careers. This reflects a national issue of limited replacement capability and capacity in the industry.</p> <p>It is recognised that there is a need for technical staff to be attracted, retained and developed and have real career progression opportunities within the industry long term.</p>

The proposed reforms seek to achieve scale advantage by:

- absorbing costs over a larger population base,
- rationalising and harmonising network plans and construction standards
- pulling together a critical mass to attract, retain and develop competent staff
- a more dedicated focus on managing risk.

Together, these benefits of scale should, logically, lead to improved three waters services in the long term.

Rotorua Lakes Council broadly agree with the drivers for change and have already adopted a range of risk mitigations against those challenges in our 30-year Infrastructure strategies.

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7. TE WHAKAKAPINGA SUMMARY AND CONCLUSION

The Government proposes to lead major changes to the three waters system in New Zealand. These changes will have inter-generational impacts on our communities. While there are logical conclusions of benefits of scale to be attained, there are also matters of pertinent concern that the proposals do not adequately address as they currently stand.

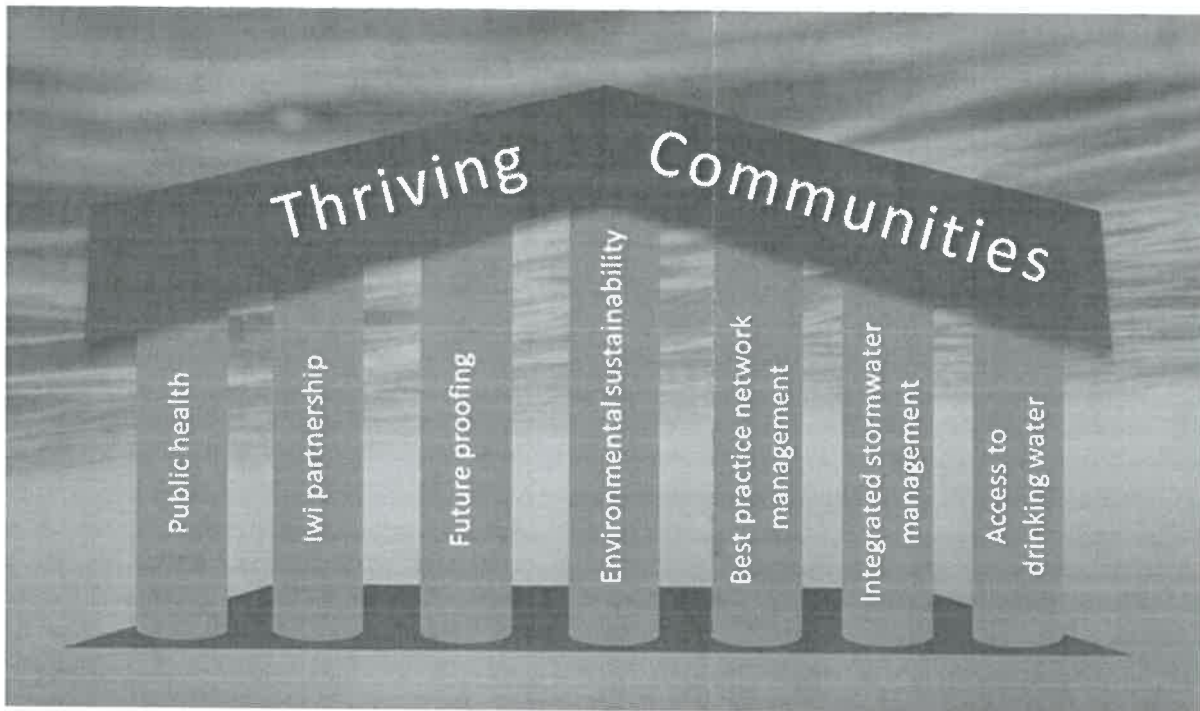
Whilst national standards will be designed to ensure some consistency in the delivery of three waters services and the supporting infrastructure, local factors will continue ultimately to be the overriding driver of services. To deliver on its purpose local government must, alongside mana whenua, understand and plan for growth capacity and for their communities’ environmental, cultural and social wellbeing needs. To effectively do this local government must have the ability to coordinate and define the infrastructure services required directly with their communities.

It is recognised that there are significant challenges ahead for the Council’s three waters services. There are economic risks associated with an old system of assets, services performance and compliance risks from emerging standards and regulations, high investment demand from growth aspirations and the now emerging scarcity of competent expertise and skills in the sector. The proposed reforms, based on consolidation, promise significant efficiency gains through which will be able to better and more affordably address these risks and therefore reduce the future costs burden on the communities. However these efficiency gains are based on predictive modelling that, although appears to be reasonable in terms of direction, cannot be accurately validated over a 30-year horizon.

To a large degree the reform proposals are based on the experience of Scotland who responded to the new European regulations of the 1990s by establishing a vertically integrated service delivery authority for the water services. It is to be noted though that a study undertaken by “Building Innovation Partnership” in July 2020 identified a recent years’ trend in Northern European countries of similar size to NZ to move away from services consolidation and towards re-municipalisation. While they incur

relatively higher costs they do meet specified European standards and are more responsive to their communities.

Our Three Waters Strategy, that informs our Infrastructure Strategy, provides a 50 year blueprint for the district's guiding decision-making and it is aiming to ensure optimum and balanced outcomes for our current and future communities. It is aligned with the Te Arawa Vision 2050 and the broader Rotorua Way.



Thriving Communities is our keystone principle. The core purpose of the three waters activities is to serve our communities by not only safeguarding their utilities services and wellbeing but by also strongly upholding the sense of place and purpose that connection to water brings.

It seems possible that the economic benefits of scale could easily be offset by dis-benefits, including a loss of the community voice in the clutter of a much larger population base served by the Entity. Moreover, in the absence of a clear mechanism to ensure that the mandated leadership role of local government is maintained, there is real potential for a siloed, assets-based, management approach that could be unresponsive to the unique needs of iwi and the community at large.

Our proposed approach is to be supportive and constructive in the national effort towards a demonstratively viable and sustainable new Three Waters management framework, and it is recommended that Council adopts and communicates the preliminary reforms position paper to the Minister.

8. NGĀ ĀPITI HANGA ATTACHMENTS

Attachment 1: Preliminary position paper

Rotorua Lakes Council – 3 Waters Reforms – Preliminary Position

As a starting point, we acknowledge the broad drivers for the proposed reform. Those drivers do not significantly diverge from Rotorua Lakes Council's diagnosis of the challenges facing managers of Three Waters infrastructure: ageing physical infrastructure, a legacy of chronic underinvestment in network renewals often resulting in poor asset condition, higher standards and new regulations to better protect peoples' health and the environment, the significant growth-driven investment required to support new housing, the impacts of climate change and the forthcoming acute scarcity of a competent workforce.

The proposed reforms seek to achieve scale advantage by absorbing costs over a larger population base, rationalising and harmonising network plans and standards, pulling together a critical mass to attract, retain and develop competent staff and a more dedicated focus on managing risk. Together, these benefits of scale should logically lead to improved 3 Waters services in the long term.

Our position

Rotorua Lakes Council broadly agrees with the drivers for change and has already adopted a range of risk mitigations against those challenges in our 30-year infrastructure strategies. We are also taking an active part in discussions and workshops with DIA and other local government agencies to help the formation of viable long-term options to address those challenges.

Nevertheless, we believe that there are fundamental gaps in the current reform proposal that must be addressed in order to strengthen the proposal and uphold the reform's underlying core intentions.

The importance of Three waters infrastructure to local government

The purpose of local government is to enable democratic local decision-making and action by, and on behalf of, communities; and to promote the social, economic, environmental and cultural wellbeing of communities in the present and for the future.

It is our job to ensure that the current and future needs of our communities for good-quality local infrastructure, local public services, and effective regulatory functions are met in a way that is cost-effective for ratepayers, households and businesses. To enable us to fulfill our purpose (and the four well-beings), we require Three Waters infrastructure that is fit for our community's needs.

The case for the proposed reforms relies primarily on assumed economic benefits. But 3 Waters infrastructure assets are important not just for financial reasons, but also for the environmental, social and cultural outcomes they achieve. Our great concern is that the Entities take a regressive view that infrastructure projects are simply engineering and financial problems. They are not, they are questions of community development and growth. As such, local government can only function effectively if Three Waters infrastructure is provided in a timely and effective manner and in accordance with the unique needs and aspirations of mana whenua and the broader community.

Communities must determine levels of service

Whilst national standards will ensure some consistency in the delivery of Three Waters infrastructure, local factors will continue, ultimately, to be the overriding driver of services. To deliver on our purpose local government must, alongside mana whenua, understand and plan for growth and our communities' environmental, cultural and social wellbeing needs. To do this we must have the ability to define the infrastructure services we require. The lack of clear detail on how this will occur gives local government (and our communities) legitimate cause for concern.

Currently much remains uncertain.

- How will the Entity's operating model ensure consistent and reliable responses to our community's needs?
- What are the processes that will ensure that territorial authorities, as lead local agencies and in partnership with mana whenua, are able to set and define the outcomes and expectations to be delivered by the Entity?
- How can our community ensure that the Entity delivers outcomes at least as good as already established?

It seems highly possible that the economic benefits of scale could easily be offset by dis-benefits, including a loss of the community voice in the clutter of a much larger population base served by the Entity. Moreover, in the absence of a clear mechanism to ensure the leadership role of local government is maintained, there is real potential for a siloed, assets-based management approach that is unresponsive to the unique needs of iwi and the community.

It's also important to understand that those operational relationships are often with hapū and Māori land owners (who often have legal ownership and kaitiaki responsibilities for land underlying infrastructure assets). The complexity of those rights and interests is not currently reflected in the proposals.

We have learnt from experience of the importance of working with local communities in the initiation and design of services. We have also learnt from experience that the successful delivery of infrastructure projects depends on developing long-term (not just project-based), sustainable and productive operating relationships. We simply cannot see how the Entities can viably develop those community relationships across super-regions, and believe that this will limit the ability to design locally-influenced solutions (as we have done in numerous occasions) based on the needs and values of local communities.

Te Arawa partnership

Our Council, faithful to its partnership with Te Arawa, has in July 2021, resolved to establish a joint committee to consider the impacts of the Three Waters Reform on our partnerships with mana whenua and to make recommendation to the full Council and to mana whenua on the same. The Committee acts as a forum for governance oversight, to identify and develop shared concerns and aspirations, to understand the effects on relationship agreements, and to ensure well-informed, coordinated decision-making of the parties.

It is important that these discussions are had with both Council and mana whenua, so that all parties fully understand the practical complexities and impact of the proposed reforms, and so that we ensure a robust, well-informed and coordinated approach to decision-making by Council and by mana whenua entities.

We also reiterate and support the calls from iwi that the proposals have not adequately addressed the effect of the reform on existing Treaty settlements obligations. We are concerned that the proposed reforms must both protect existing settlements, as well as ensure that the Crown (and local government and the Entities) continues to have the ability to continue to put right historic wrongs.

The solution

Councils (with iwi partners) are the best-placed organisations to continue to define a set of unifying and aspirational objectives for districts, to articulate complex community issues and to lead the collective response to those issues and outcomes. We have a unique leadership role and the necessary institutional competence to do so. Furthermore, that leadership role and competence cannot be readily replicated by a single-purpose agency. We are of the strong view, that any attempt to do so would be naïve, ineffective and will create an unnecessary burden of resource duplication.

We agree that it is not always necessary for Councils to directly deliver the work programmes required to achieve the desired community outcomes. However, in partnership with iwi, we are the only organisations within districts able to monitor the attainment of and be accountable for such outcomes.

Ensuring the Entities deliver on community outcomes

Concerns regarding the reforms could be allayed by establishing early agreements between councils, their respective mana whenua and the Entity (or its Transitional Authority). Those agreements should set out the detail of how we will work together to ensure democratic local decision-making is upheld, and that our communities receive the economic, social, cultural and environmental outcomes that they need and deserve.

The direct link with Councils and mana whenua could be achieved on the following basis:

Setting the strategy

1. A 3 Waters Strategy with clear outcomes for a Council is agreed between the Entity, the Council and mana whenua. The strategy would include (but not limited to):
 - a. Future growth, urban intensification and land use aspirations
 - b. Partnerships with mana whenua
 - c. Mana O Te Wai objectives
 - d. Social and cultural objectives
 - e. Climate change mitigation and resilience
2. The Entity commits to giving full effect to the outcomes and the objectives of the agreed Council 3 Waters Strategy in a manner that enables local decision-making, reinforces relationships with iwi and discharges both the Crown's Treaty obligations and our partnership responsibilities.

Agreeing on delivery

3. The Entity agrees to work jointly with the Council to structure a Business Plan (to be received and endorsed by the Council and mana whenua) that clearly articulates the methodology by which the outcomes and the objectives of the 3 Waters Strategy will be pursued for the district.

4. The Entity agrees to work together and in partnership with the Council and mana whenua to give effect to the future needs of the District. The partnership should be defined by a recognition that the Entity has subject matter expertise, while iwi and the Council have much greater knowledge of local needs and values.

Monitoring outcomes

5. The Entity will report regularly to the Council (in partnership with mana whenua) on progress against the agreed Business Plan and the progress towards the evolving LTP objectives, including the status and health of relationships and partnerships with the communities and specifically with mana whenua.
6. The Entity agrees to report to the Council (in partnership with mana whenua) against investment in local employment, the development of skills and capability in the district.

Conclusion

Our clear intention is to be supportive and constructive in the effort towards a viable and sustainable new 3 Waters management framework, and we hope our position paper contributes to the further development of the reform proposals.

Preliminary Position

From: Stavros Michael
Sent: Monday, 20 September 2021 1:43 pm
To: Kim McGrath; Executive Team
Cc: Regan Fraser
Subject: 3 WATERS REFORMS PREL POSITION AND DRAFT PRESENTATION
Attachments: Three Waters Reform - Preliminary Council Position - report to Council meeting 23 September 2021.DOCX; Three waters presentation - 3 Sept 21.pptx

Ok, as discussed and agreed on Friday;

Kim – Thank you for finalising the report. I am happy with it.

The DRAFT PP – We have finalised a Draft PP (attached). Can we discuss tomorrow so we can adjust and get it ready for the 23rd Council meeting.

Thanks

Stavros

Stavros Michael *DCE Infrastructure & Environment & Primary CDEM Controller –*
Manahautū: Tūāpapa me te Rākau Whakamarumarū
P: 07 351 8148 | **M:** 027 807 3847
E: stavros.michael@rotorualc.nz | **W:** rotorualakescouncil.nz
A: 1061 Haupapa St, Private Bag 3029, Rotorua Mail Centre, Rotorua 3046, New Zealand

ROTORUA
LAKES COUNCIL

Mayor
Members
COUNCIL

THREE WATERS REFORM – PRELIMINARY COUNCIL POSITION

Report prepared by: Stavros Michael, Deputy Chief Executive Infrastructure and Environmental Solutions
Reviewed: Geoff Williams, Chief Executive

1. TE PŪTAKE PURPOSE

To bring the national case for the three waters proposed change into a locally relevant perspective by highlighting key issues, risks and the opportunities. In addition, this serves to communicate the Council's proposed preliminary position on these reforms.

2. TE TUHINGA WHAKARĀPOPOTOTANGA EXECUTIVE SUMMARY

This report acknowledges the broad Government drivers for the proposed three waters reform. Those drivers do not significantly diverge from Rotorua Lakes Council's diagnosis of the challenges facing managers of Three Waters infrastructure: ageing physical infrastructure, a national legacy of chronic under-investment in network renewals often resulting in poor asset condition, the ongoing introduction of higher performance standards and new regulations to better protect people's health and the environment, the significant growth-driven investment required to support new housing, and the impacts of climate change and the forthcoming acute scarcity of a competent workforce. While Rotorua Lakes Council has already recognised those challenges, and put in place some appropriate planning to respond to the issues, that has not been the case in all districts.

The Government has formed the view that the preferred approach for the reform is to create four (4) new water services entities (WSE). It is their belief these would improve the effectiveness and efficiency of service delivery. It cannot be assumed that the counterfactual i.e. "the Council model" means no change to the way current services and related costs will remain unchanged if the reforms do not proceed. For reasons explained in this report and in order to enable all communities to benefit from expected regulations and standards reform, the "council model" will become significantly more expensive and more challenging to manage.

In this report Council officers highlight that we broadly agree with the drivers for change and note that Council has already adopted a range of risk mitigations against those challenges in its 30-year Infrastructure strategies. Council officers are also taking an active part in discussions and workshops with DIA and other local government agencies to help the formation of viable long-term options to address those challenges.

Nevertheless, we believe that there are fundamental gaps in the current reform proposal that must be addressed in order to strengthen the proposal and to uphold the reform's underlying core intentions.

3. HE TŪTOHUNGA RECOMMENDATION

1. That the report “Three Waters Reform – Preliminary Council Position” be received.
2. That the Council notes officers’ assessments of likely Council impacts arising from the proposed reforms.
3. That the Council notes the advice from the DIA that timeframes for full public consultation will be announced in the coming months.
4. That the Council notes this is the preliminary position arrived at by Council following a series of elected member fora.
5. That the Council endorses the attached preliminary position paper and support officers continuing to work with DIA.

4. TE TĀHUHU BACKGROUND/CONTEXT/ISSUES

Purpose of this section: To provide the drivers for the Government’s proposed three waters reform and note pertinent issues to Rotorua’s context.

4.1 The Government’s stated drivers for a new system for three waters

The Government states that they propose a national reform of the three waters system because they have ambitions to significantly improve the safety, quality, resilience, accessibility and performance of the three waters services in a way that it is efficient and affordable for New Zealanders. These ambitions, in their view, are critical for:

- Public health and wellbeing,
- Improved environmental outcomes,
- Economic growth and employment,
- Housing and urban development,
- Adapting to the impacts of climate change; and
- Mitigating the effects of natural hazards.

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

In the Government’s view (statement of intent) the reforms are the best option to achieve those ambitions.

Key design features in these proposed reforms are;

1. Creation of new water services entities to have responsibility for the Three Waters Infrastructure services,
2. Transfer of existing Council-owned three waters assets and responsibilities to the new water services entities to own and manage,
3. Providing that local authorities will jointly “own” the water services entities ownership of water services entities,
4. Protecting against privatisation of those assets,

5. Retaining influence of local authorities and mana whenua over strategic and performance expectations,
6. Providing the necessary balance sheet separations from Local Authorities; and
7. An integrated regulatory system.

In developing the proposed reforms, the Government has (through an extensive collection of data from local authorities and subject matter expert advice) formed the view that the preferred approach is to create four (4) new water services entities (WSE) to enable all communities to benefit from reform.

The factors they considered in order to determine the number and boundaries of these proposed new entities were:

- A. The potential to achieve scale benefits from a larger water service delivery entity to a broader population user base.
- B. Alignment of geographical boundaries to encompass natural communities of interest, belonging and identity including rohe/takiwa.
- C. Relationship with relevant regulatory boundaries including to enable water to be managed from source the sea – ki uta ki tai.

4.2 Challenges for Rotorua Lakes Council in the three waters system

The Government's reform drivers and key objectives are not significantly different to the assessment of our own identified key issues, emerging risks and service performance challenges as agreed and adopted in our 30 years Infrastructure Strategy 2021-2051. These are outlined in the table below:

Strategic issue	Implications
1. Maintaining assets in a stable, reliable, and safe condition	We need to keep ahead so there is not an unsustainable investment deficit that becomes unaffordable to bridge for our current and future ratepayers. Investment is required to ensure that our assets meet the levels of service to our communities, comply with legislative requirements, and are resilient to service disruption.
2. Meeting future demands on infrastructure	Housing is one of the biggest issues the Rotorua community faces. Identified issues include a shortfall of thousands of homes, homeless, and increasing waiting list for social housing. As a result, Te Arawa and RLC have identified safe, secure housing for all our people as our top shared priority to ensure positive, thriving communities. This is a council priority for the 2021- 31 Long Term Plan.
3. Managing the impacts of legislative and policy change	There are significant emerging changes to legislation that are either planned or underway that will impact the costs and delivery of core infrastructure including freshwater management, zero carbon, and others.
4. Embedding cultural values into the way we manage our infrastructure	It can take considerable and upfront time and cost to ensure our capital projects are culturally appropriate and are supported by our community. In some cases, we need to explore alternative to traditional options and stage appropriate solutions overtime. Increasingly, legislation is requiring that iwi have a greater role in the governance or decision making for key assets such as water.
5. Climate change and environmental sustainability	We are preparing for the impacts of climate change on the infrastructure assets as we are already experiencing impacts such as prolonged droughts and higher temperatures. Increased frequency and

Strategic issue	Implications
	<p>intensity of high rainfall events, which creates flooding risks and a health risk for our potable / drinking water.</p> <p>It is expected that this will impact the core infrastructure particularly:</p> <ul style="list-style-type: none"> – Quantity and quality of water available from water supply sources – Flood management and hazard risk to infrastructure and property
6. Resilience of critical infrastructure	<p>A key focus is strengthening the infrastructural resilience of our core assets.</p> <p>Infrastructure resilience is tested in Rotorua as it is exposed to a variety of natural hazards including earthquake, geothermal activity, landslides, flooding, volcanic eruption and severe storms. These natural disasters can cause considerable damage to infrastructure assets and affect the reliable delivery of service.</p>
7. Maintaining institutional knowledge and capability (i.e. people resilience).	<p>Many of our senior experienced engineers are nearing the end of their careers. This reflects a national issue of limited replacement capability and capacity in the industry.</p> <p>It is recognised that there is a need for technical staff to be attracted, retained and developed and have real career progression opportunities within the industry long term.</p>

The proposed reforms seek to achieve scale advantage by:

- absorbing costs over a larger population base,
- rationalising and harmonising network plans and construction standards
- pulling together a critical mass to attract, retain and develop competent staff
- a more dedicated focus on managing risk.

Together, these benefits of scale should, logically, lead to improved three waters services in the long term.

Rotorua Lakes Council broadly agree with the drivers for change and have already adopted a range of risk mitigations against those challenges in our 30-year Infrastructure strategies.

Rotorua Lakes Council agreed last year (2020) to take an active part in discussions and workshops with DIA and other local government agencies to help the formation of viable long-term options to address those challenges.

Nevertheless, staff believe that there are fundamental gaps in the current reform proposal that must be addressed in order to strengthen the proposal and to uphold the reform's underlying core intentions.

5. ANTICIPATED REFORM IMPACTS AND COMMENTS

Purpose of this section: To provide a succinct summary of identified key Council Impacts Assessments arising from the proposed reforms as they currently stand.

In order to evaluate the reform effects (on the basis of information available from the Government and the Department of Internal Affairs) staff have undertaken a high level Council Impacts Assessment. The assessment has addressed four groups of considerations centred on (a) no change i.e. the Council

model and (b) change i.e. the Reform model. There have been 14 considerations adopted by DIA/LGNZ in order to undertake the impacts assessment. These have are summarised in the table below.

GROUP/QUADRANT	CONSIDERATIONS
Service	<ul style="list-style-type: none"> ● Drinking water standards compliance ● Wastewater standards compliance ● Freshwater outcomes ● Robust/sustainable stormwater network ● Asset management, information & planning
Workforce, Delivery and Capability	<ul style="list-style-type: none"> ● Workforce suitability and sustainability ● IT systems and processes ● Supply chain and procurement
Finance and Funding	<ul style="list-style-type: none"> ● Council balance sheet and debt capacity ● Cost of service and efficiency savings ● Estimated impacts on rates ● Impacts on Council post reform(including stranded costs)
Social, Community and Economic Wellbeing	<ul style="list-style-type: none"> ● Iwi/Māori ● Development / growth and community self determination ● Economic impact

5.1 The Council model is performing well

The assessment highlights a good level of confidence that (if the proposed reforms do not proceed) Rotorua Lakes Council will be able to continue to;

- Comply with drinking water standards,
- Operate waste water services in accordance with the National Policy Statement for Freshwater Management,
- Maintain an appropriate internal/external skills balance for an engaged and competent engineering workforce,
- Deploy appropriate and targeted procurement practices that reduce its operating and asset investment risks (i.e Trility PSOMC),
- Build and maintain strong relationships and co-governance approaches with iwi/hapu that enable the delivery of mutually beneficial complex programmes of work,
- Be able to allocate appropriately prudent capital investment by leveraging its balance sheet and as required to deliver its infrastructure strategy; and
- Secure directly and through government partnerships the required investment to enable growth and to support climate change mitigation programmes.

Broadly the Council model for three waters services performs within the community's acceptable levels of service expectations. However it is important to note that the "Council Model" is not a static concept. In other words the current way Council addresses three waters services will continue to come under pressure for the reasons identified earlier resulting in a trend of increasing fiscal and resource demand.

5.2 The main challenges under the Council model going forward

Compliance

The establishment of the national three waters regulator office (Taumata Arowai) will gradually introduce new and higher community health safety standards and environmental discharge limits, requirements that will make reliable and sustainable compliance more challenging for local authorities.

Funding and Investment

While appropriate investment has been allocated for forward assets renewals, the funding and investment required long term poses significant financial sustainability issues. These are driven by

bridging of legacy funding gaps in renewals (over the past 30 years), the anticipated escalating operational/maintenance costs driven by old assets, the rising costs in the combined goods cost price indices and the need to fund growth related lead infrastructure.

The alternative of leveraging higher debt levels to offset forecasted cost burden to current ratepayers is constrained by limitations to the Debt to Income ratios applicable to TLAs.

Current private water supplies

The expected need to address current private drinking water supplies is a significant unknown risk. There are six registered private water supply schemes in the district that are non-compliant but there are many, as yet unidentified, supplies including rural homes, schools, marae and papakainga that may be non-compliant.

Asset condition assessment

More investment will be required to bring asset condition knowledge, predictive failure information and deterioration data to a standard necessary for optimised and timely investment, and to reduce the potential for critical service failure.

5.3 Opportunities arising from the proposed reform

The proposed Water Services Entity (WSE) will remove unknown and rising risks from Council in terms of private water supplies' compliance, the continued introduction of new regulations and the effects/response to climate change impacts.

The reforms are promoted on the basis that the WSE will have a stronger financial capacity to invest in desirable levels of service improvements. On the other hand it is unclear how priority will be established (noting that Rotorua will be just one of 22 participating TLAs).

Due to the proposed scale of the new WSE it is more likely that better tools will be created to manage information systems (ICT, asset data etc). Also, that staff working for the sector will have more and better access to career development paths and professional growth opportunities.

5.4 The main reform challenges that must be considered carefully by Council

The purpose of local government is to enable democratic local decision-making and action by and on behalf of communities, and to promote the social, economic, environmental and cultural wellbeing of their communities in the present and for the future.

The Three Waters infrastructure assets are important not just for financial reasons, but also for the environmental, social and cultural outcomes they are meant to achieve.

The business case for the proposed reforms, to date, relies heavily on assumed economic benefits. However the economic benefits that are promoted rely primarily on the ability of the WSE to deliver substantial cost efficiencies. This attracts a significant and healthy degree of scepticism. There appears to be a valid concern that our local communities would carry the burden of increasing service costs if the projected efficiencies cannot be attained and more importantly without the ability to hold the WSE to account.

It is noted that the Department of Internal Affairs has commissioned a review (by Farrierswier) of work completed by the Water Industry Commission of Scotland (WICS) to assess the potential benefits from amalgamating and reforming water, wastewater and stormwater services from 67 council areas in NZ into a small number of new operationally and financially independent water services entities subject to economic regulation and other stewardship reform.

The review findings (in summary) is that the overall approach adopted by WICS to modelling the potential impact that amalgamation of water entities and associated reforms could have on projected expenditure, financing costs, revenue and prices of water service providers should give reasonable estimates in terms of direction and order of magnitude. Due to the scope of the review they could not provide an opinion whether the forecasts and estimates generated by WICS by applying its methodology and assumptions are reasonable. The review focussed on whether the modelling is likely to give estimates that are appropriately either positive or negative (i.e. direction) and are at an appropriate scale (i.e. order of magnitude). Given the nature of that analysis their review was subject to limitations including that:

- Forecasts almost always turn out inaccurate, especially over a 30-year horizon.
- Choices need to be made over a myriad of modelling approaches, inputs and assumptions that reasonable minds may disagree with.
- Decisions on reform processes of this scale are typically undertaken while facing information challenges related to the quality and availability of relevant information needed to project long term outcomes.
- There is still a wide range of unknowns, including as to what the eventual structure of the WSE sector will actually look like once the reform is implemented.
- Sensitivity analysis shows that the estimated benefits in terms of average household costs in 2051 can vary materially if key assumptions were adopted differently.

However in broad summary the review considered that the WICS modelling (and the methodology that WICS uses) does not materially affect the direction of estimated benefits from the amalgamation proposed by the reforms.

The proposals, as they currently stand, do not provide clear confidence that the local communities' lead agency (the elected Council) would be able to continue to lead effective community engagement on water services nor that the WSE will be appropriately responsive to the communities' evolving, diverse needs and aspirations.

The Council has faithfully endeavored to give meaningful effect to its partnership commitments with Te Arawa. Our iwi/Māori/hapu relationships are currently very strong and these have been built over many years of solid commitment by all parties. The reform proposals have not as yet adequately addressed the possible effect of the reform on those relationship commitments, nor on the Crown's existing Treaty settlements obligations. There is a justified concern to ensure that the proposed reforms must both protect existing settlements, as well as ensure that the Crown (and local government and the Entities) continue to have the ability to put right historic wrongs and reinforce these relationships through direct and respectful mechanisms.

5.5 Other financial considerations for Council arising from the proposed reform

The reforms promise to generate significant capital investment for growth and systems enhancement and for these to be funded through the WSE's ability to borrow 3 to 4 times more than councils due to having a higher allowable debt limit. Assuming a pro-rata attribution based on population share, Rotorua may receive some \$1.4B of that over the next 30 years compared to its estimated \$0.487B considered in its 30 years Infrastructure Strategy.

It is stated by the DIA that the transition costs will be met by Government funding assistance. In addition some \$32m under the "better off" grant will be allocated to Rotorua and modelling indicates up to \$4.0m costs may be stranded with Council. The proposed new WSE who have been allocated some \$500m at a national level for that purpose will be mitigating these costs during the transition.

Concerns have been raised about the proposed transfer of local three waters assets to the WSE. In some cases this proposed transfer is seen as “gifting” community funded assets. It must be noted that the Council’s infrastructure information identifies that the three waters assets have a current replacement value of some \$900m. However the assets current depreciated value (fair value) is about half of that replacement value. In effect for every \$1 of remaining value there is roughly a \$1 of liability to replace the consumed part of the assets. The current consumed life of the three waters assets is about 45%, 55% and 65% for drinking water, waste water and stormwater respectively. Therefore if assets are transferred to the proposed WSE so will their replacement, maintenance and upgrade costs liabilities (which exceed by far their remaining depreciated values).

6. COMMUNITY ENGAGEMENT ISSUES

The Government has released high-level discussion documents and is seeking initial views from councils and from Iwi. Once it has received those initial views, Government will further develop the proposal and announce the next steps including timeframes for consultation and decision-making.

The proposed three waters reforms constitute a major inter-generational change. Full and effective community consultation will be required in order to give effect to the Council’s community services stewardship responsibilities. At this point in time, there is not adequate Government information to allow councils to begin a properly informed special consultation process, however we expect that this will be part of the next suite of Government announcements.

7. TE WHAKAKAPINGA SUMMARY AND CONCLUSION

The Government proposes to lead major changes to the three waters system in New Zealand. These changes will have inter-generational impacts on our communities. While there are logical conclusions of benefits of scale to be attained, there are also matters of pertinent concern that the proposals do not adequately address as they currently stand.

Whilst national standards will be designed to ensure some consistency in the delivery of three waters services and the supporting infrastructure, local factors will continue ultimately to be the overriding driver of services. To deliver on its purpose local government must, alongside mana whenua, understand and plan for growth capacity and for their communities’ environmental, cultural and social wellbeing needs. To effectively do this local government must have the ability to coordinate and define the infrastructure services required directly with their communities.

It is recognised that there are significant challenges ahead for the Council’s three waters services. There are economic risks associated with an old system of assets, services performance and compliance risks from emerging standards and regulations, high investment demand from growth aspirations and the now emerging scarcity of competent expertise and skills in the sector. The proposed reforms, based on consolidation, promise significant efficiency gains through which will be able to better and more affordably address these risks and therefore reduce the future costs burden on the communities. However these efficiency gains are based on predictive modelling that, although appears to be reasonable in terms of direction, cannot be accurately validated over a 30-year horizon.

To a large degree the reform proposals are based on the experience of Scotland who responded to the new European regulations of the 1990s by establishing a vertically integrated service delivery authority for the water services. It is to be noted though that a study undertaken by “Building Innovation Partnership” in July 2020 identified a recent years’ trend in Northern European countries of similar size to NZ to move away from services consolidation and towards re-municipalisation. While they incur

relatively higher costs they do meet specified European standards and are more responsive to their communities.

Our Three Waters Strategy, that informs our Infrastructure Strategy, provides a 50 year blueprint for the district's guiding decision-making and it is aiming to ensure optimum and balanced outcomes for our current and future communities. It is aligned with the Te Arawa Vision 2050 and the broader Rotorua Way.



Thriving Communities is our keystone principle. The core purpose of the three waters activities is to serve our communities by not only safeguarding their utilities services and wellbeing but by also strongly upholding the sense of place and purpose that connection to water brings.

It seems possible that the economic benefits of scale could easily be offset by dis-benefits, including a loss of the community voice in the clutter of a much larger population base served by the Entity. Moreover, in the absence of a clear mechanism to ensure that the mandated leadership role of local government is maintained, there is real potential for a siloed, assets-based, management approach that could be unresponsive to the unique needs of iwi and the community at large.

Our proposed approach is to be supportive and constructive in the national effort towards a demonstratively viable and sustainable new Three Waters management framework, and it is recommended that Council adopts and communicates the preliminary reforms position paper to the Minister.

8. NGĀ ĀPITI HANGA ATTACHMENTS

Attachment 1: Preliminary position paper

Rotorua Lakes Council – 3 Waters Reforms – Preliminary Position

As a starting point, we acknowledge the broad drivers for the proposed reform. Those drivers do not significantly diverge from Rotorua Lakes Council's diagnosis of the challenges facing managers of Three Waters infrastructure: ageing physical infrastructure, a legacy of chronic underinvestment in network renewals often resulting in poor asset condition, higher standards and new regulations to better protect peoples' health and the environment, the significant growth-driven investment required to support new housing, the impacts of climate change and the forthcoming acute scarcity of a competent workforce.

The proposed reforms seek to achieve scale advantage by absorbing costs over a larger population base, rationalising and harmonising network plans and standards, pulling together a critical mass to attract, retain and develop competent staff and a more dedicated focus on managing risk. Together, these benefits of scale should logically lead to improved 3 Waters services in the long term.

Our position

Rotorua Lakes Council broadly agrees with the drivers for change and has already adopted a range of risk mitigations against those challenges in our 30-year infrastructure strategies. We are also taking an active part in discussions and workshops with DIA and other local government agencies to help the formation of viable long-term options to address those challenges.

Nevertheless, we believe that there are fundamental gaps in the current reform proposal that must be addressed in order to strengthen the proposal and uphold the reform's underlying core intentions.

The importance of Three Waters infrastructure to local government

The purpose of local government is to enable democratic local decision-making and action by, and on behalf of, communities; and to promote the social, economic, environmental and cultural wellbeing of communities in the present and for the future.

It is our job to ensure that the current and future needs of our communities for good-quality local infrastructure, local public services, and effective regulatory functions are met in a way that is cost-effective for ratepayers, households and businesses. To enable us to fulfill our purpose (and the four well-beings), we require Three Waters infrastructure that is fit for our community's needs.

The case for the proposed reforms relies primarily on assumed economic benefits. But 3 Waters infrastructure assets are important not just for financial reasons, but also for the environmental, social and cultural outcomes they achieve. Our great concern is that the Entities take a regressive view that infrastructure projects are simply engineering and financial problems. They are not, they are questions of community development and growth. As such, local government can only function effectively if Three Waters infrastructure is provided in a timely and effective manner and in accordance with the unique needs and aspirations of mana whenua and the broader community.

Communities must determine levels of service

Whilst national standards will ensure some consistency in the delivery of Three Waters infrastructure, local factors will continue, ultimately, to be the overriding driver of services. To deliver on our purpose local government must, alongside mana whenua, understand and plan for growth and our communities' environmental, cultural and social wellbeing needs. To do this we must have the ability to define the infrastructure services we require. The lack of clear detail on how this will occur gives local government (and our communities) legitimate cause for concern.

Currently much remains uncertain.

- How will the Entity's operating model ensure consistent and reliable responses to our community's needs?
- What are the processes that will ensure that territorial authorities, as lead local agencies and in partnership with mana whenua, are able to set and define the outcomes and expectations to be delivered by the Entity?
- How can our community ensure that the Entity delivers outcomes *at least* as good as already established?

It seems highly possible that the economic benefits of scale could easily be offset by dis-benefits, including a loss of the community voice in the clutter of a much larger population base served by the Entity. Moreover, in the absence of a clear mechanism to ensure the leadership role of local government is maintained, there is real potential for a siloed, assets-based management approach that is unresponsive to the unique needs of iwi and the community.

It's also important to understand that those operational relationships are often with hapū and Māori land owners (who often have legal ownership and kaitiaki responsibilities for land underlying infrastructure assets). The complexity of those rights and interests is not currently reflected in the proposals.

We have learnt from experience of the importance of working with local communities in the initiation and design of services. We have also learnt from experience that the successful delivery of infrastructure projects depends on developing long-term (not just project-based), sustainable and productive operating relationships. We simply cannot see how the Entities can viably develop those community relationships across super-regions, and believe that this will limit the ability to design locally-influenced solutions (as we have done in numerous occasions) based on the needs and values of local communities.

Te Arawa partnership

Our Council, faithful to its partnership with Te Arawa, has in July 2021, resolved to establish a joint committee to consider the impacts of the Three Waters Reform on our partnerships with mana whenua and to make recommendation to the full Council and to mana whenua on the same. The Committee acts as a forum for governance oversight, to identify and develop shared concerns and aspirations, to understand the effects on relationship agreements, and to ensure well-informed, coordinated decision-making of the parties.

It is important that these discussions are had with both Council and mana whenua, so that all parties fully understand the practical complexities and impact of the proposed reforms, and so that we ensure a robust, well-informed and coordinated approach to decision-making by Council and by mana whenua entities.

We also reiterate and support the calls from iwi that the proposals have not adequately addressed the effect of the reform on existing Treaty settlements obligations. We are concerned that the proposed reforms must both protect existing settlements, as well as ensure that the Crown (and local government and the Entities) continues to have the ability to continue to put right historic wrongs.

The solution

Councils (with iwi partners) are the best-placed organisations to continue to define a set of unifying and aspirational objectives for districts, to articulate complex community issues and to lead the collective response to those issues and outcomes. We have a unique leadership role and the necessary institutional competence to do so. Furthermore, that leadership role and competence cannot be readily replicated by a single-purpose agency. We are of the strong view, that any attempt to do so would be naïve, ineffective and will create an unnecessary burden of resource duplication.

We agree that it is not always necessary for Councils to directly deliver the work programmes required to achieve the desired community outcomes. However, in partnership with iwi, we are the only organisations within districts able to monitor the attainment of and be accountable for such outcomes.

Ensuring the Entities deliver on community outcomes

Concerns regarding the reforms could be allayed by establishing early agreements between councils, their respective mana whenua and the Entity (or its Transitional Authority). Those agreements should set out the detail of how we will work together to ensure democratic local decision-making is upheld, and that our communities receive the economic, social, cultural and environmental outcomes that they need and deserve.

The direct link with Councils and mana whenua could be achieved on the following basis:

Setting the strategy

1. A 3 Waters Strategy with clear outcomes for a Council is agreed between the Entity, the Council and mana whenua. The strategy would include (but not limited to):
 - a. Future growth, urban intensification and land use aspirations
 - b. Partnerships with mana whenua
 - c. Mana O Te Wai objectives
 - d. Social and cultural objectives
 - e. Climate change mitigation and resilience
2. The Entity commits to giving full effect to the outcomes and the objectives of the agreed Council 3 Waters Strategy in a manner that enables local decision-making, reinforces relationships with iwi and discharges both the Crown's Treaty obligations and our partnership responsibilities.

Agreeing on delivery

3. The Entity agrees to work jointly with the Council to structure a Business Plan (to be received and endorsed by the Council and mana whenua) that clearly articulates the methodology by which the outcomes and the objectives of the 3 Waters Strategy will be pursued for the district.

4. The Entity agrees to work together and in partnership with the Council and mana whenua to give effect to the future needs of the District. The partnership should be defined by a recognition that the Entity has subject matter expertise, while iwi and the Council have much greater knowledge of local needs and values.

Monitoring outcomes

5. The Entity will report regularly to the Council (in partnership with mana whenua) on progress against the agreed Business Plan and the progress towards the evolving LTP objectives, including the status and health of relationships and partnerships with the communities and specifically with mana whenua.
6. The Entity agrees to report to the Council (in partnership with mana whenua) against investment in local employment, the development of skills and capability in the district.

Conclusion

Our clear intention is to be supportive and constructive in the effort towards a viable and sustainable new 3 Waters management framework, and we hope our position paper contributes to the further development of the reform proposals.

Preliminary Position



THREE WATERS REFORM PRELIMINARY POSITION

23 SEPT 2021

ROTORUA
LAKES COUNCIL

PURPOSE OF THIS REPORT

- Update elected members on the status of the 3 waters reforms.
- Highlight key points of the proposed reforms.
- Council notes the preliminary position arrived at by Council following a series of elected member fora.
- Council endorses the preliminary position on the proposed reforms and supports officers continuing to work with DIA.

THREE WATERS REFORM

ROTORUA
LAKES COUNCIL

THE GOVERNMENT'S 3 WATERS REFORM DRIVERS

- Improved public health and wellbeing,
- Improved environmental outcomes,
- Economic growth and employment,
- Housing and urban development,
- Adapting to the impacts of climate change; and
- Mitigating the effects of natural hazards.

THREE WATERS REFORM

ROTORUA
LAKES COUNCIL

GOVERNMENT STATED CONCERNS

- Safety and quality of drinking water.
- The resiliency of three waters services.
- Financial sustainability and affordability of the services.
- Sector skills and capability scarcity .
- Equitable access to three waters services (*Perhaps 15-20,000 private schemes. Only 63 registered today, 8% compliant*).
- Improving coordination of limited national resources.
- Improving transparency and accountability.

THREE WATERS REFORM

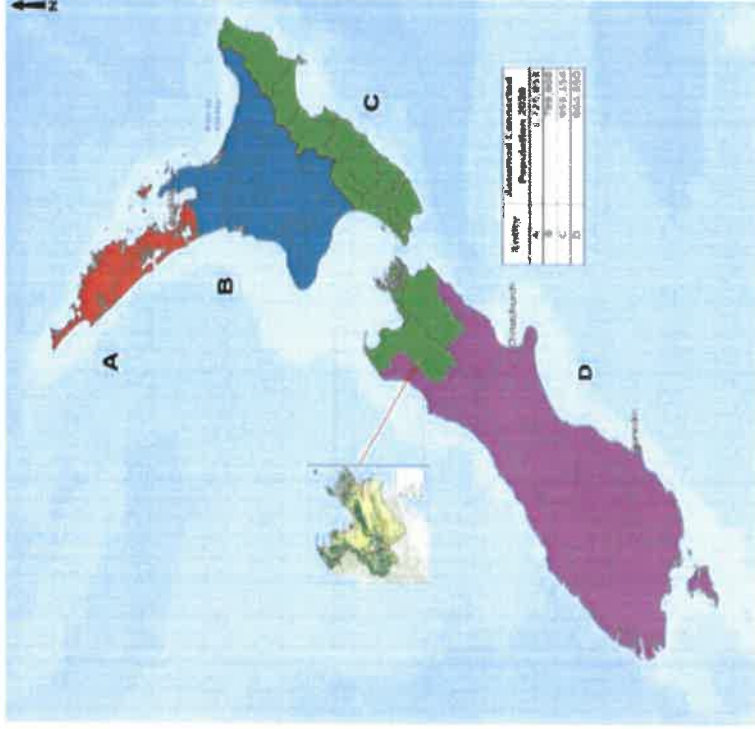
WHAT IS PROPOSED BY GOVERNMENT

- Creation of new water services entities (4-WSE) to have responsibility for the Three Waters Infrastructure services.
- Transfer of existing Council-owned three waters assets and responsibilities to the new water services entities to own and manage.
- Providing that local authorities will jointly “own” the water services entities ownership of water services entities.
- Protecting against privatisation of those assets.
- Retaining influence of local authorities and mana whenua over strategic and performance expectations.
- Providing the necessary balance sheet separations from Local Authorities; and
- An integrated national regulatory system.

THREE WATERS REFORM

ROTORUA
LAKES COUNCIL

4 WSES PROPOSED BY GOVERNMENT



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 Manawatu-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 Manawatu-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

ENTITIES GOVERNANCE 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.

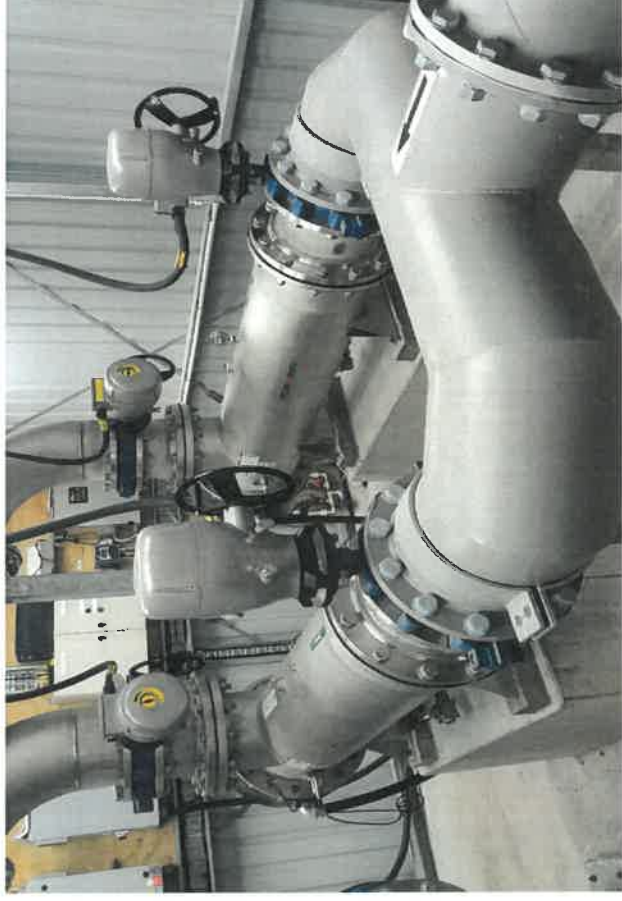
FEEDBACK TO PROPOSALS SOUGHT

- The Government is seeking initial views from councils and from Iwi.
- The Government will further develop the proposal and announce the next steps including timeframes for special consultation and decision-making.
- A major inter-generational change. We do not have adequate Government information to begin a properly informed special consultation process. We expect that this will be part of the next suite of Government announcements.

THREE WATERS REFORM

ROTORUA
LAKES COUNCIL




COUNCIL IMPACTS ASSESSMENT



THREE WATERS REFORM

ROTORUA
LAKES COUNCIL

COUNCIL IMPACTS ASSESSMENT

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



KEY INFRASTRUCTURE ASSETS SUMMARY

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

THREE WATERS REFORM

ROTORUA
LAKES COUNCIL

COUNCIL IMPACTS ASSESSMENT

Activities	Major asset class	Median across asset class		Renewal investment
		% of design life expended	% of remaining useful life	
Water supply 	Backflow	27%	73%	-
	Mains	43%	57%	-
	Meters	30%	70%	-
	Plant	20%	80%	-
Wastewater 	Gravity mains	63%	37%	↑↑
	Pressure mains	8%	92%	-
	Manholes	46%	54%	-
	Chambers	8%	92%	-
	Grinder pumps	32%	68%	-
	Other	53%	47%	↑
Stormwater 	Mains	64%	36%	↑↑
	Channels	5%	95%	-
	Consents	54%	46%	↑
	Other	40%	60%	-

THREE WATERS REFORM

ROTORUA
LAKES COUNCIL

COUNCIL IMPACTS ASSESSMENT

Driver	Council Model	Reform Model
Service standards	Fully compliant water supply, opportunity for improvement in stormwater, wastewater consents and asset management	Greenfield approach to asset management (data collection, analysis etc) and access to more funding can accelerate investment programme and address historical underinvestment
Private supplies	Unknown number of private supplies including marae	WSE takes risk of compliance and has funding to deliver outcomes but questions remain about ability to deliver
Funding and finance	Council has ability to invest but increasing 3W debt and high non 3W debt limits the ability to address historical underinvestment	Under reform 2x the level of council capex is estimated which will lead to service standard improvement and address historical underinvestment
Iwi relationships and governance	Advanced level of governance and good engagement at project and delivery	Iwi governance built into WSE from inception, but how will this work in reality for RLC
Community voice	Strong ability to influence agenda	Real concern that local voice will be lost in much larger Entity B



THREE WATERS REFORM

ROTORUA
LAKES COUNCIL

CIA - Reform delivers better service but community led outcomes – A Risk

Status quo
WITHOUT REFORM - STATUS QUO

Service	Finance
Resourcing	Community

LTP implemented (2031)
WITHOUT REFORM - IN 10 YRS

Service	Finance
Resourcing	Community

With Reform
WITH REFORM

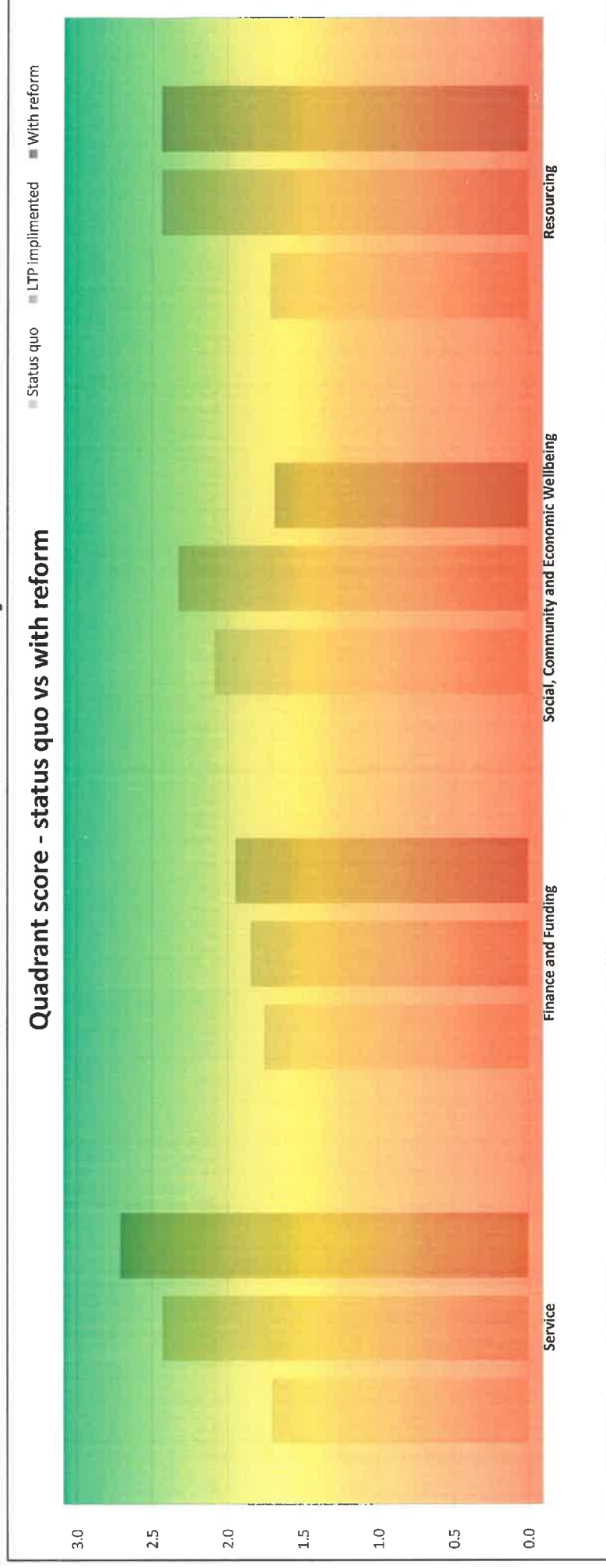
Service	Finance
Resourcing	Community

SUMMARY SCORING KEY

Score	Colour	Quality	Risk
3	Dark green	Much better	Significant opportunity
2	Light green	Better	Opportunity
1.5	Yellow	Neutral	Neutral
1	Orange	Worse	Threat
0	Red	Much worse	Significant threat

* refer 'Considerations and Criteria for Council Impact Assessment' for detailed assessment criteria

Positive trend, but community role is a concern



THREE WATERS REFORM

ROTORUA
LAKES COUNCIL

WHERE WE SEE ALIGNMENT IN THESE PROPOSALS

- Achieving scale advantage (cost absorption spread larger population)
- Rationalisation and Harmonisation of plans/standards
- Leveraging services based income for growth investment
- Critical mass to attract and retain competent staff
- Improved risk focus and consequence intervention protocols

THREE WATERS REFORM PROPOSED

ROTORUA
LAKES COUNCIL

ASPECTS WE ARE CONCERNED ABOUT

- The potential loss of our ability to lead and control community outcomes through elected mandate.
- Potential for siloed assets management approach which becomes unresponsive to iwi/community needs.
- Stranded organizational costs difficult to reduce effectively burdening a smaller organization.
- Limitations to our ability to design locally influenced solutions.
- Disconnection between city planning and infrastructure planning.

THE KEY ISSUES OF THE GOVERNMENT PROPOSAL THAT FORMS OUR CURRENT POSITION

- RLC recognizes the challenges facing the Three Waters Services and broadly agrees with the rationale of the 3 waters proposed reforms and has taken an active part in local discussions and workshops to help the formation of viable long term options.
- RLC wants to strongly preserve the role of local elected leadership and decision-making in the alignment of 3 waters objectives with the direction and needs that are specific to our community (don't support one-size-fits-all approach).

WHAT WE WOULD EXPECT TO SEE TO CHANGE OUR POSITION

- Entity required to give effect to community developed 3 Waters Strategy for our District (recognizing a place based approach not a utility based approach).
- That Council receives services that meet or exceed the standard of services provided prior to the establishment of the entity.
- Regular performance reporting to Council focused upon evidence that network management efficiencies are achieved that produce operational and capital risks not just on the 3 waters networks but to the council's broader objectives related to community wellbeing.

THREE WATERS REFORM PROPOSED

ROTORUA
LAKES COUNCIL

From: Ingrid Tiriana
Sent: Monday, 20 September 2021 2:43 PM
To: Stavros Michael; Kim McGrath; Executive Team
Cc: Regan Fraser
Subject: RE: 3 WATERS REFORMS PREL POSITION AND DRAFT PRESENTATION
Attachments: IT EDITS Three Waters Reform - Preliminary Council Position - report to Council meeting 23 September 2021.DOCX

Some edits from me, for grammatical improvement, tracked in the attached.

From: Stavros Michael <Stavros.Michael@rotorualc.nz>
Sent: Monday, 20 September 2021 1:43 PM
To: Kim McGrath <Kim.McGrath@rotorualc.nz>; Executive Team <executive.team@rotorualc.nz>
Cc: Regan Fraser <Regan.Fraser@rotorualc.nz>
Subject: 3 WATERS REFORMS PREL POSITION AND DRAFT PRESENTATION

Ok, as discussed and agreed on Friday;

Kim – Thank you for finalising the report. I am happy with it.

The DRAFT PP – We have finalised a Draft PP (attached). Can we discuss tomorrow so we can adjust and get it ready for the 23rd Council meeting.

Thanks

Stavros

Stavros Michael *DCE Infrastructure & Environment & Primary CDEM Controller –*
Manahautū: Tūāpapa me te Rākau Whakamarumarū
P: 07 351 8148 | **M:** 027 807 3847
E: stavros.michael@rotorualc.nz | **W:** rotorualakescouncil.nz
A: 1061 Haupapa St, Private Bag 3029, Rotorua Mail Centre, Rotorua 3046, New Zealand



Mayor
Members
COUNCIL

THREE WATERS REFORM – PRELIMINARY COUNCIL POSITION

Report prepared by: Stavros Michael, Deputy Chief Executive Infrastructure and Environmental Solutions
Reviewed: Geoff Williams, Chief Executive

1. TE PŪTAKE PURPOSE

To bring the national case for the three waters proposed change into a locally relevant perspective by highlighting key issues, risks and the opportunities. In addition, this serves to communicate the Council's proposed preliminary position on these reforms.

2. TE TUHINGA WHAKARĀPOPOTOTANGA EXECUTIVE SUMMARY

This report acknowledges the broad Government drivers for the proposed three waters reform. Those drivers do not significantly diverge from Rotorua Lakes Council's diagnosis of the challenges facing managers of Three Waters infrastructure: ageing physical infrastructure, a national legacy of chronic under-investment in network renewals often resulting in poor asset condition, the ongoing introduction of higher performance standards and new regulations to better protect people's health and the environment, the significant growth-driven investment required to support new housing, and the impacts of climate change and the forthcoming acute scarcity of a competent workforce. While Rotorua Lakes Council has already recognised those challenges, and put in place some appropriate planning to respond to the issues, that has not been the case in all districts.

The Government has formed the view that the preferred approach for the reform is to create four (4) new water services entities (WSE). ~~It is their belief these would~~ improve the effectiveness and efficiency of service delivery. It cannot be assumed that the counterfactual i.e. "the Council model" means no change to the way current services and that related costs will remain unchanged if the reforms do not proceed. For reasons explained in this report and in order to enable all communities to benefit from expected regulations and standards reform, the "council model" will become significantly more expensive and more challenging to manage.

In this report Council officers highlight that we broadly agree with the drivers for change and note that Council has already adopted a range of risk mitigations against those challenges in its 30-year Infrastructure strategies. Council officers are also taking an active part in discussions and workshops with the Department of Internal Affairs (DIA) and other local Central Government agencies to provide input into help the formation of viable long-term options to address those challenges.

Nevertheless, we believe ~~that~~ there are fundamental gaps in the current reform proposal that must be addressed in order to strengthen the proposal and to uphold the reform's underlying core intentions.

3. HE TŪTOHUNGA RECOMMENDATION

1. That the report “Three Waters Reform – Preliminary Council Position” be received.
2. That the Council notes officers’ assessments of likely Council impacts arising from the proposed reforms.
3. That the Council notes the advice from the DIA that timeframes for full public consultation will be announced in the coming months.
4. That the Council notes this is the preliminary position arrived at by Council following a series of elected member fora.
5. That the Council endorses the attached preliminary position paper and support officers continuing to work with DIA.

4. TE TĀHUHU BACKGROUND/CONTEXT/ISSUES

Purpose of this section: To provide the drivers for the Government’s proposed three waters reform and note pertinent issues to Rotorua’s context.

4.1 The Government’s stated drivers for a new system for three waters

The Government states that ~~they~~ it proposes a national reform of the three waters systems because ~~they have ambitions~~ to significantly improve the safety, quality, resilience, accessibility and performance of ~~these~~ the three waters services in a way that it is efficient and affordable for New Zealanders. These ambitions, in the Government’s ~~view~~, are critical for:

- Public health and wellbeing;_;
- Improved environmental outcomes;_;
- Economic growth and employment;_;
- Housing and urban development;_;
- Adapting to the impacts of climate change; ~~and~~
- Mitigating the effects of natural hazards.

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

In the Government’s view (statement of intent) the reforms are the best option to achieve those ambitions.

Key design features in these proposed reforms are;

1. Creation of new water services entities to have responsibility for the Three Waters Infrastructure services;_;
2. Transfer of existing Council-owned three waters assets and responsibilities to the new water services entities to own and manage;_;
3. Providing that local authorities will jointly “own” the water services entities ownership of water services entities;_;
4. Protecting against privatisation of those assets;_;

5. Retaining influence of local authorities and mana whenua over strategic and performance expectations;
6. Providing the necessary balance sheet separations from Local Authorities; and
7. An integrated regulatory system.

In developing the proposed reforms, the Government has (through an extensive collection of data from local authorities and subject matter experts' advice) formed the view that the preferred approach is to create four (4) new water services entities (WSE) to enable all communities to benefit from reform.

The factors they considered in order to determine the number and boundaries of these proposed new entities were:

- A. The potential to achieve scale benefits from a larger water service delivery entity to a broader population user base.
- B. Alignment of geographical boundaries to encompass natural communities of interest, belonging and identity including rohe/takiwa.
- C. Relationship with relevant regulatory boundaries including to enable water to be managed from source the sea – ki uta ki tai.

4.2 Challenges for Rotorua Lakes Council in the three waters system

The Government's reform drivers and key objectives are not significantly different to the assessment of our own-identified key issues for Rotorua, emerging risks and service performance challenges as agreed and adopted in our 30-years Infrastructure Strategy 2021-2051. These are outlined in the table below:

Strategic issue	Implications
1. Maintaining assets in a stable, reliable, and safe condition	We need to keep ahead so there is not an unsustainable investment deficit that becomes unaffordable to bridge for our current and future ratepayers. Investment is required to ensure that our assets meet the levels of service to our communities, comply with legislative requirements, and are resilient to service disruption.
2. Meeting future demands on infrastructure	Housing is one of the biggest issues the Rotorua community faces. Identified issues include a shortfall of thousands of homes, homeless, and increasing waiting list for social housing. As a result, Te Arawa and RLC have identified safe, secure housing for all our people as our top shared priority to ensure positive, thriving communities. This is a council priority for the 2021- 31 Long Term Plan.
3. Managing the impacts of legislative and policy change	There are significant emerging changes to legislation that are either planned or underway that will impact the costs and delivery of core infrastructure including freshwater management, zero carbon, and others.
4. Embedding cultural values into the way we manage our infrastructure	It can take considerable and upfront time and cost to ensure our capital projects are culturally appropriate and are supported by our community. In some cases, we need to explore alternative to traditional options and stage appropriate solutions overtime. Increasingly, legislation is requiring that iwi have a greater role in the governance or decision making for key assets such as water.

Strategic issue	Implications
5. Climate change and environmental sustainability	<p>We are preparing for the impacts of climate change on the infrastructure assets as we are already experiencing impacts such as prolonged droughts and higher temperatures. Increased frequency and intensity of high rainfall events, which creates flooding risks and a health risk for our potable / drinking water.</p> <p>It is expected that this will impact the core infrastructure particularly:</p> <ul style="list-style-type: none"> – Quantity and quality of water available from water supply sources – Flood management and hazard risk to infrastructure and property
6. Resilience of critical infrastructure	<p>A key focus is strengthening the infrastructural resilience of our core assets.</p> <p>Infrastructure resilience is tested in Rotorua as it is exposed to a variety of natural hazards including earthquake, geothermal activity, landslides, flooding, volcanic eruption and severe storms. These natural disasters can cause considerable damage to infrastructure assets and affect the reliable delivery of service.</p>
7. Maintaining institutional knowledge and capability (i.e. people resilience).	<p>Many of our senior experienced engineers are nearing the end of their careers. This reflects a national issue of limited replacement capability and capacity in the industry.</p> <p>It is recognised that there is a need for technical staff to be attracted, retained and developed and have real career progression opportunities within the industry long term.</p>

The proposed reforms seek to achieve scale advantage by:

- absorbing costs over a larger population base;
- rationalising and harmonising network plans and construction standards;
- pulling together a critical mass to attract, retain and develop competent staff;
- a more dedicated focus on managing risk.

Together, these benefits of scale should, logically, lead to improved three waters services in the long term.

Rotorua Lakes Council broadly agrees with the drivers for change and has already adopted a range of risk mitigations against those challenges in ~~our~~ its 30-year Infrastructure strategies.

Rotorua Lakes Council agreed last year (2020) to take an active part in discussions and workshops with DIA and other local government agencies to ~~help~~ assist the formation of viable long-term options to address those challenges.

Nevertheless, staff believe that there are fundamental gaps in the current reform proposal that must be addressed in order to strengthen the proposal and to uphold the reform's underlying core intentions.

5. ANTICIPATED REFORM IMPACTS AND COMMENTS

Purpose of this section: To provide a succinct summary of identified key Council Impacts Assessments arising from the proposed reforms as they currently stand.

In order to evaluate the reform effects (on the basis of information available from the Government and the Department of Internal Affairs) staff have undertaken a high level Council Impacts Assessment. The assessment has addressed four groups of considerations centred on (a) no change i.e. the Council model and (b) change i.e. the Reform model. There have been 14 considerations adopted by DIA/LGNZ in order to undertake the impacts assessment. These have are summarised in the table below.

GROUP/QUADRANT	CONSIDERATIONS
Service	<ul style="list-style-type: none"> • Drinking water standards compliance • Wastewater standards compliance • Freshwater outcomes • Robust/sustainable stormwater network • Asset management, information & planning
Workforce, Delivery and Capability	<ul style="list-style-type: none"> • Workforce suitability and sustainability • IT systems and processes • Supply chain and procurement
Finance and Funding	<ul style="list-style-type: none"> • Council balance sheet and debt capacity • Cost of service and efficiency savings • Estimated impacts on rates • Impacts on Council post reform(including stranded costs)
Social, Community and Economic Wellbeing	<ul style="list-style-type: none"> • Iwi/Māori • Development / growth and community self determination • Economic impact

5.1 The Council model is performing well

The assessment highlights a good level of confidence that (-if the proposed reforms do not proceed) Rotorua Lakes Council will be able to continue to;

- Comply with drinking water standards;
- Operate waste water services in accordance with the National Policy Statement for Freshwater Management;
- Maintain an appropriate internal/external skills balance for an engaged and competent engineering workforce;
- Deploy appropriate and targeted procurement practices that reduce its operating and asset investment risks (i.e Trillity PSOMC);
- Build and maintain strong relationships and co-governance approaches with iwi/hapu that enable the delivery of mutually beneficial complex programmes of work;
- Be able to allocate appropriately prudent capital investment by leveraging its balance sheet and as required to deliver its infrastructure strategy; and
- Secure directly and through government partnerships the required investment to enable growth and to support climate change mitigation programmes.

Broadly, the Council model for three waters services performs within the community's expectations for acceptable levels of service-expectations. However it is important to note that the "Council Model" is not a static concept. In other words, the current way Council addresses three waters services will continue to come under pressure for the reasons identified earlier, resulting in a trend of increasing fiscal and resource demand.

5.2 The main challenges under the Council model going forward

Compliance

The establishment of the national three waters regulator office (Taumata Arowai) will gradually introduce new and higher community health safety standards and environmental discharge limits, requirements that will make reliable and sustainable compliance more challenging for local authorities.

Funding and Investment

While appropriate investment has been allocated for forward assets renewals, the funding and investment required long term poses significant financial sustainability issues. These are driven by

bridging of legacy funding gaps in renewals (over the past 30 years), the anticipated escalating operational/maintenance costs driven by old assets, the rising costs in the combined goods cost price indices and the need to fund growth related lead infrastructure.

The alternative of leveraging higher debt levels to offset forecasted cost burden to current ratepayers is constrained by limitations to the Debt to Income ratios applicable to TLAs.

Current private water supplies

The expected need to address current private drinking water supplies is a significant unknown risk. There are six registered private water supply schemes in the district that are known to be non-compliant but there are many, as yet unidentified, supplies including rural homes, schools, marae and papakainga that may also be non-compliant.

Asset condition assessment

More investment will be required to bring asset condition knowledge, predictive failure information and deterioration data to a standard necessary for optimised and timely investment, and to reduce the potential for critical service failure.

5.3 Opportunities arising from the proposed reform

The proposed Water Services Entity (WSE) will remove unknown and rising risks from Council in terms of private water supplies' compliance, the continued introduction of new regulations and the effects/response to climate change impacts.

The reforms are promoted on the basis that the WSE will have a stronger financial capacity to invest in desirable levels of service improvements. On the other hand, it is unclear how priority will be established (noting that Rotorua will be just one of 22 participating TLAs).

Due to the proposed scale of the new WSE it is more likely that better tools will be created to manage information systems (ICT, asset data etc). Also, that staff working for the sector will have more and better access to career development paths and professional growth opportunities.

5.4 The main reform challenges that must be considered carefully by Council

The purpose of local government is to enable democratic local decision-making and action by and on behalf of communities, and to promote the social, economic, environmental and cultural wellbeing of their communities in the present and for the future.

The Three Waters infrastructure assets are important not just for financial reasons, but also for the environmental, social and cultural outcomes they are meant to achieve.

The business case for the proposed reforms, to date, relies heavily on assumed economic benefits. However the economic benefits that are promoted rely primarily on the ability of the WSE to deliver substantial cost efficiencies. This attracts a significant and healthy degree of scepticism. There appears to be a valid concern that our local communities would carry the burden of increasing service costs if the projected efficiencies cannot be attained and more importantly, without the ability to hold the WSE to account.

It is noted that the Department of Internal Affairs has commissioned a review (**by Farrierswier**) of work completed by the Water Industry Commission of Scotland (WICS) to assess the potential benefits from amalgamating and reforming water, wastewater and stormwater services from 67 council areas in New Zealand into a small number of new operationally and financially independent water services entities subject to economic regulation and other stewardship reform.

The review findings (in summary) is that the overall approach adopted by WICS to modelling the potential impact that amalgamation of water entities and associated reforms could have on projected expenditure, financing costs, revenue and prices of water service providers should give reasonable estimates in terms of direction and order of magnitude. Due to the scope of the review they could not provide an opinion whether the forecasts and estimates generated by WICS by applying its methodology and assumptions are reasonable. The review focussed on whether the modelling is likely to give estimates that are appropriately either positive or negative (i.e. direction) and are at an appropriate scale (i.e. order of magnitude). Given the nature of that analysis their review was subject to limitations including that:

- Forecasts almost always turn out inaccurate, especially over a 30-year horizon.
- Choices need to be made over a myriad of modelling approaches, inputs and assumptions that reasonable minds may disagree with.
- Decisions on reform processes of this scale are typically undertaken while facing information challenges related to the quality and availability of relevant information needed to project long term outcomes.
- There is still a wide range of unknowns, including as to what the eventual structure of the WSE sector will actually look like once the reform is implemented.
- Sensitivity analysis shows that the estimated benefits in terms of average household costs in 2051 can vary materially if key assumptions were adopted differently.

However in broad summary, the review considered that the WICS modelling (and the methodology that WICS uses) does not materially affect the direction of estimated benefits from the amalgamation proposed by the reforms.

The proposals, as they currently stand, do not provide clear confidence that the local communities' lead agency (the elected Council) would be able to continue to lead effective community engagement on water services, nor that the WSE will be appropriately responsive to the communities' evolving, diverse needs and aspirations.

The Council has faithfully endeavoured to give meaningful effect to its partnership commitments with Te Arawa. Our iwi/Māori/hapu relationships are currently very strong and these have been built over many years of solid commitment by all parties. The reform proposals have not as yet adequately addressed the possible effect of the reform on those relationship commitments, nor on the Crown's existing Treaty settlements obligations. There is a justified concern to ensure that the proposed reforms must both protect existing settlements, as well as ensure that the Crown (and local government and the Entities) continue to have the ability to put right historic wrongs and reinforce these relationships through direct and respectful mechanisms.

5.5 Other financial considerations for Council arising from the proposed reform

The reforms promise to generate significant capital investment for growth and systems enhancement and for these to be funded through the WSE's ability to borrow 3 to 4 times more than councils due to having a higher allowable debt limit. Assuming a pro-rata attribution based on population share, Rotorua may receive some \$1.4B of that over the next 30 years compared to its estimated \$0.487B considered in its 30-years Infrastructure Strategy.

It is stated by the DIA that the transition costs will be met by Government funding assistance. In addition some \$32m under the "better off" grant will be allocated to Rotorua and modelling indicates up to \$4.0m costs may be stranded with Council. The proposed new WSE who have been allocated some \$500m at a national level for that purpose will be mitigating these costs during the transition.

Concerns have been raised about the proposed transfer of local three waters assets to the WSE. In some cases this proposed transfer is seen as “gifting” community funded assets. It must be noted that the Council’s infrastructure information identifies that the three waters assets have a current replacement value of some \$900m. However the assets current depreciated value (fair value) is about half of that replacement value. In effect for every \$1 of remaining value there is roughly a \$1 of liability to replace the consumed part of the assets. The current consumed life of the three waters assets is about 45%, 55% and 65% for drinking water, waste-water and stormwater respectively. Therefore if assets are transferred to the proposed WSE so will their replacement, maintenance and upgrade costs liabilities (which by far exceed ~~by far~~ their remaining depreciated values).

6. COMMUNITY ENGAGEMENT ISSUES

The Government has released high-level discussion documents and is seeking initial views from councils and from ~~whiwi~~. Once it has received those initial views, Government will further develop the proposal and announce the next steps including timeframes for consultation and decision-making.

The proposed three waters reforms constitute a major inter-generational change. Full and effective community consultation will be required in order to give effect to the Council’s community services stewardship responsibilities. At this point in time, there is not adequate Government information to allow councils to begin a properly informed special consultation process, however we expect that this will be part of the next suite of Government announcements.

7. TE WHAKAKAPINGA SUMMARY AND CONCLUSION

The Government proposes to lead major changes to the three waters system in New Zealand. These changes will have inter-generational impacts on our communities. While there are logical conclusions of benefits of scale to be attained, there are also matters of pertinent concern that the proposals as they currently stand do not adequately address ~~as they currently stand~~.

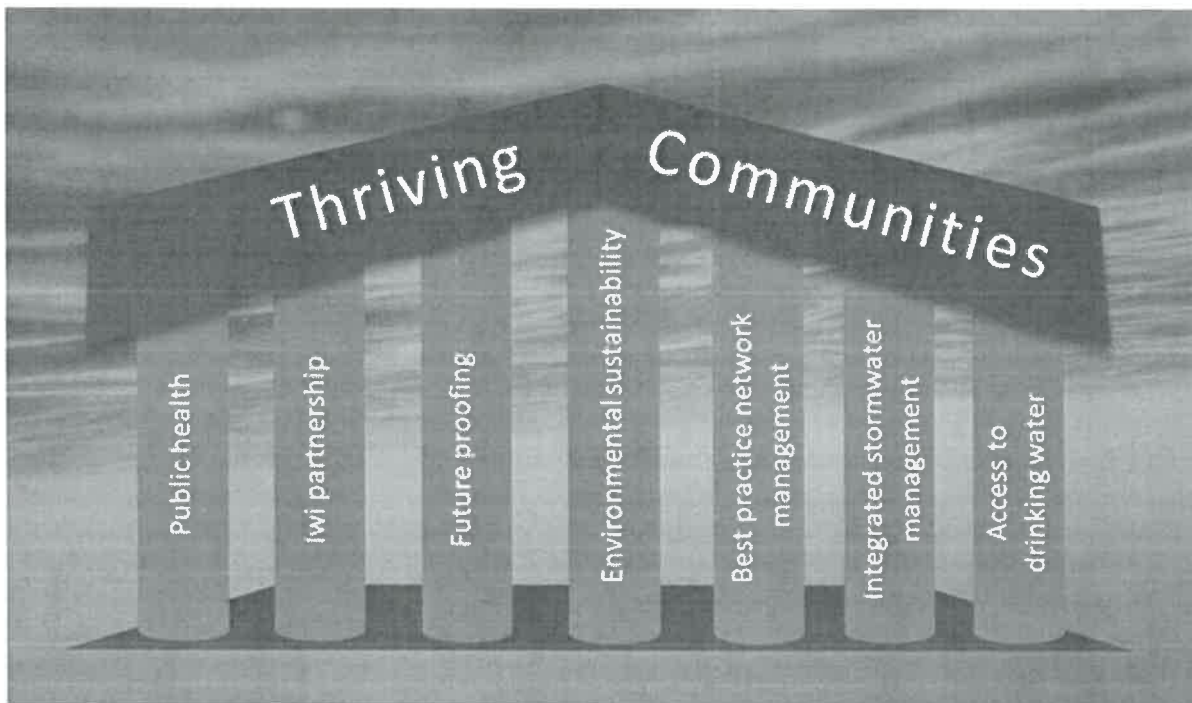
While ~~st~~ national standards will be designed to ensure some consistency in the delivery of three waters services and the supporting infrastructure, local factors will ultimately continue ~~ultimately~~ to be the overriding driver of services. To deliver on its purpose local government must, alongside mana whenua, understand and plan for growth capacity and for their communities’ environmental, cultural and social wellbeing needs. To effectively do this local government must have the ability to coordinate and define the infrastructure services required directly with their communities.

It is recognised that there are significant challenges ahead for the Council’s three waters services. There are economic risks associated with an old system of assets, services performance and compliance risks from emerging standards and regulations, high investment demand from growth aspirations and the now emerging scarcity of competent expertise and skills in the sector. The proposed reforms, based on consolidation, promise significant efficiency gains ~~through which will be able to~~ better and more affordably address these risks and therefore reduce the future costs burden on the communities. However these efficiency gains are based on predictive modelling that, although it appears to be reasonable in terms of direction, cannot be accurately validated over a 30-year horizon.

To a large degree the reform proposals are based on the experience of Scotland ~~whewhich~~ responded to the new European regulations of the 1990s by establishing a vertically integrated service delivery authority for the water services. It is to be noted though that a study undertaken by “Building Innovation Partnership” in July 2020 identified a recent years’ trend in Northern European countries

of similar size to NZ to move way from services consolidation and towards re-municipalisation. While they incur relatively higher costs, they do meet specified European standards and are more responsive to their communities.

Our Council's Three Waters Strategy, that informs our Infrastructure Strategy, provides a 50-year blueprint for the district's guiding decision-making and it is aiming to ensure optimum and balanced outcomes for our current and future communities. It is aligned with the Te Arawa Vision 2050 and the broader Rotorua Way.



Thriving Communities is our keystone principle. The core purpose of the three waters activities is to serve our communities by not only safeguarding their utilities services and wellbeing, but by also strongly upholding the sense of place and purpose that connection to water brings.

It seems possible that the economic benefits of scale could easily be offset by dis-benefits, including a loss of the community voice in the clutter of a much larger population base served by the Entity. Moreover, in the absence of a clear mechanism to ensure that the mandated leadership role of local government is maintained, there is real potential for a siloed, assets-based, management approach that could be unresponsive to the unique needs of iwi and the community at large.

Our proposed approach is to be supportive and constructive in the national effort towards a demonstratively viable and sustainable new Three Waters management framework, and it is recommended that Council adopts and communicates the preliminary reforms position paper to the Minister.

8. NGĀ ĀPITI HANGA ATTACHMENTS

Attachment 1: Preliminary position paper

Rotorua Lakes Council – 3 Waters Reforms – Preliminary Position

As a starting point, we acknowledge the broad drivers for the proposed reform. Those drivers do not significantly diverge from Rotorua Lakes Council's diagnosis of the challenges facing managers of Three Waters infrastructure: ageing physical infrastructure, a legacy of chronic underinvestment in network renewals often resulting in poor asset condition, higher standards and new regulations to better protect peoples' health and the environment, the significant growth-driven investment required to support new housing, the impacts of climate change and the forthcoming acute scarcity of a competent workforce.

The proposed reforms seek to achieve scale advantage by absorbing costs over a larger population base, rationalising and harmonising network plans and standards, pulling together a critical mass to attract, retain and develop competent staff and a more dedicated focus on managing risk. Together, these benefits of scale should logically lead to improved 3 Waters services in the long term.

Our position

Rotorua Lakes Council broadly agrees with the drivers for change and has already adopted a range of risk mitigations against those challenges in our 30-year infrastructure strategies. We are also taking an active part in discussions and workshops with DIA and other local government agencies to help the formation of viable long-term options to address those challenges.

Nevertheless, we believe that there are fundamental gaps in the current reform proposal that must be addressed in order to strengthen the proposal and uphold the reform's underlying core intentions.

The importance of Three Waters infrastructure to local government

The purpose of local government is to enable democratic local decision-making and action by, and on behalf of, communities; and to promote the social, economic, environmental and cultural wellbeing of communities in the present and for the future.

It is our job to ensure that the current and future needs of our communities for good-quality local infrastructure, local public services, and effective regulatory functions are met in a way that is cost-effective for ratepayers, households and businesses. To enable us to fulfill our purpose (and the four well-beings), we require Three Waters infrastructure that is fit for our community's needs.

The case for the proposed reforms relies primarily on assumed economic benefits. But 3 Waters infrastructure assets are important not just for financial reasons, but also for the environmental, social and cultural outcomes they achieve. Our great concern is that the Entities take a regressive view that infrastructure projects are simply engineering and financial problems. They are not, they are questions of community development and growth. As such, local government can only function effectively if Three Waters infrastructure is provided in a timely and effective manner and in accordance with the unique needs and aspirations of mana whenua and the broader community.

Communities must determine levels of service

Whilst national standards will ensure some consistency in the delivery of Three Waters infrastructure, local factors will continue, ultimately, to be the overriding driver of services. To deliver on our purpose local government must, alongside mana whenua, understand and plan for growth and our communities' environmental, cultural and social wellbeing needs. To do this we must have the ability to define the infrastructure services we require. The lack of clear detail on how this will occur gives local government (and our communities) legitimate cause for concern.

Currently much remains uncertain.

- How will the Entity's operating model ensure consistent and reliable responses to our community's needs?
- What are the processes that will ensure that territorial authorities, as lead local agencies and in partnership with mana whenua, are able to set and define the outcomes and expectations to be delivered by the Entity?
- How can our community ensure that the Entity delivers outcomes at least as good as already established?

It seems highly possible that the economic benefits of scale could easily be offset by dis-benefits, including a loss of the community voice in the clutter of a much larger population base served by the Entity. Moreover, in the absence of a clear mechanism to ensure the leadership role of local government is maintained, there is real potential for a siloed, assets-based management approach that is unresponsive to the unique needs of iwi and the community.

It's also important to understand that those operational relationships are often with hapū and Māori land owners (who often have legal ownership and kaitiaki responsibilities for land underlying infrastructure assets). The complexity of those rights and interests is not currently reflected in the proposals.

We have learnt from experience of the importance of working with local communities in the initiation and design of services. We have also learnt from experience that the successful delivery of infrastructure projects depends on developing long-term (not just project-based), sustainable and productive operating relationships. We simply cannot see how the Entities can viably develop those community relationships across super-regions, and believe that this will limit the ability to design locally-influenced solutions (as we have done in numerous occasions) based on the needs and values of local communities.

Te Arawa partnership

Our Council, faithful to its partnership with Te Arawa, has in July 2021, resolved to establish a joint committee to consider the impacts of the Three Waters Reform on our partnerships with mana whenua and to make recommendation to the full Council and to mana whenua on the same. The Committee acts as a forum for governance oversight, to identify and develop shared concerns and aspirations, to understand the effects on relationship agreements, and to ensure well-informed, coordinated decision-making of the parties.

It is important that these discussions are had with both Council and mana whenua, so that all parties fully understand the practical complexities and impact of the proposed reforms, and so that we ensure a robust, well-informed and coordinated approach to decision-making by Council and by mana whenua entities.

We also reiterate and support the calls from iwi that the proposals have not adequately addressed the effect of the reform on existing Treaty settlements obligations. We are concerned that the proposed reforms must both protect existing settlements, as well as ensure that the Crown (and local government and the Entities) continues to have the ability to continue to put right historic wrongs.

The solution

Councils (with iwi partners) are the best-placed organisations to continue to define a set of unifying and aspirational objectives for districts, to articulate complex community issues and to lead the collective response to those issues and outcomes. We have a unique leadership role and the necessary institutional competence to do so. Furthermore, that leadership role and competence cannot be readily replicated by a single-purpose agency. We are of the strong view, that any attempt to do so would be naïve, ineffective and will create an unnecessary burden of resource duplication.

We agree that it is not always necessary for Councils to directly deliver the work programmes required to achieve the desired community outcomes. However, in partnership with iwi, we are the only organisations within districts able to monitor the attainment of and be accountable for such outcomes.

Ensuring the Entities deliver on community outcomes

Concerns regarding the reforms could be allayed by establishing early agreements between councils, their respective mana whenua and the Entity (or its Transitional Authority). Those agreements should set out the detail of how we will work together to ensure democratic local decision-making is upheld, and that our communities receive the economic, social, cultural and environmental outcomes that they need and deserve.

The direct link with Councils and mana whenua could be achieved on the following basis:

Setting the strategy

1. A 3 Waters Strategy with clear outcomes for a Council is agreed between the Entity, the Council and mana whenua. The strategy would include (but not limited to):
 - a. Future growth, urban intensification and land use aspirations
 - b. Partnerships with mana whenua
 - c. Mana O Te Wai objectives
 - d. Social and cultural objectives
 - e. Climate change mitigation and resilience
2. The Entity commits to giving full effect to the outcomes and the objectives of the agreed Council 3 Waters Strategy in a manner that enables local decision-making, reinforces relationships with iwi and discharges both the Crown's Treaty obligations and our partnership responsibilities.

Agreeing on delivery

3. The Entity agrees to work jointly with the Council to structure a Business Plan (to be received and endorsed by the Council and mana whenua) that clearly articulates the methodology by which the outcomes and the objectives of the 3 Waters Strategy will be pursued for the district.

4. The Entity agrees to work together and in partnership with the Council and mana whenua to give effect to the future needs of the District. The partnership should be defined by a recognition that the Entity has subject matter expertise, while iwi and the Council have much greater knowledge of local needs and values.

Monitoring outcomes

5. The Entity will report regularly to the Council (in partnership with mana whenua) on progress against the agreed Business Plan and the progress towards the evolving LTP objectives, including the status and health of relationships and partnerships with the communities and specifically with mana whenua.
6. The Entity agrees to report to the Council (in partnership with mana whenua) against investment in local employment, the development of skills and capability in the district.

Conclusion

Our clear intention is to be supportive and constructive in the effort towards a viable and sustainable new 3 Waters management framework, and we hope our position paper contributes to the further development of the reform proposals.

Preliminary Position

From: Stavros Michael
Sent: Thursday, 30 September 2021 1:48 PM
To: Executive Team
Cc: Regan Fraser
Subject: Three waters Reforms and Council's Preliminary Position Commentary on themes received.

Kia ora koutou

As discussed at the recent Council meeting and through the various comments from the elected members and demands that a theme assessment is undertaken from feedback received regarding the Council's Preliminary Position on the proposed Three waters Reforms, I have made the first attempt to summarise information as I see it.

I have received directly some emails etc plus a number of phone calls and related commentary. I am aware that Oonagh has undertaken to provide a summary "themes" response and I outline below my own thoughts on the themes as I see them to help start that process. It is of course limited by own thoughts but hopefully it can assist the undertaking as a start point.

I am away next week so thought I convey these now.

ISSUE	THEME of COMMENTS RAISED	RLC COMMENTS/NOTES
Assets Transfer	<p>That the assets created by the local communities will be transferred without an appropriate value paid to Councils.</p> <p>Someone outside local elected members will decide how these assets will be used.</p>	<p>The actual proposal for assets transfer treatment has not been finalised yet by the Government. Council expects to be fully involved and to agree on the asset value/debt treatment.</p> <p>However, the national data including our local data, clearly indicate that the current depreciated value of assets is less than half than their replacement value. This means that assets liabilities in replacement, upgrade and maintenance far exceed their residual depreciated value.</p> <p>That has two connotations. Firstly on the ability of the Council to have a meaningful say (on behalf of their communities) in defining levels of service for their communities. It is a matter of governance and our view is that the proposals as the stand do not adequately reflect that expectation. So Council's feedback is that this must be corrected before we agree to the proposals. Secondly the Regulator will impose standards for assets to be achieved creating a minimum baseline on asset condition. So it will not be up the Entity's Board to be making these decisions but the</p>

	<p>Assets value will be used to leverage high borrowings that will then become a financial burden to the user (ratepayer)</p>	<p>Board will have to ensure appropriate investment in assets to adhere to the Regulator's standards. This will be an improvement to the current case where each Council makes legacy decisions on assets investment based on a wide range of considerations that sometimes they do not reflect the true needs of assets. That is why assets condition has deteriorated at national level over recent decades.</p> <p>Firstly assets value have no bearing on Debt to Revenue limits. Debt/Borrowings are based on the revenue capacity of the services (3 waters) that the assets support. It is expected that the Economic regulator will be defining and crystallising the economic sustainability of the Entities' Funding and Revenue Policies taking into consideration Government Policy Statements and affordability.</p>
<p>Levels of Service and Pricing</p>	<p>The super Entities and their Boards will decide the Levels of Service without local communities' input and say.</p> <p>The Entities and their Board will set prices (rates) that the community will have no ability to influence.</p>	<p>Council's view, as stated in its preliminary position, is that Levels of Service must be defined through their 3 Waters Strategy that will be constructed through consultation with their local communities. Then the Entities will have to prepare a Business Plan on how to deliver these LOS and at what cost for Council's agreement. The entities must then report regularly to Council on progress towards achieving the outcomes of the agreed 3 Waters Strategy and the compliance with the agreed LOS. If the proposal cannot reflect those requirements Council will not support its implementation willingly.</p> <p>The entities and their Boards will, according to the current proposals, have to demonstrate compliance with the economic regulator's direction/standards in setting their prices. The ER's standards are expected to require that the Entities pricing is sufficient to maintain safe and reliable service provision and stable asset condition as well as growth provision to meet LOS agreed by their Boards and the affected communities. The communities must have the ability to define their expected LOS through their Councils and receive in advance information on what these LOS will cost them. If the proposals cannot assure</p>

		that interface Council will not be supporting the reforms willingly.
Governance and Influence	<p>The proposed Governance structures of the entities as they stand do not provide assurance of equitable representation by all affected communities.</p> <p>The proposed Regional Representation Groups create an unbalanced demographic representation by giving Iwi a disproportional share of influence.</p>	<p>Council's preliminary position strongly recognises that the proposed Governance Structures are a significant risk to meaningful local communities' voice. That is why Council's position is that the Entities must provide credible assurance that their local communities aspirations will be reliably used to inform the 3 Waters action plans and demonstrate that through regular reporting to elected members.</p> <p>Council notes that view. However Government Policy Statements are designed to provide Iwi with what they consider appropriate mana whenua/Iwi opportunities to achieve the goals of Te Mana o Te Wai.</p> <p>As noted above this concern can be addressed through the proposals' modification whereby the locally elected Councils adopt a 3 Waters Strategy in partnership with Iwi and the Entities and their Boards agreed to give effect to those Strategies.</p>
Ability for the Community to have a say before Council makes final decisions on the proposed reforms.	<p>The Council has not engaged in Community Consultation before it arrived at its Preliminary Position therefore its process was undemocratic.</p>	<p>Council's Preliminary Position was in response to the Government's invitation to provide feedback on the draft proposals for reform.</p> <p>Council has not adopted a position of either in support nor of opposition. Council has considered these matters through its LTP workshops and identified elements that appear to be logical (in terms of benefits of scale although it does not fully accept the financial metrics used) and matters of great concern (in terms of community representation and effective control of its local aspirations).</p> <p>Council's preliminary Position fed these assessments to the Government and sought the Government's acceptance that these matters will be considered prior to formulating a final reform proposal.</p> <p>Once the Government has finalised its reform proposal, Council has stated clearly that in order to make a final decision it will seek community views through a special consultation process. The Government's proposals as they currently stand do not</p>

	provide all the clarity required for an effective community consultation.
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Nga mihi

Stavros Michael *DCE Infrastructure & Environment & Primary CDEM Controller –*
Manahautū: Tūāpapa me te Rākau Whakamarumarū

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ROTORUA
LAKES COUNCIL

From: Ewen Skinner | Morrison Low <e.skinner@morrisonlow.com>
Sent: Friday, 1 October 2021 11:38 AM
To: Regan Fraser; Stavros Michael
Cc: Dan Bonifant | Morrison Low; Cushla Anich | Morrison Low
Subject: 3 Waters Reform

Hi Stavros / Regan,

Just following up on our discussion I can confirm that there are no problems assisting you in developing the draft SLA between entity B and RLC.

Suggest an initial meeting with Regan / Dan / Cushla early next week so we can get started on helping you develop this with the goal of have a document available by the end of October that you can discuss with the Minister. You can agree at the meeting who does what but Cushla will be available to help incorporate the info from your other strategies.

I will let Dan contact you direct Regan to arrange a time.

Hope that is all OK.



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