3 Waters

Q & A

October 2021

MARLBOROUGH DISTRICT COUNCIL

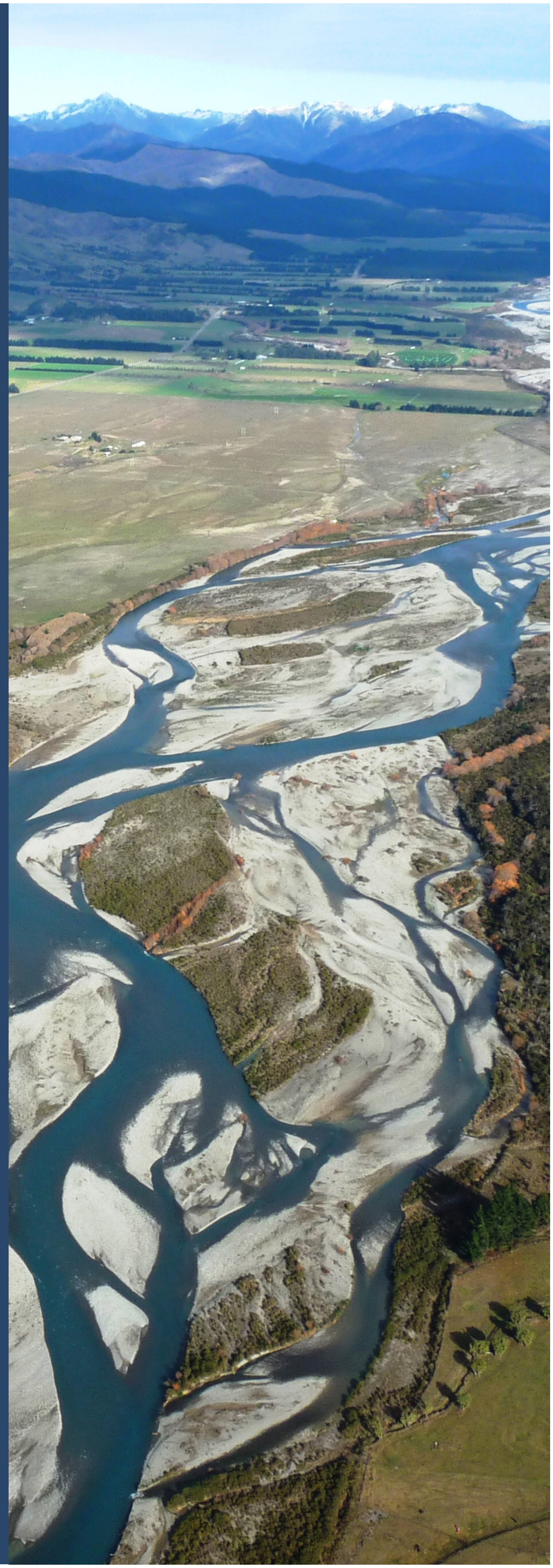


Table of Questions

SERVICES

1. Are all of your drinking water schemes compliant with drinking water standards? Have you considered all costs of achieving and maintaining compliance?

No! However, budgets are allocated in the 2021-31 Long Term Plan (LTP) to bring municipal supplies up to standard. Projects are at various stages with the following supplies expecting to be compliant by years indicated:

- Wairau Valley (2022)
- Havelock (2024)
- Renwick (2022-2023)
- Riverlands (2023
- Awatere Rural (2024 est)

2. Upgrading wastewater treatment plants and disposal to meet current and future standards is a major investment challenge. Are any of your wastewater treatment plants operating on expired consents? Will any consents expire within the next 5 years? Are the financial implications fully recognised in your long-term plan?

All consents are current but the following consents are due for renewal:

- Blenheim Sewage Treatment Plant (BTSP) is due October 2025;
- Seddon is due February 2024; and
- Havelock is due May 2023

Budgets are allocated and depending on public consultation and community expectations these may suffice. For example, BSTP has $30M allocated for upgrading treatment options, however mana whenua are proposing either an ocean outfall or discharge to land at estimated costs of $90M or $210M respectively.

Mana whenua also have views on the treatment options for Seddon and Havelock.

3. Stormwater is emerging as a significant future investment challenge, with growth and environmental quality impacts. Are you confident you have sufficient investment in your long term plan and are fully funding all costs, including depreciation?

No, an example of recent consenting experience is the Springlands Stormwater Management Area Plan (SMAP) Discharge Consent. Additional monitoring resulted in an additional $100K per annum of monitoring costs which weren’t budgeted for. We still have another 10 SMAPs to complete for catchments in Blenheim per the Stormwater Strategy. Another example is the Cameron’s Creek stormwater catchment which requires upgrades to allow for development of land in the David Street area. Upgrade costs may be up to $10M which are not currently budgeted for.

Taumata Arowai will be setting minimum discharge standards which will likely be higher than current standards. National Environmental Standard for Fresh Water (NES-FW) also means higher standards are likely to be required and Te Mana o te Wai principles must also be given effect to.

Existing network budgets will not enable Council to meet these standards.

The new infrastructure

New zoned growth areas require new infrastructure to treat stormwater runoff within the development sites, and in some cases detain runoff to reduce impact from land activity on the environment. Pipelines are installed to convey the treated stormwater runoff to the receiving waters (creeks, rivers etc). This new zone infrastructure is typically fully funded by the developers. Marlborough District Council's (MDC) involvement is to provide an overall "Accepted Services Plan" and balance the associated costs to make it equitable for all the developers in a zone. We have confidence in the mechanisms in place to manage the funding of this.

Downstream infrastructure is partially funded by development contributions.

4. There is significant value and cost in your pipe and above ground plant networks. What confidence do you have about the state of this infrastructure, and future renewal and maintenance costs?

Moderate to low confidence. We have good data on the age profile of assets, but need to complete condition assessment surveys to improve the confidence levels of the data. There will be significant costs to complete these surveys.

5. How well placed are you for the future? Recently some councils have invested heavily in upgrading three waters assets, whereas for others this investment will be required in the next 10-30 years. Where are your assets in their lifecycle?

Age profiles of assets are listed in the Asset Management Plans. We are delivering infrastructure on a "just in time" basis for growth.

The total asset value = $420.1M, with three water assets being on average 46% through their lifecycle.

The three waters capital budget over next 10 years is $359.2M, noting that it is estimated that 25% of assets will require replacement in 10-30 years at a cost of $162M.

6. How many of your residents use private supplies for drinking water? Under new legislation, councils (or a new water service entity) would be the default supplier for private schemes. Is this a significant issue in Marlborough and have you considered the implications?

Staff are unable to quantify how many supplies will fall under the new regime. The Water and Sanitary Services Assessment presented to MDC in November 2020 identified 40 non-municipal supplies in Marlborough. However, this was based under the old regulations of a population served of 25 or more. The new regulations class a supply as being anything more than a single household on a shared supply. A separate project with resource allocated would be required to identify supplies down to this new level across Marlborough if it was to be quantified. We have already been asked how we might assist to identify these water supplies.

If MDC had to take over upgrading responsibilities for non-compliant schemes we would require additional engineering resource.

7. What are the implications for commercial wastewater?

Commercial wastewater is covered by MDC's tradewaste charging regime. The new entity would most likely have to manage tradewaste charging in a similar manner most likely. Costs may increase depending on the future requirements for tradewaste treatment irrespective of who the provider is.

8. What implications will the reform have for opening a new water source for Picton?

A new water source for Picton (if it can be found) is subject to the same RMA requirements whether this is through MDC or a new Water Entity. Also, any new treatment is subject to meeting the requirements of the revised Drinking Water Standards.

9. The Fines from Taumata Arowai - who is liable - Councillors/staff/both under stay in or opt out?

The Water Services Bill provides the regulatory framework which Taumata Arowai and drinking water suppliers must implement. The Bill replaces Part 2A of the Health Act, which relates to drinking water, and amends several other Acts, including the Resource Management Act 1991 and the Local Government Act 2002.

The Bill would apply to all **"drinking water suppliers"**.

A drinking water supplier is defined as (s8):

- *a person who supplies drinking water through a drinking water supply; and*
- *includes a person who ought reasonably to know that the water they are supplying is or will be used as drinking water; and*
- ***<u>includes the owner and the operator of a drinking water supply</u>****; and*
- *includes a person described in* ***paragraph (a), (b), or (c)*** *who supplies drinking water to another drinking water supplier; but*

- *does not include a domestic self-supplier.*

For non-council supplies the owner or operator of a drinking water supply is liable.

If MDC opts out, it would remain the owner of the water supply (assets) and therefore be a drinking water supplier under the Bill.

If MDC opts in, it would be one of the local authorities that constitute ("own") each water services entity. All of those would 'own' the entity. Note that this is a 'no shareholding' structure. The new water entity would be influenced by the respective local authorities and mana whenua, with set governance rights. The entity in turn will own the assets and legislation will include similar provisions to the Local Government Act 2002 regarding retaining ownership and control of public assets (such as restrictions on disposal). Local authority ownership rights are only provided for in the oversight and governance arrangements. Responsibility/liability would therefore sit with the respective entity, not the individual councils.

There is no liability for elected members (s161) and protection for the following persons; compliance officer; the chief executive; a person called to assist a compliance officer: Taumata Arowai; an operator (as water supplier); a specified person (authorised to enter and search) provided they acted in good faith and with reasonable cause (s117).

10. From the Water Services Bill, what is our understanding of what side of the equation expenses and responsibilities will sit (assuming Three Waters is implemented) when there is reference to owner, operator, supply, supplier and how different are the imposed responsibilities in this Bill compared to our current situation/responsibilities?

The Bill sets out the duties and responsibilities of **drinking water suppliers** in subpart 1 of Part 2. In particular:

- Clause 21 provides that a drinking water supplier has a duty to supply safe drinking water. Clause 22 would require a drinking water supplier to ensure that the drinking water they supplied complied with the drinking water standards.
- Clause 21(2)(f) specifies that a drinking water supplier would need to take all practicable steps to advise affected consumers that drinking water is or may be unsafe, and how it should be treated. Clause 22(2)(f) would require the supplier to take all practicable steps to advise affected consumers that drinking water did not comply with the drinking water standards, and how it should be treated.

Under clause 25, a drinking water supplier would need to ensure that a sufficient quantity of drinking water was provided to each point of supply to which they supplied drinking water.

- Clause 27 sets out the obligations for a drinking water supplier to protect against the risk of a backflow.4. This would apply to a drinking water supply that included reticulation.
- Clause 31 sets out the requirements of a drinking water safety plan.

Clause 32 would require Taumata Arowai to review drinking water safety plans and monitor compliance with them.

- Clause 42 would require a drinking water supplier to prepare a source water risk management plan.

Clause 48 would enable Taumata Arowai to make rules setting out requirements relating to the performance of functions or duties by drinking water suppliers and other persons.

Offences in clauses 162(2) and 164(2) (reckless supply of unsafe drinking water) would carry maximum fines of $600,000 and a term of imprisonment of five years for an individual and a maximum fine of $3 million for a body corporate.

Owner:

Meaning of owner

a) In this Act, unless the context otherwise requires, owner, in relation to a drinking water supply, means the person who has effective control of the drinking water supply.

b) The matters that may be considered for the purpose of determining whether a person has effective control of a drinking water supply include whether the person—

c) owns the drinking water infrastructure; or

d) owns or has long-term control of the land on which the drinking water infrastructure is based; or

e) directs or has control over decisions about the funding or maintenance of the drinking water infrastructure, or collects fees, levies, or other charges from consumers in relation to the infrastructure; or

f) controls how the management of the supply is resourced (for example, has the power to subcontract work).

Clause 27(2)(b) provides that if there is a risk of backflow the drinking water supplier could require the owner of the premises to install, maintain, and test a backflow prevention device that incorporated a verifiable monitoring system. The system would need to comply with an acceptable solution or verification method under section 49.

Clause 30 provides that the owner of a drinking water supply to have a drinking water safety plan that complied with legislative requirements. The owner would need to implement the plan and ensure that their drinking water supply operated according to the plan. They would also need to lodge a copy of the plan with Taumata Arowai.

Operator

Means (s11) the person who operates the water supply or supervises the operation. Has to be authorised in accordance with regulations made under s190.

Clause 85 would enable Taumata Arowai to recover from a drinking water supplier all costs, charges, and expenses incurred for the purposes of section 82 (relating to non-performance). This clause is intended to apply in situations where Taumata Arowai appoints an operator. It would enable Taumata Arowai to claim costs directly from the drinking water supplier.

11. Efficiency

a Are we inefficient?

No, we are efficient. MDC does have a very old network which requires more maintenance costs.

b Why do we have a high number of FTE’s compared to other councils?

Because MDC does not contract out its Three Waters response work and operating team, we have higher staff numbers than some councils. Other councils generally would outsource this work.

c Where are savings going to come from?

Savings should come from:

- Reduced overhead costs, as senior staff and support systems costs will be shared across a larger base of ratepayers reducing the per household cost;
- Better buying power with consultancies and materials suppliers due to consolidated spend;
- Increased competition as it is likely that large international companies that are not currently set up in New Zealand will come to our shores due to the greater scale of work; and
- Uniform standards across an entity and New Zealand will make for easier costing of tenders by contractors (everyone working to the same standard from one region to another) and greater certainty of requirements.

d Do we pay our contractors too much?

Per MDC's procurement policies, contract work is tendered on a competitive basis and pricing is based on the Levels of Service specified in our Asset Management Plans. MDC's current procurement policy is to favour the local contracting market if there is competition in the tender process. Out of town contractors are usually only interested in larger capital works projects within Marlborough.

12. Water metering – benefits? Will we be doing metering in the future irrespective of the reforms?

Budgets are allocated in the Long Term Plan for water metering for Picton and Blenheim in future years. Picton in 2022/23 and Blenheim in 2028/30 but this will require significant public consultation beforehand. It is anticipated this will become an RMA requirement.

13. What impact could the reforms have on our key industries – wine, aquaculture?

The requirement for residual treatment (chlorination) of municipal supplies will affect industries in the Riverlands and Cloudy Bay Industrial Parks. These industries will need to install infrastructure to remove chlorine from the water to use in their production processes.

Where businesses provide their own water supply and wastewater treatment/discharge they will be subject to having to meet revised standards along with other water suppliers.

The bill under the "meaning of drinking water" section that "water, if its use is regulated under the Food Act 2014, the Animal Products Act 1999, or the Wine Act 2003" is not included in the definition of drinking water. **However,** if the water is going to a factory that staff use to drink we expect that water would have to comply. We are clarifying this with senior officials from Taumata Arowai currently.

Irrespective of this there are numerous dwellings and accommodation buildings attached to the Riverlands supply.

14. Will irrigation schemes which also provide community drinking water (eg, Flaxbourne) transfer to the new entities?

Government has not yet formally decided whether these supplies will transfer (should a council opt in). The Waimea Dam Cooperative is working with DIA to transfer that part of the Dam owned by Tasman District Council (51%) and the associated debt.

The component represents the dam's ability to re-water and provide future drinking water security. MDC may be able to transfer that portion of the Flaxbourne Irrigation Scheme which provides water for the Ward Township drinking water supply (a small percentage). If Council opts in, it is expected that the scheme would be operated and managed by the Water Entity under contract.

FINANCE AND FUNDING

15. Many councils have used debt to fund infrastructure investment and some are close to borrowing limits. What proportion of MDC debt relates to three waters? What does MDC's balance sheet look like with three waters debt and assets removed?

Refer to Marlborough District Council's Forecast Statement of Financial Position (Appendix 1) and the outcome from the DIA provided (and updated) Financial Impact Tool (Appendix 2). The result from both pieces of analysis indicates an improvement in MDC's Balance Sheet over time.

16. Significant extra investment nationally is estimated as being needed to meet increasing drinking water and environmental standards, growth and renewal of existing assets. How does MDC's cost of service compare now, and what extra cost challenges will we face in future?

Current budgets in the LTP are based on existing levels of service for existing assets/schemes.

Some budget is factored in for increases in service levels, but not:

- at the expectations of some sectors of the community. Eg, iwi expectations of outfall at BSTP and possible Taumata Arowai standards especially to manage community drinking water; or
- for the additional staff to manage increased monitoring expectations.

Not all infrastructure renewals shown in asset management plans and the 30 year strategy are reflected in the LTP.

17. The Government's reform proposal shows significant potential for efficiency savings to offset increased costs. What are the implications for Marlborough ratepayers if MDC does not participate in reform?

See Three Waters Reform - Item 6 of the 16 September MDC meeting agenda
https://www.marlborough.govt.nz/your-council/meetings?itemCategory=council&month=September&year=2021

and the presentation made to the 22 September public webinar
https://www.marlborough.govt.nz/your-council/three-waters-reform-proposals

18. New Zealand has many different three waters charging and rating schemes. Under reform, there would be a move towards harmonised charging schemes over a period of time. What are the implications for Marlborough?

A 2019 report prepared by Frontier Economics an Australian consultant identified that as a general rule, standardisation of tariffs has tended to favour customers in more remote, higher cost areas at the expense of customers in lower cost more densely settled areas. To support this contention, the report quotes examples from Tasmania, Scottish Water and Watercare (Auckland).

The report also found one significant benefit of amalgamation and uniform tariffs is that it spreads the costs of expensive upgrades in a local area across a broader customer base. This relieves localised affordability constraints, which may otherwise have prevented investments being made in smaller communities. This in turn has led to service improvements in regional areas.

In Marlborough, albeit on a much smaller scale, we have experienced similar results following the establishment of Combined Water and Combined Sewerage rating.

The above answer assumes a move to standardised tariffs. This has not been set in legislation, but in all the publicity produced by DIA common tariffs have been shown across each entity.

19. Three waters makes up between a quarter and a third of councils' operating costs. Transferring three waters to a new, separate entity leaves councils with costs that cannot easily be reduced. What is the potential level of stranded overhead for Marlborough? What is the scope to reduce this over time and what are the implications for ratepayers?

Overheads include the provision of Corporate Support, Finance and Information Services. Currently overheads are allocated across all MDCs activities on the basis of personnel, floor space and the activity’s average annual expenditure both operating and capital.

With the removal of three waters, there are a reduced number of activities over which to spread overheads and unfortunately, the three waters activities are significant. A preliminary review has identified stranded overheads in the range of $2.2M to $2.7M per annum depending on what assumptions are made, that will either need to be reduced if possible or allocated to other activities. Government has indicated that following the review of Local Government functions that councils may take over additional functions which provide a further opportunity to spread stranded overheads.

Where personnel costs are involved, it is hoped to achieve this by natural attrition, but this can only commence when clear timelines have been identified. Also, it is understood that the new entities are likely to need MDC to collect their revenue for them in the early years before they move to their own revenue collection. MDC will be able to recover those costs.

As part of Government’s support package MDC can indicatively receive up to $3M plus a further yet to be determined amount for a two-year period, to enable MDC to put in place mechanisms to reduce these costs.

20. How do we dip into the fund for Transition/Stranded Overheads?

Recently Government announced an additional $2.5B package to facilitate its Three Waters Reforms. The package is made up of two components:

1. A “better off” component of $2B; and
2. A “no worse off” component of $500M.

Under the **“better off”** component of the support package Territorial Authorities will be required to demonstrate that the use of this funding meets 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; and
  - support local place-making and improvements in community well-being.

MDC’s allocation under this component is $23M

The **“No worse off"** component seeks 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 $250M allocation to support councils to meet unavoidable costs of stranded overheads, based on:

- $150M 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; **Indicatively MDC’s allocation under this element is $3M.**
- Up to $50M allocated to the Auckland, Christchurch and Wellington Water councils excluded above based on a detailed assessment of 2 years of reasonable and unavoidable stranded costs directly resulting from the Water Transfer, as the per capita 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. **MDC is not eligible for funding under this element.**
- 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). **Indicatively MDC’s allocation under this element is nil.**

The remaining $250M of the no worse off component will be used to address adverse impacts on the financial sustainability of territorial authorities. The Department of Internal Affairs will work with Local Government New Zealand and Taituarā to develop agreed principles for how the assessment of financial sustainability support will be undertaken, the methodology for quantifying this support requirement, and the process for undertaking the associated due diligence process with councils. **There is no indicative allocation under this heading at this time.**

21. Would we still get $$$ for the 60:40 in the case of emergency?

Responsibility for repairing damage to Three Waters assets would fall to the Three Waters Entities if we opt into the reforms. Any 60:40 or similar funding arrangement may still be available subject to the underlying ownership model and any amendments to the National Emergency Management Agency (NEMA) funding guidelines.

Under the current NEMA funding guidelines and Local Authority Protection Programme Disaster Fund (LAPP) arrangements, MDC would still receive 60:40 funding in the event of an emergency for River works and other assets “insured” by LAPP. The only issue that could arise is that “excess” levels may be harder to achieve, unless LAPP resets them because of their reduced exposure to damage.

Commercial insurance would continue as at present.

22. If we could sell our three waters assets, what could we sell them for?

The normal convention for the value of an asset is the value a willing purchaser would pay a willing seller. As at 30 June 2021 MDC’s Annual Report showed the value of MDC’s Three Waters assets at:

Asset	**$M**
Water	161.7
Sewerage	172.2
Storm Water	86.2
Total	**420.1**

The basis for valuation was Depreciated Replacement Cost and includes the depreciated replacement cost of subdivision assets that developers have vested in MDC without payment.

The treatment of vested assets highlights the different results achieved by different methods of valuation. The developer, because they can’t generate revenue from the assets they’re vesting is quite happy to transfer the assets to MDC at zero value. MDC recognises the cost in its financial statements, but in turn has a maintenance and renewal obligation for what is effectively perpetuity.

Therefore, the Depreciated Replacement Cost method of valuation is more an accounting convention to enable the recognition of the cost of an asset over its useful life. It is not what a willing purchaser would pay.

A purchaser will only see value in an asset if they can generate revenue and make a financial return. Currently it is not legally possible to charge for water, sewerage and stormwater. As a result, similar to a developer’s view, the value MDC could sell these assets for is most likely $0.

In 20 years’ time under either option there will be a greater level of capital investment undertaken. However, if MDC opts out, Water Industry Commission for Scotland (WICS) modelling indicates that ratepayers will be paying a multiple of the cost that they would be paying if MDC had opted in.

23. What impact will the transfer have on our credit rating / ability to borrow – Balance Sheet/Profit and Loss?

DIA has produced a Financial Impact Tool that we have peer reviewed. The tool uses the figures that we have included in the LTP and then removed three waters revenue and debt.

As the amount of debt that needs to be raised for Three Waters Capex, the tool shows that MDC's ability to borrow improves with the transfer of Three Waters. As a result we remain fully compliant with the LGFA's and Government's Prudential Benchmarks.

The tool also indicates that our credit would improve if it could, we are already AA+.

The Tool also provides indicative numbers for:

Package	**$M**
The better off package $23M	23
Stranded costs	3
Financial sustainability	0

24. How have the savings which WICS have forecast the new entities to achieve been calculated?

The WICS model is a pure financial model that does not identify in physical terms (eg, using commonality of materials) how savings will be made. Instead it makes a series of assumptions which are detailed below. These assumptions have been reviewed by Farrier Swier who found that the direction and magnitude of the savings were reasonable. Further supporting evidence from other parts of the world is provided in the Frontier Economics report on Aggregation in the water sector.

Within Entity C it is assumed that Operating Efficiency would increase by 8.9% annually for years 5-10, 5.3% annually for years 10-15 and 4.5% annually for years 15-20. This results in a 61.9% of cost saving over 20 years.

They have also assumed that they will be able to absorb any increased operating costs following capital expenditure, ie, new plants would be more efficient and pipes would require less maintenance.

For Capital Expenditure it is assumed cost efficiency would increase by 6.9% annually for years 5-10, 3.7% annually for years 10-15 and 2.9% annually for years 15-20. This results in a 50% cost saving over 20 years. This is only applied to growth and enhancement capital expenditure, not renewal expenditure.

On top of this, a Total Factor Productivity has been applied. There is a separate body of work that identifies year on year how much New Zealand should be improving its productivity. The WICS model assumes that the entity would achieve half of the New Zealand wide factor of 0.81% annually, 0.41% over the 30 years results in 11.5% productivity cost savings.

The results are as follows:

Opex (inflated)	2030	2040	2050
Base Price	394,613,163	573,338,723	833,011,470
Post Efficiency	233,800,795	175,652,764	224,537,971
Efficiency %	41%	69%	73%

Capex (inflated)			
Base Price	632,501,497	2,021,743,836	3,259,699,920
Post Efficiency	557,276,921	1,218,585,713	1,861,301,240
Efficiency %	12%	40%	43%

25. How are MDC's projected Balance Sheets and Operating Statements forecast to change if we "opt in"?

Please refer to Marlborough District Council's Forecast Statement of Financial Position (Appendix 1).

SOCIAL, COMMUNITY AND WELLBEING

26. What are the unique existing issues or factors for your council area? Does reform help or hinder??

a. Marlborough has a significant number of private or community owned supplies which will be subject to the new Water Services Act. There are a known 40 water schemes supplying 25 or more people. The Act will require all supplies servicing more than a self-supplying domestic dwelling to comply with new drinking water standards. We estimate this will mean hundreds more small supplies will require treatment. These standards will apply to those small supplies whether MDC opts in or opts out of the Water Service entities. There are expected to be responsibilities on the Water Service Entity (if MDC opts in) or on Local Authority (if we opt out) to intervene to lift non-compliant small supplies up to standard. This will be very challenging and current MDC resources could not provide this. Water Service Entities should be better equipped to do so.

b. Marlborough's Municipal Sewage treatment plants and stormwater discharges may not meet future discharge standards. Local iwi are already pushing for a very costly redirection of the Blenheim Sewage Treatment Plant discharge point and we have no option but to comply with resource consent conditions.

c. If anything, more influence from iwi and the importance given to Te Mana o te Wai will also increase the standards required. The NPS-FWM also prioritises the environment ahead of the economy and requires more monitoring and reporting which may also impact the standards.

27. How will the roll out affect smaller communities?

Smaller communities which are not a municipal supply already will be required to treat their water supplies. The new regulations class a water supplier which falls under the treatment requirements as any supply providing drinking water to more than one household.

We will be required to complete treatment upgrades in new timeframes to meet the proposed changes to the Drinking Water Standards. This will include treatment for the Rural Awatere water supply. Currently we are planning for point of entry for each household which Taumata Arowai may accept as compliant solutions. Meeting these new legislative requirements will apply whether MDC opts in or opts out.

28. What is the risk to MDC if we opt out for small communities to transfer responsibility to MDC?

High, a large increase in staffing numbers and rates will be required to deal with private water supplies across Marlborough if MDC were to opt out. As we can't quantify the number of private water supplies we can't quantify the number/location of private water supplies, nor the staffing and resources that will be required to service them.

29. Where would we be in 20 years' time under the reforms under the stay in or opt out scenarios?

In 20 years' time under either option there will be a greater level of capital investment undertaken and higher quality and more resilient services. However, if MDC opts out WICS modelling indicates that ratepayers will be paying a multiple of the cost that they would be paying if MDC had opted in

30. The Government wants to see iwi involvement in three waters to give effect to Te Mana o te Wai. What is the current level of iwi involvement in three waters governance in your council? How might this be affected by water reform?

MDC regularly engages informally with Te Tau Ihu iwi leaders, has an iwi appointee on the Assets and Services Committee and has recently agreed to a Māori electoral ward in the 2022 Local Government elections.

Iwi monitor resource consent applications and submit on those they have concerns about. MDC consults directly with iwi where its projects and processes are expected to be of importance to them.

The Board Members of the new water supply entities will be appointed by a Regional Representative Group that is made up of representatives of local authorities (50%) and mana whenua (50%). The group will prepare a Statement of Performance Expectations. Mana whenua will prepare a Te Mana o te Wai statement which the entity must respond to.

The group will also appoint and monitor the Independent Selection Panel who in turn appoint the new Entity Boards.

31. Councils currently have full autonomy over growth investment in three waters. Under the changes proposed, new entities will have that responsibility. How will this affect your council's ability to prioritise growth locally?

There is no question that MDC will not have as strong and direct an influence on new entity investment priorities in Marlborough as it does now.

However, the proposed system does retain local authority indirect influence through the appointment of 50% of the membership of an entity Regional Representative Group alongside a 50% Māori representation.

This group will issue strategic and performance expectations required of the water services entity who then prepare a Statement of Intent and key planning and strategic documents which require community consultation. These documents will outline strategic direction, investment plans and proposed prices and charges.

It is also suggested that the spatial plans proposed in the RMA reform will need to be given effect to by the water entities. Mana whenua would prepare a Te Mana o te Wai statement which the entity would be required to respond to.

Finally, an economic regulator is expected to be required to protect consumer interests and drive efficiency gains. These have been very successful in other jurisdictions.

Until the Government publishes the proposed Water Service Entity legislation we cannot be certain about these governance questions.

For more detail on the proposed new entities structures refer to Diagram 1 (Appendix 3) "A New System for the Three Waters Service Delivery). The diagram summarises the ownership and governance model proposed. Also attached (Appendix 4) is a concise explanation of local authorities proposed role in the new entities from Jason Krupp the LGNZ Deputy Chief Executive, Advocacy as explained in a recent zoom meeting.

Ownership and governance are covered in the LGNZ "Three Waters Reform FAQ's" (Appendix 5).

The legal basis for the new entities requires legislation which the Government is expected to have drafted for October discussion following the current engagement period.

32. What protection from privatisation of assets will there be?

Government is proposing that mechanisms are put in place to prevent future privatisation. They have consistently reinforced the importance of public ownership. The Local Government Act 2002 (LGA) prevents local authorities from selling or disposing of strategic assets or the infrastructure necessary for providing water services. A further protection is to be put in place requiring any proposal for privatisation to be endorsed by a 75% majority of the Regional Representative Group before being put to a public referendum (again requiring a 75% majority) and then put through the legislative and select committee process.

A future government could change this legislation.

33. Will the local economy be better off in terms of jobs, GDP and growth, with or without three waters reform?

Government's work has concluded that there is a very large New Zealand wide infrastructure deficit to be met ($185B+). Coupled with increased quality standards and operational levels of service increases, the water service entities are expected to invest a lot more and employ more people.

Deloitte were engaged to undertake this economic assessment. Their summary is attached. (Appendix 6). They estimate a net change in Marlborough GDP of 7.1% over the next 30 years due to 3 Waters Reform (opt in). This is greater than the national average.

34. Have we formalised a submission to DIA/the Minister on the entity boundary? If so, what did we recommend?

The Mayor, Deputy Mayor and Chief Executive met with Minister Mahuta immediately prior to the LGNZ Conference in July alongside our Nelson and Tasman counterparts.

We expressed our concern about the Three Waters boundary splitting Marlborough. We did not believe that the South Marlborough community would accept that split and would not understand the Ngāi Tahu takiwā boundary. Entity C had been modelled as a long term more economical entity than D – disadvantaging the South Marlborough population if they were left in Entity D. The Minister committed to discussing these concerns with Te Tau Ihu iwi and Ngāi Tahu before making a decision. We have not been advised of her decision.

MDC has formally written to the Minister expressing MDC's preference for the whole province to be part of Entity C based on its forecast lower cost to our community.

35. How much work for staff if we have to deal with two entities not one if the Ngāi Tahu boundary is adopted?

Monitoring of water take's and use consents for community supplies for two entities will not necessarily contribute to additional staff resource. If the number of water take and use consents are increased for community supplies for either or both entities this would require additional monitoring and consenting resource. It is unknown how many additional communities' supplies will be required to meet legislative requirements under the Water Service Bill.

Taumata Arowai is proposed to be responsible for monitoring and enforcement under the Water Services Bill.

It is assumed that The Water Services Bill will impose increased assessment, monitoring and reporting of drinking water supplies on MDC or on the entity (entities) who own/operate drinking water supplies.

Under the proposed changes to the Local Government Act 2002 under the Water Services Bill, MDC will be required to assess drinking water, wastewater and sanitary services for each community in its district by the 1 July 2026, unless the drinking water services are owned or operated by the Crown. (Note: The Three Waters entities are proposed to be publicly owned entities). Such assessments must be provided to Taumata Arowai and this assessment must be undertaken at least every three years.

Under the proposed LGA amendment, as a result of the Water Services Bill MDC has duties to ensure communities have access to drinking water and in the event of a significant problem work with the supplier on solutions and ensure drinking water is provided to communities if the supplier is unable to provide a service which meets regulatory requirements.

The proposed changes to legislation impose responsibilities on territorial authorities for drinking water supplies to communities that are not removed by another entity owning or operating the drinking water supply infrastructure.

However, we have been assured that once the new entities are established and should we opt in, then responsibility will transfer to those entities. The difficulty at present is that the LGA Amendment cannot refer to those entities as they haven't been established.

36. Does iwi have a right of veto on significant transactions?

Iwi will have 50% representation on the Regional Representative Group. Decisions on the Independent Selection Panel and Strategic Performance Expectation will presumably require a majority (depending on the legislative stipulations).

Government is also proposing a strengthening of the current LGA privatisation ban by requiring any proposal for privatisation to be endorsed by a 75% majority of the Regional Representative Group (50% of whom are mana whenua reps) before a public referendum where again a 75% majority is required.

37. Can iwi gain financially by being part of Three Waters?

No – there is no shareholding and no ability to pay dividends. It is intended that legislation list the councils that own the respective Three Waters entities using a term something similar to "owners in common". Also, there is no suggestion that water rights can be sold and protections against privatisation are proposed.

WORKFORCE, DELIVERY AND CAPACITY

38. Workforce is critical to providing great three waters services. Reform will bring extra investment but will also bring change. What are the opportunities and risks for your staff?

At this stage, staff are nervous but optimistic about the reforms. The lack of information is causing concerns which the PSA is following up on as well as MDC. The Government has stated that staff who are engaged 60% or more in three waters work will be guaranteed employment on their current terms and conditions and in their current location at the commencement of the new entities. The entities will bring more standardisation of pay compared to other regions and will also offer more of a career path with greater opportunities to progress in a larger organisation. These comments are applicable to Assets and Services operational staff. Higher level staff roles in the department may be centralised in the new entities posing a potential risk for those staff who do not want to move from Marlborough, although this might be mitigated in part by remote working opportunities.

39. Three waters services and projects across New Zealand are delivered in conjunction with private sector organisations. The new regulations will require a significant increase in level of service. This will require significantly more resource. Do you have the capacity within your existing and/or local supply chain?

There will be an increase in work given the expectation of upgrades required. However, given the limited pool of contractors locally, this may mean more out of town contractors coming into Marlborough. Local contractors may have to demonstrate compliance with higher construction standards. Nationally there is also a limited pool of contractors for projects across the nation, meaning increases in costs to end users could occur.

Government expects the new water entities will provide very attractive career opportunities and encourage more young people into the sector. Overseas water specialists and large construction firms can also be expected to be attracted (subject to Covid!).

The provision of all maintenance services may be contracted rather than being completed in house as MDC does now for Blenheim, Havelock and Renwick.

40. The above increased level of service will require a step change in standardised and enhanced asset information and operating systems. Are you confident that MDC with its current systems could deliver this? The new water service entities provide scale and capacity to respond to this challenge. Can MDC meet this challenge without reform?

A significant increase could not be provided without a large increase in staffing numbers and rates. Additional resource will also be required to deal with private water supplies across Marlborough if MDC were to opt out. As we can’t quantify the number or location of private water supplies we can’t quantify MDC staffing and resources that will be required to service them at present.

DECISION MAKING AND CONSULTATION REQUIREMENTS

41. What is the current requirement for consultation on the Three Waters "Opt in" or "Opt out" decision? How might Government reduce that requirement?

All local authorities are required to have Significance and Engagement Policies. (S.76AA Local Government Act 2002).

Ours can be found at https://www.marlborough.govt.nz/repository/libraries/id:1w1mps0ir17q9sgxanf9/hierarchy/Documents/Your%20Council/2018-28%20LTP/Proposed_Engagement_Significance_Policy.pdf

The policy identifies district water supply, stormwater and wastewater network (three waters) as strategic assets. Transfer of ownership or control of strategic assets are considered significant proposals and decisions. LGNZ legal advice clarifies that both "opt in" or "opt out" would be significant decisions.

Transferring three waters assets to the new entities would require a Long Term Plan variation and that requires the LGA s.83 Special Consultative Procedure. The assets cannot presently be transferred because s.130 LGA prevents that. Government is drafting enabling legislation to overcome that. Government could also override the LGA Special Consultative Procedure requirements with some new process or make the transfer mandatory.

42. What is the timeframe at present for the programme?

Following the LGNZ Conference announcement of the $2.5B assistance package, local authorities were given until 30 September to engage with DIA and provide feedback as they wish.

In October Government is expected to complete its draft legislation required to set up the new entities. This should clarify whether the LGA consultation requirements and "opt in" and "opt out" commitment from Government are to change. From there legislation will need to move through the House.

At this stage, councils will be required to consult formally and make "opt in" or "opt out" decisions. Attached is the latest DIA "Indicative Transition timetable" aiming at a 1 July 2024 operational start up for the new water entities. (Appendix 7)

43. When do we consult with our community?

Formal consultation is not required yet. That's because the proposal from the Government hasn't been finalised.

At the moment, we're in an 8-week review period so MDC can investigate the reforms, assess the potential impact and suggest ways the proposal might be strengthened. Only once the reforms are more finalised will consultation obligations be triggered.

Appendix 1 MDC Forecast Statement of Financial Position

Marlborough District Council
Forecast Statement of Financial Position

as at 30 June:	2022 $000s	2023 $000s	2024 $000s	2025 $000s	2026 $000s	2027 $000s	2028 $000s	2029 $000s	2030 $000s	2031 $000s
Assets:										
Non-current assets:										
Property, plant and equipment	1,824,360	1,923,619	2,013,583	2,104,705	2,212,435	2,308,178	2,412,640	2,521,475	2,620,008	2,720,125
Less 3 Waters PPE	**(453,458)**	**(495,636)**	**(555,823)**	**(609,323)**	**(674,424)**	**(741,672)**	**(789,397)**	**(838,392)**	**(891,056)**	**(944,760)**
Property, plant and equipment without 3 waters	**1,370,902**	**1,427,983**	**1,457,760**	**1,495,382**	**1,538,011**	**1,566,506**	**1,623,243**	**1,683,083**	**1,728,952**	**1,775,365**
Other Non-Current Assets	138,900	196,373	248,136	270,246	261,506	253,333	243,545	230,096	219,589	209,382
Total non-current assets	**1,509,802**	**1,624,356**	**1,705,896**	**1,765,628**	**1,799,517**	**1,819,839**	**1,866,788**	**1,913,179**	**1,948,541**	**1,984,747**
Current assets	**27,704**	**28,059**	**28,408**	**28,760**	**29,143**	**29,575**	**29,967**	**30,392**	**30,828**	**31,222**
Total assets	**1,537,506**	**1,652,415**	**1,734,304**	**1,794,388**	**1,828,660**	**1,849,414**	**1,896,756**	**1,943,571**	**1,979,369**	**2,015,969**
Liabilities:										
Non-current liabilities:										
Borrowings	173,936	269,265	352,120	396,269	415,623	419,479	421,150	418,606	403,262	386,197
Less 3 Waters Debt	**(38,612)**	**(52,811)**	**(91,569)**	**(147,804)**	**(187,795)**	**(209,743)**	**(230,242)**	**(242,646)**	**(236,649)**	**(228,419)**
Total Debt without 3 Waters	**135,324**	**216,454**	**260,551**	**248,465**	**227,829**	**209,736**	**190,909**	**175,960**	**166,613**	**157,779**
Other non-current Liabilities	9,903	9,965	10,018	10,072	10,128	10,185	10,244	10,305	10,366	10,431
Total non-current liabilities	**145,227**	**226,419**	**270,569**	**258,537**	**237,957**	**219,921**	**201,153**	**186,265**	**176,979**	**168,210**
Current liabilities:	**20,350**	**20,942**	**21,475**	**22,008**	**22,581**	**23,154**	**23,746**	**24,398**	**25,070**	**25,722**
Total liabilities	**165,577**	**247,361**	**292,044**	**280,545**	**260,538**	**243,075**	**224,899**	**210,663**	**202,049**	**193,932**
Net assets	**1,371,929**	**1,405,054**	**1,442,260**	**1,513,843**	**1,568,123**	**1,606,339**	**1,671,857**	**1,732,908**	**1,777,321**	**1,822,037**
Current Equity	**1,786,775**	**1,847,879**	**1,906,514**	**1,975,362**	**2,054,752**	**2,138,268**	**2,231,012**	**2,328,654**	**2,431,727**	**2,538,379**
Adjustment to Equity	**(414,846)**	**(442,825)**	**(464,254)**	**(461,519)**	**(486,629)**	**(531,929)**	**(559,155)**	**(595,746)**	**(654,406)**	**(716,342)**
Total equity	**1,371,929**	**1,405,054**	**1,442,260**	**1,513,843**	**1,568,123**	**1,606,339**	**1,671,857**	**1,732,908**	**1,777,321**	**1,822,037**

Appendix 2 Local Authority Financial Impact Tool

Te Tari Taiwhenua Internal Affairs

Local Authority Financial Impact Tool

Please select local authority and scenario from the drop down lists (NB: It may take a while to update, thanks for your patience):

Marlborough District | LTP

LTP status: Final
Assumed transfer date: 30 June 2024

1. Assumptions
2. Instructions
3. Inputs
4. Charts

Summary

A With transfer, the Lending and Foundation Policy covenant change in compliance is as follows:

> Lending Policy - no change in compliance
> Foundation Policy - no change in compliance

B The financial information is presented exclusive of any Government support package.

With transfer, the indicative change in Marlborough District's debt headroom is: **$62m**

Better off package:

From the $2bn 'better off' package, the following support package has been allocated to Marlborough District: **$23m**

No worse off package:

From the $500m 'no worse off package' and subject to detailed due diligence,

Stranded cost (indicative allocation): **$3m**

Financial sustainability (indicative allocation): **$-**

Click here for further details on the support package

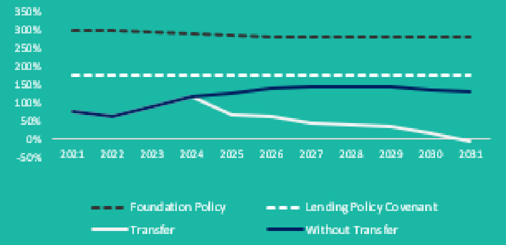
C With transfer, Marlborough District's indicative credit rating will change by 2 notches

D With transfer, the Balanced Budget benchmark and Debt Servicing benchmark change in compliance as follows:

> Balanced Budget - no change in compliance
> Debt Servicing - no change in compliance

Local Government Funding Agency (LGFA)

Net Debt to Total Revenue Financial Covenant



Foundation Policy Covenant:

Estimated number of breaches above the dashed line:

> With Transfer - 0
0

Lending Policy Covenant:

Estimated number of breaches above the dashed line:

> With Transfer - 0
> Without Transfer - 0

* High level LTP data has been applied to the LGFA methodology. Actual results will depend on individual council circumstances.

Financial Position

Debt Headroom (FY24) **$62m** change with transfer

Debt to Revenue (FY24)	With Transfer	Without Transfer	Three Waters
Debt	$59m	$151m	$93m
Revenue	$105m	$132m	$27m
Debt to Revenue	56%	115	

Overall Indicative Credit Rating Impact

Based on Standard & Poor's methodology*

Improvement

2 notches

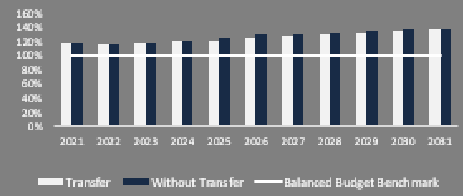
This assessment is based on:

> Improvement in the Budgetary Performance
> Improvement in the Debt Burden assessment
> No change in the Economy, Financial Management and Liquidity assessments which are assumed to remain consistent

*Please note: A high level application of Standard & Poor's rating methodology has been applied to all local authorities as a proxy. In practice, local authorities may be rated by other rating agencies or unrated.

Prudential Benchmarks

Balanced Budget

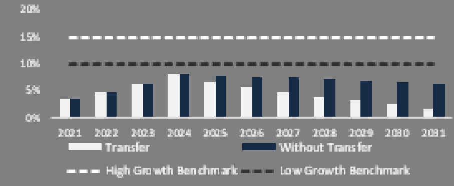


Balanced Budget:

Estimated number of breaches below the white line:

> With Transfer - 0
> Without Transfer 0

Debt Servicing



Debt Servicing:

Estimated number of breaches above the 15% dashed line:

> With Transfer - 0
> Without Transfer 0

Disclaimer

The analysis contained within this Financial Impact Tool is indicative and based on information and estimates trends that local authorities supplied or published as part of the Long Term Planning and Request for Information processes, and has not been subject to validation or audit. It does not reflect Standard and Poor's actual credit rating assessments, confirmed Local Government Funding Agency financial covenants nor Prudential benchmarks.

Any additional work to accurately estimate financial impacts and determine what support could be provided to local authorities will likely require further work with each local authority, including but not limited to a potential due diligence process that will determine matters like debt and revenue on a robust and nationally consistent basis.

3 A New System for Three Waters Delivery

A new system for three waters service delivery

DIAGRAM 1
JUNE 2021

1. A CASE FOR CHANGE

This Government has ambitions to significantly improve the safety, quality, resilience, accessibility, and performance of three waters services, in a way that is efficient and affordable for New Zealanders. This is critical for:

- public health and wellbeing;
- environmental outcomes;
- economic growth and employment;
- housing and urban development;
- adapting to the impacts of climate change;
- mitigating the effects of natural hazards.

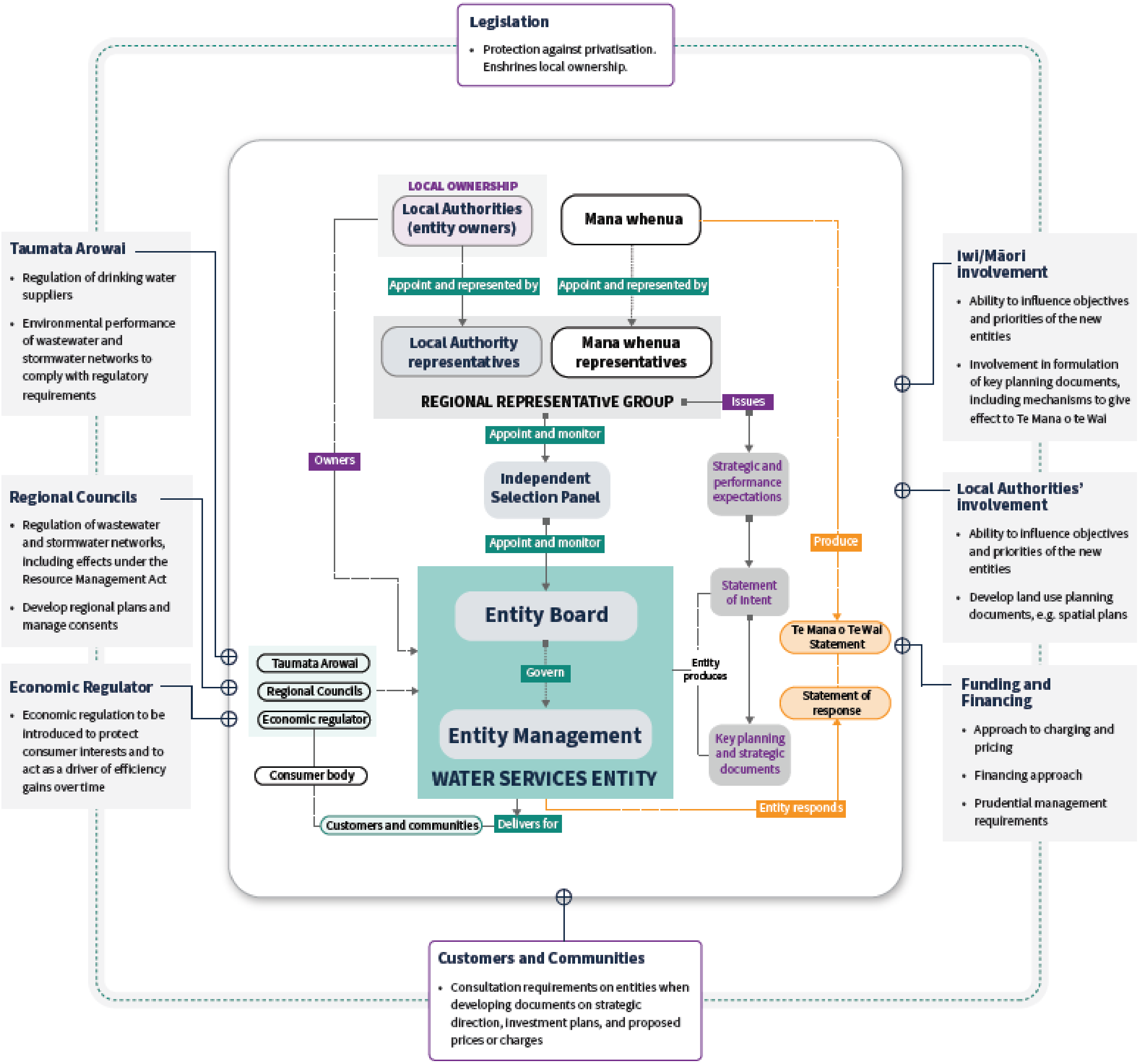
Government also wants to ensure it delivers on Treaty-related obligations, including by improving outcomes for iwi/Māori in relation to three waters service delivery.

Integral to this is effective infrastructure delivery, underpinned by an efficient, high-performing, financially-sustainable, and transparent three waters system.

2. KEY DESIGN FEATURES

- Maintaining local authority ownership of water services entities;
- Protecting against privatisation;
- 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 regulatory system.

3. A NEW WATER SERVICES SYSTEM



4. OBJECTIVES FOR THE CROWN/MĀORI RELATIONSHIP

Enabling greater strategic influence to exercise rangatiratanga over water services delivery.

A. Integration of iwi/Māori rights and interests within a wider system.

B. Reflection of a holistic te ao Māori perspective.

C. Supporting clear account and ensure roles, responsibilities, and accountability for the relationship with the Treaty partner.

D. Improving outcomes at a local level to enable a step change improvement in delivery of water services for iwi/Māori.

5. A PARTNERSHIP-BASED REFORM

Government will continue to work in partnership with iwi/Māori and local authorities.

A large scale communication effort is required to ensure local government support reform.

Further decisions are yet to be taken by Cabinet on the arrangement for transition to, and implementing, the new system.

Appendix 4 A concise explanation of local authorities proposed Role in the new entities – Jason Krupp – LGNZ, CE Advocacy

Notes from the zoom

Governance

Jason talked about the thinking behind the proposed governance structure.

Debt separation is a key pillar of the reform. At the moment, all liabilities wash up on councils' balance sheets. The proposal means that if water entities ran into trouble, the liability would wash up on the Government's books.

But the real driver is around borrowing capacity of the entities. Rating agencies look at risk to determine borrowing capacity. This means the entities could borrow at eight times their revenue – which is essential to make up for the infrastructure deficit.

In terms of how this relates to governance, six scenarios have been tested. S&P insisted on two conditions to achieve debt separation – a government underwrite and governance separation. This is partly because of the reality of community pressure on spending – and the risk that this might mean spending would not be sufficient.

The proposals mean councils' governance of water moves to a more indirect model. There is an expectation councils would provide a set of aspirations and conditions you expect the entity to meet. This is set out in the letter of intent. Governance is also expressed by appointing the board indirectly through an independent appointment panel.

So the proposal shifts from direct to indirect control, and has mana whenua around the table. The entities remain in public ownership, on behalf of communities. Decision making is similar to other strategic decision-making bodies, in terms of co-governance agreements.

Appointment is not your only avenue to influence the boards. There is also the interface with the planning system – which we are holding a workshop on shortly. And there is an obligation on entities to consult with affected communities on projects, and an expectation that councils are a significant counterparty representing community views. There will also be a consumer panel, and consumer feedback to the regulators. There is a diverse landscape of influence and control.

Is this enough? Do you need additional channels? For example, idea of water ombudsman has been floating. Interesting in your views on alternative institutional arrangements.

We've running a workshop on governance – see details above. If you have ideas about governance, please register for the workshop.

Taumata Arowai

We had two special guests from Taumata Arowai, the new water quality regulator:

- Acting CE Katy Te Amo, who is the Head of Strategy and Insights
- Ray McMillian, who is Head of Regulatory

They gave a presentation on the background to the water regulator, its role and next steps. See their slides. Please get in touch with Taumata Arowai if you have further questions about regulation.

Appendix 5 Three Waters FAQ's

Three waters reform FAQs.

We are. LGNZ. | Te Kāhui Kaunihera ō Aotearoa.

OWNERSHIP

Who will own the water assets under the reform proposal?

Local authorities would be the owners of the entity, on behalf of their communities.

The entities will own and operate three waters infrastructure on behalf of territorial authorities – they will hold three waters assets and associated debt.

The assets aren't being sold – the new entities would be collectively owned by councils, on behalf of communities.

Does the proposed model make privatisation likely?

Water services would be more difficult to privatise under the proposal than they are right now.

The reform proposals combine a series of measures that together help safeguard against future privatisation, including: The councils that constitute each entity would be the owners of that entity.

There is no shareholding structure in the proposal and a prohibition on dividends.

There would be statutory restrictions on the sale or transfer of material, strategic water assets. This is the current approach in the Local Government Act 2002, which prevents local authorities from selling or disposing of strategic assets or the infrastructure necessary for providing water services.

As a further safeguard, any proposal for privatisation would have to be endorsed by the Regional Representative Group (75% majority), put to a public referendum (75% majority), and put through the legislative and select committee processes.

GOVERNANCE

How will councils and the community be involved in governing the proposed entities?

Independent, competency-based boards would govern each entity.

This is how these boards would be chosen. Councils and mana whenua would appoint a Regional Representative Group. This group would appoint an Independent Selection Panel, which would appoint the Entity Board.

But each entity would also have to engage with its communities on key documents that set its direction. The entity would actively report on how consumer and community feedback was incorporated into decision-making.

How would mana whenua be involved in governance? I've heard talk of a "veto"

A mana whenua representative group would be part of the structure that selects the entity boards. It would help appoint a Regional Representative Group, which would appoint an Independent Selection Panel, which would appoint the Entity Board.

This is totally different from having "a power of veto".

THE MODEL

What alternatives were considered to the proposed model?

30 unique scenarios were modelled, ranging from a 2-entity model to a 13-entity scenario (similar to the regional council boundaries).

Why does LGNZ support reform?

We know the way of delivering water services needs to change, especially as we look into the future. Our communities need more investment in water services delivery and the current funding system isn't capable of providing that without significantly increasing costs to ratepayers.

The model is as fit-for-purpose as it can be, subject to the issues that we're still working through and want your feedback on.

Why would entities be better positioned to succeed than councils?

Entities will be in a better position to borrow sufficient capital to invest in three waters infrastructure. They will be well-placed to attract and retain the professional capability needed. Their market power would also mean they could negotiate better and more consistent procurement, and be better able to guarantee service in remote areas as part of that wider contract.

SERVICE LEVELS

Will my community get the same level of service under the proposal?

The Government has made an explicit commitment that staff working primarily on water would retain their salary, conditions and – critically – location if they transfer to the new water entities.

Individual communities have significant potential gain from the proposal. At the moment, small contracts on an ad hoc basis give contractors no incentive to invest in specialised plant, for example, especially outside cities.

At the moment, the supply chain has more market power than your average council. With four entities, the market power would switch around to the buyer.

FUNDING

How will the proposed entities be funded?

Like now, an entity would fund its operations from a combination of user payments and borrowing.

The key thing is that entities would have larger borrowing capacity to fund the necessary investments – they would be able to borrow significantly more than councils can.

They will also have more strategic procurement and investment plans. This means they would invest at the most efficient point in an asset's life, generating cost savings.

Will my community subsidise other communities' water services?

Like many other infrastructure models, this model is built on cross-subsidisation – which means investments could be made in places where the population is too small to afford it on their own.

Because entities will have greater efficiencies that drive lower operating costs, it's not comparing like with like, in terms of the status quo.

Would water meters be introduced?

Not necessarily – the entities will have the same scope to introduce meters as councils do now. The entities will have charging tools, as councils do now. But what they use will be subject to consultation with their communities/consumers.

THE PACKAGE

Why did LGNZ sign an agreement with the Government and does this bind councils?

LGNZ agreed with the Government a $2.5- B package for councils, to wrap around the reform proposals.

This agreement puts something on the table for councils that wouldn't otherwise have been there. It doesn't bind individual councils in any way.

When will we be able to access the package?

The first $500m of the Crown funded 'better off' package will be available form 1 July 2022. The balance will be available from 1 July 2024.

The 'no worse off' payments will be made once assets have been transferred to the water service entities.

DECISION MAKING AND CONSULTATION

Can we still opt out?

Our understanding is that following this 8-week engagement, the Government will consider next steps, including the decision making and consultation process.

In terms of LGNZ's position, we passed a motion at our July AGM that did not support the reforms being made mandatory and acknowledged that individual councils remain able to express their own views on the reforms and make their own decisions.

When do we consult with our community?

Formal consultation is not required yet. That's because the proposal from the Government hasn't been finalised.

At the moment, we're in an 8-week review period so you can investigate the reforms, assess the potential impact on your council and suggest ways the proposal might be strengthened. Only once the reforms are more finalised will consultation obligations be triggered.

There are lots more FAQs on our website www.lgnz.co.nz/reforms/three-waters/

Appendix 6 Deloitte Economic Assessment summary

Three Waters Industry Development Study and Economic Impact Assessment

Deloitte
Access Economics

Why was Deloitte engaged?

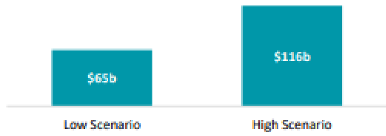
Effective Three Waters services are essential to the wellbeing of all New Zealanders. However, New Zealand's Three Waters system is facing major challenges, and will continue to do so without transformational reform. The Government is proposing a package of reforms that would establish a **small number of asset-owning multi-regional water service entities**, operating with financial and operational autonomy, strengthened governance, improved access to capital markets, and under economic regulation. Deloitte Access Economics[1] has been engaged by the Department of Internal Affairs (DIA) to assess the potential **economic impact of the proposed reform package, and to develop an understanding of the opportunities and risks for industries affected by reform.**

How did we estimate the economic impacts of reform?

The economic impact assessment estimates the economic impact of a **material step up in investment in connection with reform** (the system transformation scenario), relative to the level of investment that might be expected in the absence of reform (the counterfactual scenario). As the counterfactual already includes a large increase in Council spending relative to the status quo, the economic impacts could be greater than the modelling suggests. We have used Computable General Equilibrium (CGE) modelling to estimate the potential economic impact of reform.[2]

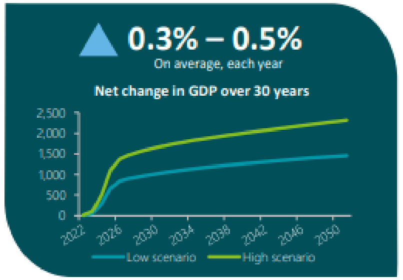
[1] All graphs and tables should be sourced as Deloitte Access Economics (2021)

Key model input: Incremental capital expenditure ($ billions)



National impacts of reform

Reform enables a substantial increase in GDP, employment, wages and tax revenue, **delivering benefits across all corners of the economy**. This reflects the fundamental role that water infrastructure and services plays in the economy, and the critical role reforming the system for delivering water services can play in the NZ economy.



+ 5,849 to 9,260
Average increase in FTEs, including an ~80% increase in the size of the water delivery workforce over 30 years

$14b - $23b
Present value increase in GDP

+ 0.2% to 0.3%
Increase in average wages

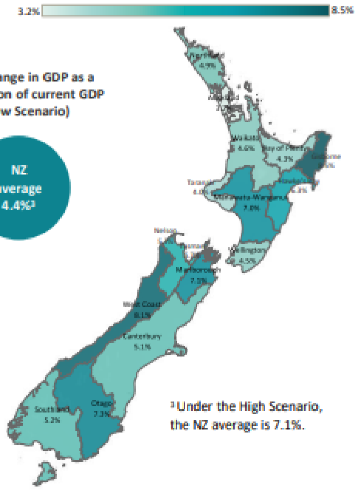
+ $4b to $6b
Present value increase in taxes

Regional impacts of reform

Reform will have a positive impact on all regions. However, not all regions are impacted equally, as shown on the heat maps below. Metropolitan regions experience substantial economic benefits in absolute terms, reflecting their large scale and the current distribution of economic activity in the country. Rural and provincial areas experience significant economic benefits relative to current levels of activity, likely a result of the local nature of much of the investment that will be required.

Net change in GDP as a proportion of current GDP (Low Scenario)

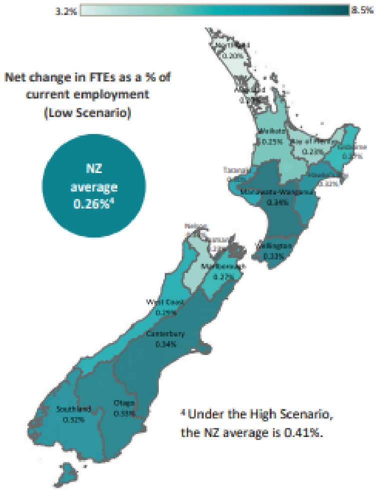
NZ average 4.4%[3]



[3] Under the High Scenario, the NZ average is 7.1%.

Net change in FTEs as a % of current employment (Low Scenario)

NZ average 0.26%[4]



[4] Under the High Scenario, the NZ average is 0.41%.

Industry impacts of reform

Greatest impact relative to the counterfactual by industry, 2022-2051 - Low Scenario

	Increase in GDP ($ billions)	Average increase in FTEs
Other Services	5.1	2,934
Business Services	2.5	1,207
Trade	1.5	856
Financial Services	0.7	329
Construction	0.8	422

Reform will have a **significant positive impact** on all industries, particularly those that are more capital and water intensive. The water sector, like other horizontal sectors of the economy, cuts across a range of industries, including construction, engineering and manufacturing. This increase in activity associated with reform is initially driven by activity in the water delivery sector, and subsequently there are positive flow-on impacts to sectors across NZ.

Isolating the impacts of reform on the water sector is complex, as it involves many different parts of the economy. The present value of the water delivery sector's GDP is expected to increase by $0.3 billion. Over time the composition of the workforce is expected to change, particularly over the transition period. However, the water delivery workforce is projected to **grow by 80% over the 30 year period modelled**, from ~9,250 today to ~16,650 employees in 2051.

[2] Our CGE model represents demand and supply relationships in the economy, providing a clear way to trace how a material step-up in investment in the Three Waters sector impacts key variables like GDP.

Opportunities and challenges of reform for affected industries

Industry development study	The industry development study aimed to validate the economic impact analysis through targeted stakeholder interviews, and international and local case studies. Interviewees included Taumata Arowai, engineering and consulting businesses, and contracting firms.
Scaling up the supply chain	Reform could enhance the visibility and scale of the investment pipeline, enabling NZ participants to scale up operations. However, there is a risk of smaller operators being squeezed out, thereby reducing supply chain diversity. Work is already underway to ensure the transition phase supports scaling up and retains diversity in the supply chain.
Workforce skills, capacity and diversity	Reform provides an opportunity to address challenges the water sector is currently facing, including the current workforce shortage, both in terms of capacity and skills, and limited awareness of career opportunities. Work is underway to address these issues and ensure the sector can deliver on the large infrastructure investment.
Access to capital	Access to capital and funding certainty are critical to achieving gains in the sector. Many of the contracting and consulting firms interviewed did not forsee capital constraints as an issue in scaling up in response to reform, provided there is pipeline certainty and workforce issues are addressed.
Innovation and productivity	Reform could lead to significant productivity and innovation gains, as the industry's structure shifts and parallel developments such as an improved regulatory regime play out. For example, procurement practices may shift to consider whole-of-life value, rather than heavily focusing on price and risk transfer.

7 Indicative Transistion Timetable