

Transforming the system for delivering three waters

What is the reform?

The three waters reform programme sets out to improve the health and wellbeing of all New Zealanders. It will improve the safety, quality, and environmental performance of council-owned drinking water, wastewater and stormwater services (three waters) in a way that is considerably more affordable per household than what is projected without reform.

Why is reform needed?

Local councils provide three waters services to the majority (85%) of New Zealanders. This includes the infrastructure needed for the collection, storage, treatment, and reticulation of water to homes and businesses. The infrastructure is under extreme pressure and needs systematic reform to meet communities needs and expectations now and into the future.

A report by the Water Industry Commission for Scotland (WICS) estimates that New Zealand will need to invest between **\$120 billion to \$185 billion** in our three waters infrastructure over the next 30 years to meet drinking water and environmental standards and provide for future population growth.

Without reform, these costs will be shared unevenly among New Zealand households. For rural communities, this equates to an increase of up to 13 times present costs, eight times higher for provincial areas and up to seven times higher for many metropolitan households.

With reform, the cost of providing these critical services to our communities is likely to reduce substantially by between 45% to 49%.

Inadequacies in stewardship and management, like those identified in Havelock North where a waterborne gastroenteritis outbreak made 5500 people sick, saw 45 residents hospitalised, and contributed to three fatalities in 2016, reinforces the need for reform of three waters governance.

What will reform achieve?

The Government's reform programme changes the management and operation of three waters services to ensure all New Zealanders have access to affordable three waters services.

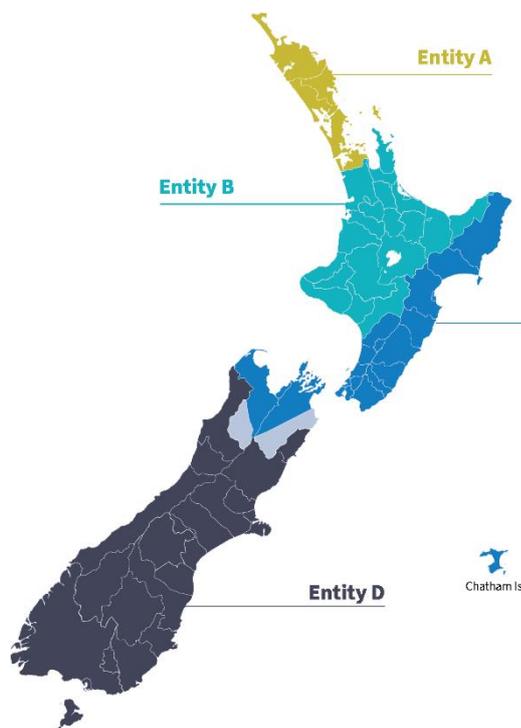
This reform will bring together three waters services, currently delivered by 67 different councils across New Zealand, into four competency-based water services entities. These entities will remain firmly in public ownership (by the communities they serve).

Reform will also improve transparency about, and accountability for, the delivery and costs of these services and uphold the Crown's Treaty of Waitangi obligations to iwi/Māori.

A further benefit of reform, particularly for urban areas, is the improved ability to address contamination of urban streams, lakes and coastal environments through sewer overflows and other unauthorised discharges and stormwater run-off.

Proposed entity boundaries?

Cabinet has agreed to a preferred option for the boundaries of the new water services entities. However, the Government remains interested in continuing discussion with local government and iwi/Māori most affected by the proposed boundaries for feedback before confirming them in legislation.



	Entity A	Entity B	Entity C	Entity D
Connected population (2020)	1.7m	0.8m	1.0m	0.9m
Average household cost (2051, real)¹				
With reform	\$800	\$1,220	\$1,260	\$1,640
Without reform	\$2,170	\$4,300	\$3,730	\$4,970

Why four entities?

Having four entities strikes the right balance between gaining economic benefits associated with larger entities and catchment considerations and the needs and interests of local communities.

Many local authorities in New Zealand currently serve 100,000 or even fewer connected ratepayers, creating inefficiencies within the system for delivering three waters.

Research shows that by reforming our services to entities that deliver services to at least 600,000 to 800,000 connections, New Zealand can achieve significant efficiency gains.

The four-entity model has been selected as balance between scale efficiencies and the ability engage meaningfully with the communities that will own these entities. The Four entities also enable better relationships with iwi/Māori, which requires decisions on entity boundaries to be informed by an understanding of rohe/takiwā boundaries and water catchments from source to sea.

Structure of the entities

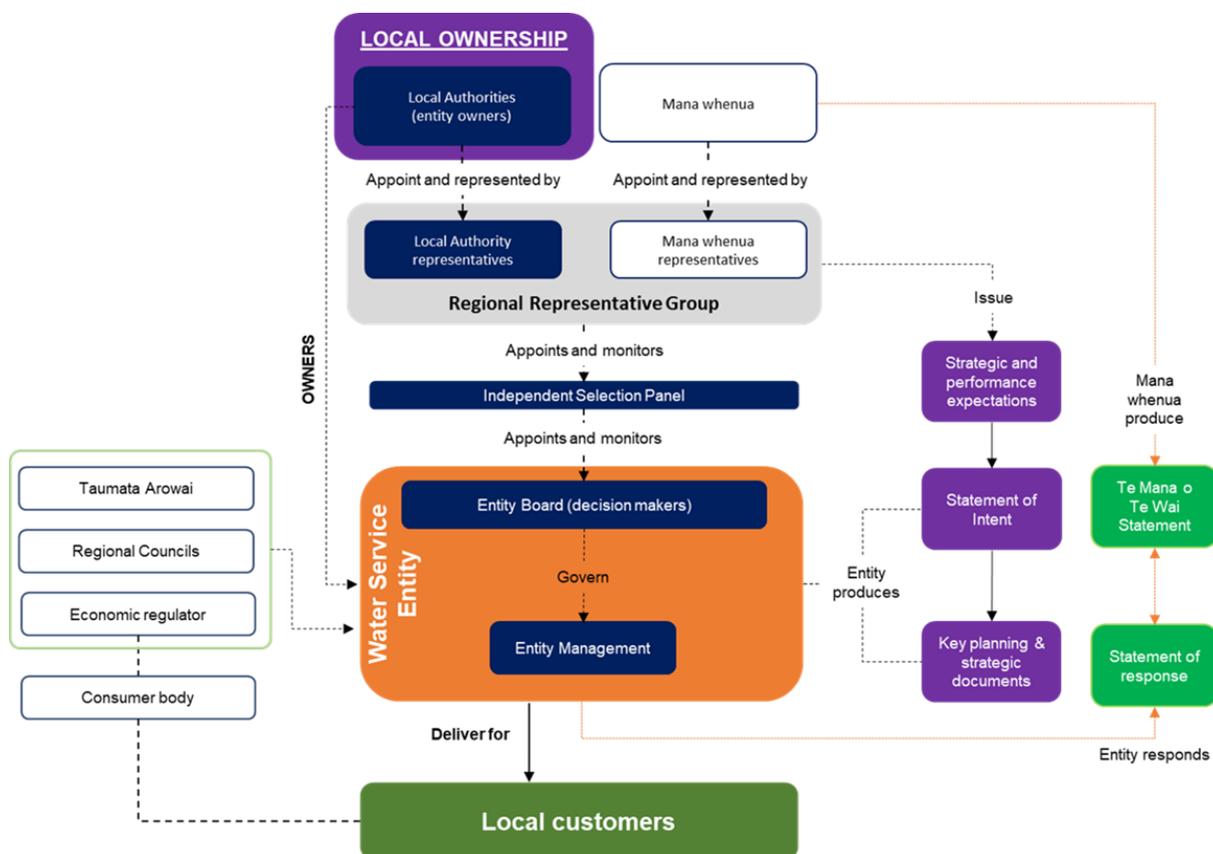
The four water entities will have the right oversight, governance, management and controls to provide the level of focus and independence required to deliver the objectives of the reforms.

Local authorities will ‘own’ the water entities on behalf of their communities, with mana whenua having a joint oversight role.

Together local authorities alongside mana whenua will form a Representative Group that will set expectations for the entity and select an independent panel to appoint the entity board.

The structure of entities and their establishing legislation will protect against future privatisation with assets remaining in the ownership of their local communities.

The Government will also implement a strict regulatory environment that will drive the economic and quality performance of the entities and include strong community input into these services.



Who will own these new water services entities?

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.

A Regional Representative Group made up of local authority members and mana whenua will, through a voting process, put in place an independent panel that will in turn appoint board members to govern the local three waters entity.

What protections will there be against future privatisation of the entities?

Continued public ownership of three waters water services and infrastructure is a bottom line for the Government. We are developing safeguards against future privatisation, making it more difficult to privatise than under the current arrangements.

These include legislation specifying that local authorities that constitute each water services entity would be the owners of the entity and that any serious future privatisation proposal be put to a referendum.

The entities will also be established in a way that prevents them from paying dividends or offering other financial reward to their owners, making them unattractive to potential alternative owners.

How will the public retain consumer and community influence in the way their services are delivered?

In addition to the Representative Group which will act on behalf of communities, each entity will be required to engage with communities in a meaningful and effective manner on key documents. The entities will also be required to publish these, and to report on how consumer and community feedback was incorporated into decision-making and set up a forum to assist with effective and meaningful engagement.

How will these arrangements make water services more affordable, safe and efficient?

These multi-regional entities will have the significant advantages of:

- superior long-term financing arrangements through balance-sheet separation from debt-constrained councils;
- the ability to spread costs across larger areas over time;
- operational efficiencies;
- developing and maintaining more sustainable career pathways in the water industry into the future.