

Thursday, 30 September 2021

Te Hui o Te Kaunihera ā-Rohe o Heretaunga

Hastings District Council

Council Meeting

Kaupapataka

Open Attachments Under Separate Cover

Te Rā Hui:
Meeting date: **Thursday, 30 September 2021**

Te Wā:
Time: **9.00am**

Te Wāhi:
Venue: **Council Chamber
Ground Floor
Civic Administration Building
Lyndon Road East
Hastings**

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www.hastingsdc.govt.nz**

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TE KAUNIHERA Ā-ROHE O HERETAUNGA

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Attachment 1 – 2020 Background (including Taumata Arowai information and Indicative Reform Programme)

In July 2020, the Government launched the Three Waters Reform Programme to reform local government three waters service delivery arrangements, with the following objectives:

- improve the safety, quality, and environmental performance of water services
- ensure all New Zealanders have access to affordable three waters services
- move the supply of three waters services to a more financially sustainable footing, and address the affordability and capability challenges that currently exist in the sector
- improve transparency about, and accountability for, the delivery and costs of three waters services
- improve the coordination of resources and unlock opportunities to consider New Zealand's water infrastructure needs at a larger scale and alongside wider infrastructure and development needs
- increase the resilience of three waters service provision to both short and long-term risks and events, particularly climate change and natural hazards
- provide mechanisms for enabling iwi/Māori rights and interests.

The 2020 indicative timetable for the full reform programme is provided below. It was always subject to change as the reforms progressed, future Government budget decisions and Councils were advised that any further tranches of funding would be at the discretion of the Government and may depend on progress against reform objectives.



Also in July 2020 the Government announced an initial funding package of \$761 million to provide a post COVID-19 stimulus to maintain and improve water three waters infrastructure, support a three-year programme of reform of local government water service delivery arrangements (reform programme), and support the establishment of Taumata Arowai, the new Waters Services Regulator.

Following initial reports (that used publicly available council information) from the Water Industry Commission for Scotland (WICS), between October 2020 and February 2021, (all) 67 councils participated in the Government's Request for Information (Rfi) on council's three waters assets, including future investment requirements. In return they received what was known as Tranche 1 stimulus funding (under a MoU and funding agreements with Government) for operating or capital expenditure that supported the reform objectives, economic recovery through job creation and maintaining, increasing and/or accelerating investment in core water infrastructure delivery, renewals and maintenance. [OPTIONAL - Council received XX under this arrangement and is currently completing the agreed delivery plan. Previous Council reports [xx] detail the reasons for Council participation and resolutions [or insert resolutions].

In line with Government policy, Taumata Arowai became a new Crown entity in March 2021 and will become the dedicated water services regulator when the Water Services Bill passes, expected to be in the second half of 2021 (the Select Committee is due to report back on 11 August 2021). They will oversee and administer, and enforce a new, expanded and strengthened drinking-water regulatory system, to ensure all New Zealand communities have access to safe drinking water. They will also provide oversight of the regulation, management, and environmental performance of wastewater and storm-water networks, including promoting public understanding of that performance.

An overview of local authority obligations under the Bill is provided below. The Bill provides for a range of compliance and enforcement tools including compliance orders, enforceable undertakings, infringement offences, and criminal proceedings, which can be taken against council officers (but not elected officials).

Taumata Arowai will have the authority to prepare standards and rules that water suppliers (such as councils) must comply with. Their [initial working drafts](#) are available online¹³ and are currently being updated. Consultation will occur later this year. Guidance to support the operational compliance rules is also being developed and will be available when the rules are consulted on.

It is anticipated that monitoring, compliance and enforcement of standards will increase substantially on the status quo with the passing of the Water Services Bill and as Taumata Arowai begins to operate. It is also likely that the drinking water standards and their coverage (including non-Council water suppliers) and environmental standards will become more rigorous over time. This creates risks for council in meeting future standards and mana whenua and community aspirations (such as greater investment required than currently planned, risk of enforcement action).

¹³ www.taumataarowai.govt.nz/for-water-suppliers/

Water Services Bill obligations of local authorities

Table 2 from [https://www.dia.govt.nz/diawebsite.nsf/Files/Three-waters-reform-programme/\\$file/transforming-the-system-for-delivering-three-waters-services-the-case-for-change-and-summary-of-proposals-30-june-2021.pdf](https://www.dia.govt.nz/diawebsite.nsf/Files/Three-waters-reform-programme/$file/transforming-the-system-for-delivering-three-waters-services-the-case-for-change-and-summary-of-proposals-30-june-2021.pdf)

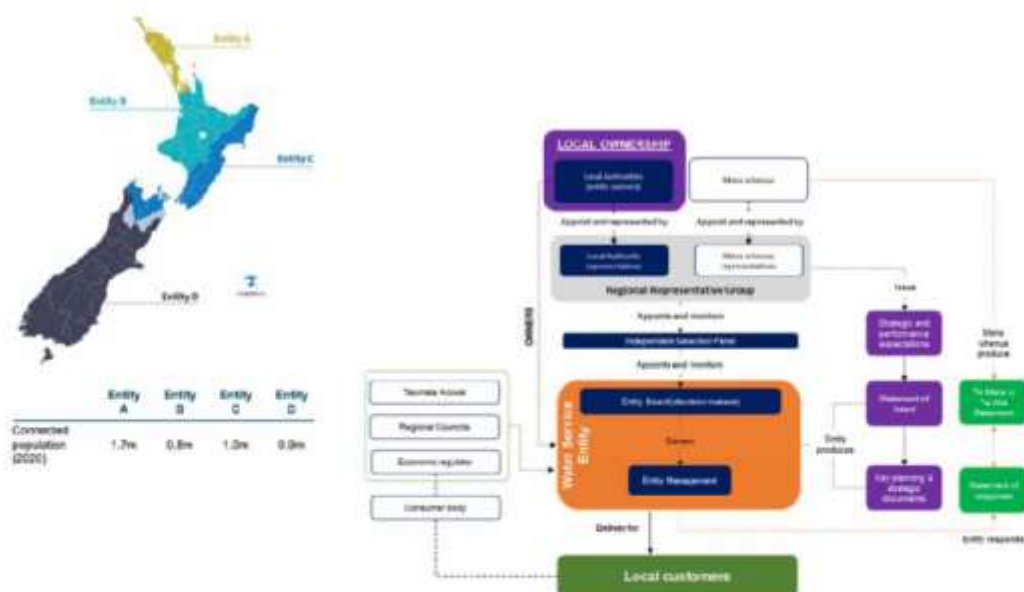
Local authorities as suppliers of water services	General obligations of local authorities
<ul style="list-style-type: none"> • Duty to provide safe drinking water and meet drinking water standards, and clear obligations to act when water is not safe or fails to meet standards • Key provisions include: <ul style="list-style-type: none"> ○ Suppliers need to register with Taumata Arowai ○ Local authority suppliers will need a drinking water safety plan and a source water risk management plan ○ Water suppliers must give effect to Te Mana o te Wai • Taumata Arowai will have significant compliance and enforcement powers, including powers to direct suppliers and enter into enforceable undertakings with suppliers • Officers, employees and agents of suppliers will have a duty to exercise professional due diligence • Complying with these new requirements is expected to require significant capital and operating expenditure by local authorities (including paying levies to Taumata Arowai for operation of the regulatory system) 	<ul style="list-style-type: none"> • Local authorities will have a duty to ensure communities have access to drinking water if existing suppliers face significant problems in complying with drinking water standards including: <ul style="list-style-type: none"> ○ Requirements to work with suppliers and consumers to identify solutions ○ Intervention responsibilities if a supplier is unable to meet standards, including potentially taking over management and operations of private or community supplies • In rural communities, this could represent a significant risk (contingent liability) for local authorities • Local authorities will be required to make assessments of drinking water, wastewater and sanitary services to ensure communities have access to safe drinking water • Local authorities will need to assess drinking water services available to communities at least once every three years, including private and community supplies (excluding domestic self-supplies)

Attachment 2 – the Government's conclusion that the case for change has been made

1. The modelling has indicated a likely range for future investment requirements at a national level in the order of \$120 billion to \$185 billion, an average household cost for most councils on a standalone basis to be between \$1910 and \$8690 by 2051.
2. It also estimated these average household costs could be reduced to between \$800 and \$1640 per household and efficiencies in the range of 45% over 15-30 years if the reform process went ahead.
3. The efficiencies noted are underpinned by evidence across a range of countries based on joined up networks (the conclusion is that 600,000 to 800,000 connections achieve scale and efficiency), greater borrowing capability and improved access to markets, procurement efficiencies, smarter asset management and strategic planning for investment, a more predictable pipeline and strengthened benchmarked performance, governance and workforce capabilities.
4. The [briefing to the Minister](#) notes that this "investment is what WICS has estimated is necessary for New Zealand to meet current United Kingdom levels of compliance with EU standards over the next 30 years, which in its assessment (and confirmed by Beca) are broadly comparable with equivalent New Zealand standards."
5. However, this is caveated as a conservative estimate that does not take into account iwi goals and aspirations, higher environmental standards or performance standards that are anticipated in future legislation, uncertainties in asset lives, seismic and resilience risk, supply chain issues, and the current workload to manage and deliver improvements as well as address renewal backlogs.
6. For councils with non-council drinking water suppliers in their areas there is additional risk if they are unable to consistently provide safe drinking water to their consumers, including the potential for council to have to take on the water supply. Council operating on expired consents or with consent renewals in the next 15 years also face uncertainty over the standards they will need to meet in the future and therefore the level of investment that needs to occur.
7. Councils could also add to the above list of uncertainties and challenges their business as usual workload, the workload associated with delivering on stimulus packages and associated with responding to other government reform initiatives such as reform of the Resource Management Act, and general workforce retention and attraction issues, which are exacerbated by public sector competition for talent and skills.
8. The modelling indicated that between one and four water services entities would provide the most efficiencies and reduce costs to individual households.
9. When this is added to
 - a. known variations across the nation in water suppliers' compliance with drinking standards, including permanent and temporary boil water notices
 - b. evidence of poor health and environmental outcomes, including expired resource consents for wastewater treatment plants (and the need for 110 of these plants to go through the resource consenting process in the next 10 years)
 - c. stormwater overflows and other challenges
 - d. climate change

- e. Te Tiriti obligations and the need to uphold Te Mana o te Wai
- f. the size and scale of current service delivery units and workforce issues
- g. the obligations and responsibilities that councils (and other water suppliers) will face when the Water Services Bill and associated regulations are enacted
- h. the Government has concluded that the status quo is not sustainable and that the case for change has been made.

10. The four entities and their proposed boundaries (which may yet change) and the proposed structure for the system are as follows:



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.

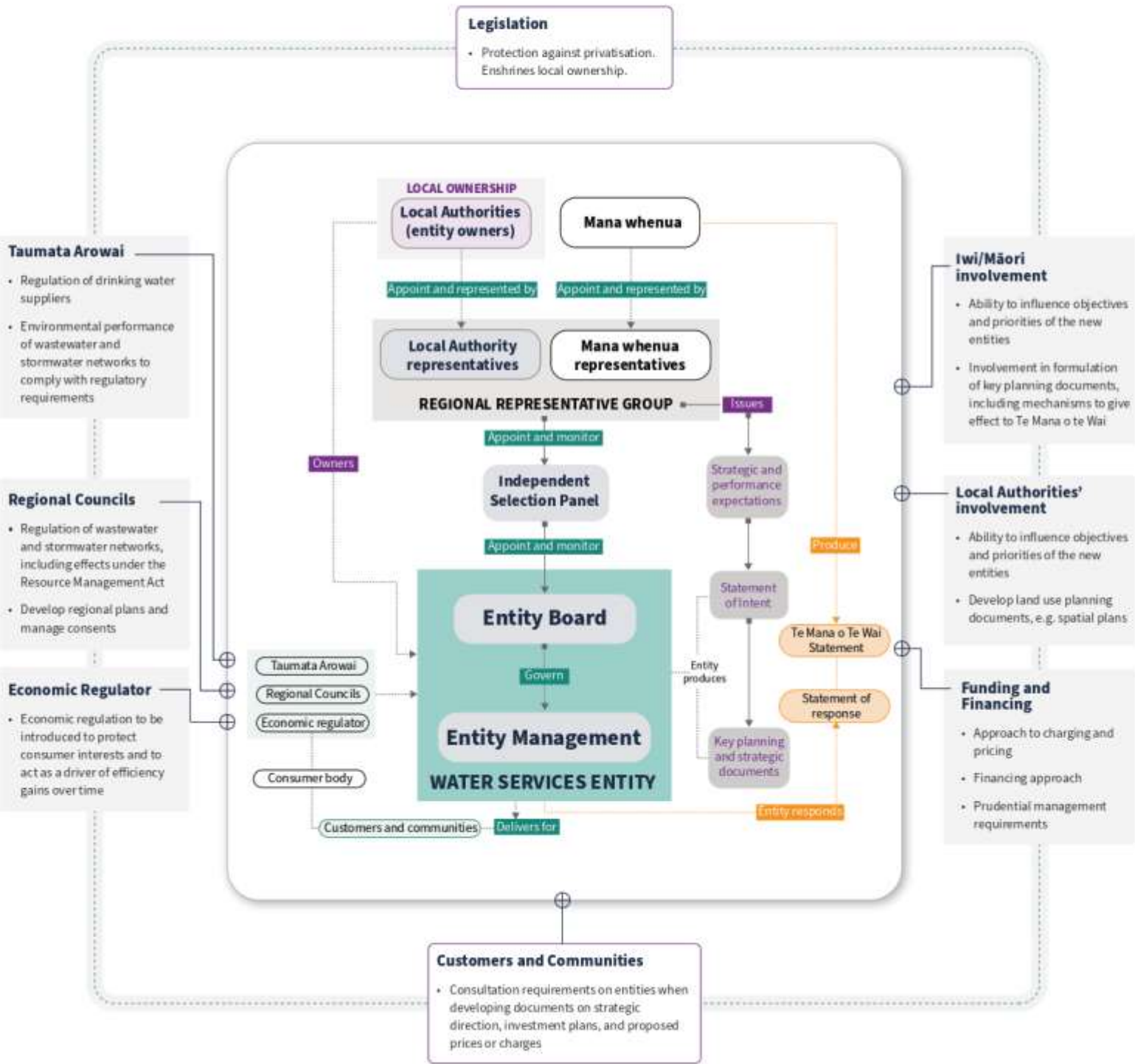
Government also wants to ensure it delivers on Treaty-related obligations, including by improving outcomes for iwi/Māori in relation to three waters service delivery.

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.

A new system for three waters service delivery

The number and boundary of entities needs to balance scale with other factors

DIAGRAM 2
JUNE 2021

1. FACTORS CONSIDERED TO DETERMINE NUMBER AND BOUNDARIES

- A range of factors have been analysed to help determine how many entities there should be, and their boundaries:
- A** Potential to achieve scale benefits from a larger water service delivery entity to a broader population/customer base.
 - B** Alignment of geographical boundaries to encompass natural communities of interest, belonging and identity including rohe/takiwā.
 - C** Relationship with relevant regulatory boundaries including to enable water to be managed from source to the sea - ki uta ki tai.

Applied economic analysis, informed by international evidence, provides further confidence that each entity would need to serve a connected population of at least 600,000 to 800,000 to achieve the desired level of scale.

The preferred approach is to create four new water services entities, and to enable all communities to benefit from reform.

2. PROPOSED BOUNDARIES

- Government has agreed to a preferred set of entity boundaries. However, the Government remains interested in continuing discussion with local government and iwi/Māori most affected by the proposed boundary choices. In particular:
- 1 South Island entity**
Whether there should be a single entity covering the whole of the South Island, or instead take an approach that uses the Ngāi Tahu takiwā.
 - 2 Taranaki region**
Which entity would include the Taranaki region, taking into account ki uta ki tai, whakapapa connections, and economic geography/community of interests.
 - 3 Hauraki Gulf**
Whether to include other districts surrounding the Hauraki Gulf, enabling a more integrated approach to the management of the Hauraki Gulf marine catchment.

The map highlights the recommended boundaries.

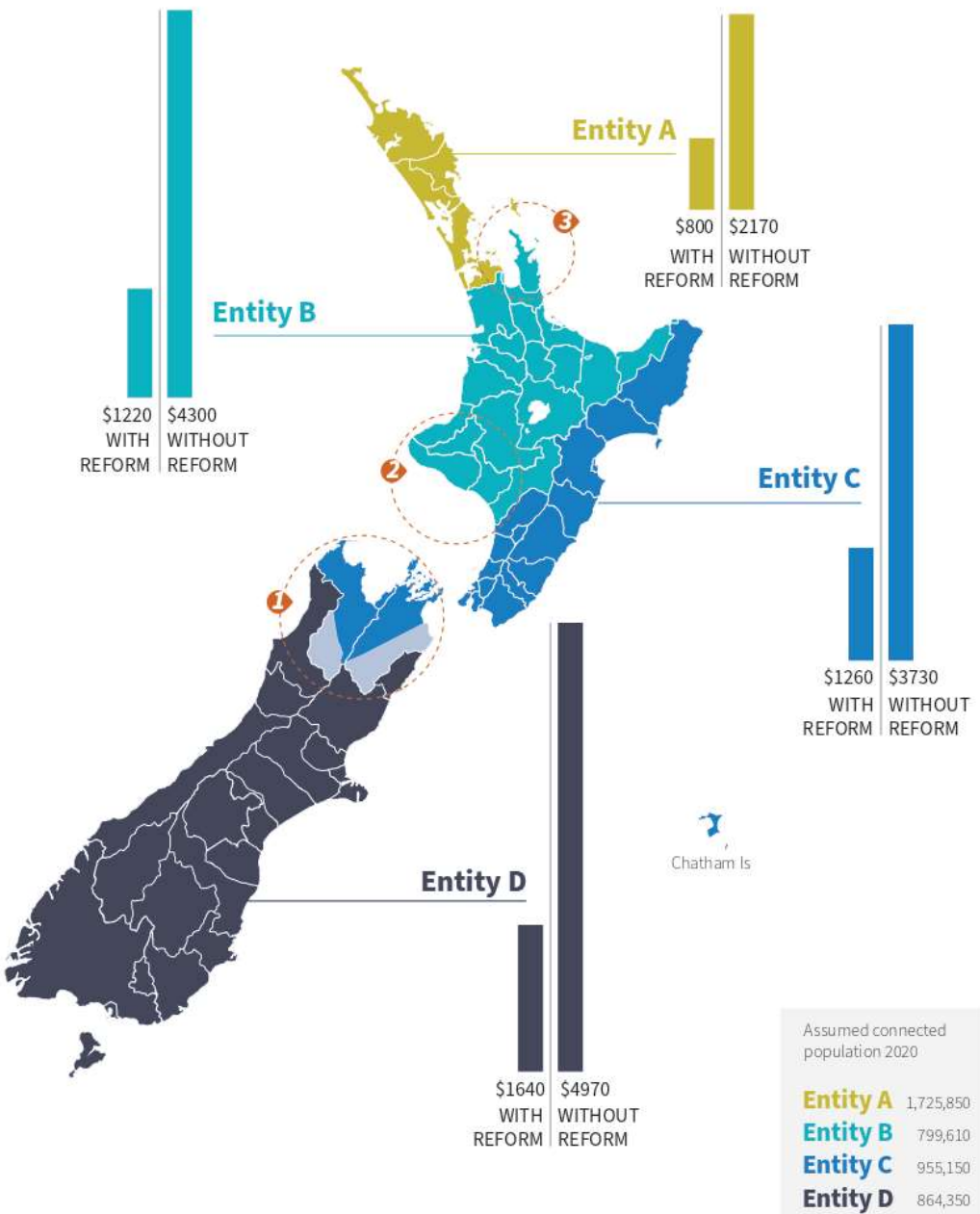
3. OUR INTENTION IS THAT ALL COMMUNITIES BENEFIT FROM REFORM

Latest estimates indicate that the amount of investment required to:

- provide for future population growth
- replace and refurbish existing infrastructure
- upgrade three waters assets to meet drinking water and environmental standards

Is in the order of
\$120 billion to \$185 billion
over the next 30 to 40 years.

4. PROJECTED HOUSEHOLD COSTS 2051



The figures presented above for household bills with and without reform set out what an average household would be likely to pay for three waters services in 2051, in today's dollars, based on analysis by the Water Industry Commission for Scotland.

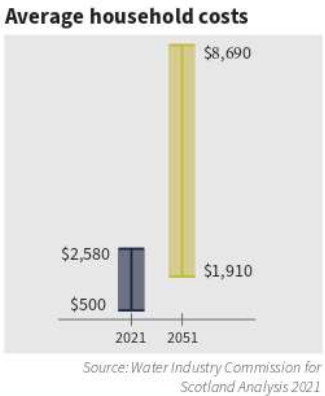
A weighted average figure is presented for household bill estimates without reform, to account for the wide variance between council pricing policies. This weighted average figure reflects the proportion of the connected population that resides in each council area relative to neighbouring councils within the relevant water services entity.

5. POTENTIAL IMPACTS

Difference in household costs

Average household costs for most councils on a standalone basis in 2051 are likely to range from between \$1,910 to \$8,690.

The scale of investment required between now and 2051, would require average household costs to increase by between three to 13 times in real terms for rural councils, between two and eight times for provincial councils and between 1.5 and seven times for metropolitan councils.



Current household costs

Currently there are a wide range of current (2019) average household costs.

	LOW	HIGH	MEDIAN	MEAN
Metro	\$500	\$1,920	\$1,050	\$1,120
Provincial	\$610	\$2,550	\$1,120	\$1,300
Rural	\$210	\$2,580	\$1,340	\$1,390

Source: Water Industry Commission for Scotland Analysis 2021

Current costs are not necessarily a good reflection of what funding is required to meet the full costs of economic depreciation (that is, to provide resources for asset maintenance and renewal).

Potential economic impact of reform

The economic impact assessment estimates the impact of a material step up in investment in connection with reform, relative to the level of investment that might be expected in the absence of reform.

Change relative to counter-factual, 2022-2051

Net change in GDP p.a. over 30 years	▲	0.3% to 0.5%
Present value increase in GDP	▲	\$14b to 23b
Average increase in FTEs	▲	5,850 to 9,260
Increase in average wages	▲	0.2% to 0.3%
Present value increase in taxes	▲	\$4b to \$6b

Source: Deloitte Three Waters Reform Economic Impact Assessment 2021

THREE WATERS 101.

The Government is proposing major reform of New Zealand’s drinking water, wastewater and stormwater system. Here LGNZ synthesises the issues, the opportunities and what it means for local government.

We are.
LGNZ.
Te Kāhui Kaunihera o Aotearoa.

1. What’s the problem?

Councils currently own and operate three waters services, which cover drinking water, wastewater and stormwater. More investment is needed in water infrastructure to meet the environmental and public health aspirations of our communities. The Government has estimated that dealing with 30 years of systemic failure will require an investment of more than \$185b over the next 30 years.

This scale of investment would be extremely challenging for councils to fund on their own. Climate change will only exacerbate this challenge.



Significant investment needed in water infrastructure



Councils can’t carry future costs



The current system lacks:

- Economic regulation
- Consistent data collection
- Enforcement of standards

2. Government’s proposed solution

The Government has told us it wants to deliver water services more cost effectively. It also wants to deliver them in an equitable and sustainable way.

It proposes changing the whole system:



A new water regulator called Taumata Arowai



A smaller number of large, specialist water service entities



Water services are delivered on a significantly larger scale



Water entities remain publicly owned



Water services providers meet standards or face significant penalties for noncompliance



Entities have strong strategic links to councils and mana whenua

3. Impact on councils

The Government’s proposal would mean significant change to the delivery of water services. For a start, councils would shift their focus from delivery to kaitiakitanga of water services. Requirements on local authorities to ensure safe drinking water for private and community supplies would transfer to new entities.

For most councils, removing water-related debt from their balance sheets would improve their financial position. It would potentially create more opportunity to focus on delivering wellbeing to their communities.



Three waters kaitiakitanga focus



Water-related debt removed from balance sheet



Increased capacity to borrow to fund community services

We know there’s not universal agreement on the case for change. But to meet councils’ own RFI projections, spending across New Zealand as a whole would need to increase by 50 percent annually for the next 10 years. With strong regulatory enforcement, the picture would be very different for councils, creating difficult trade offs if large investments are required to meet water standards.

LOCAL GOVERNMENT CAN HELP SHAPE THREE WATERS REFORM.

We are.
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Te Kāhui Kaunihera o Aotearoa.

What’s important to the sector in this reform?







-  Everyone has access to safe drinking water and the same level of three waters service.
-  Infrastructure and systems are resilient and well-funded.
-  Three waters are delivered in partnership with iwi.
-  Delivery is responsive to climate change.
-  Catchments are managed from the mountain to the sea.
-  Districts retain high-paying, skilled jobs.
-  Any transition is well-managed and people are looked after.
-  Local voices are heard and local priorities are responded to.

LGNZ is working for councils

Our work on Three Waters is guided by the principle that we need to seize any opportunity to create the best possible outcome for local government.

We’re using our influence to work with the Government on a model that better includes the perspective of our communities. Representatives from local government are helping to steer this work and pose the hard questions. We are also actively working with government on what a package to go with reforms might look like. We’ll work to optimise this package before decisions are made.

What the sector needs from central government

-  Transparency about the process and what’s on the table.
-  A robust transition plan that makes sure the benefits of reform are delivered.
-  Government to support councils so they can keep delivering. This means makes sure councils are economically sustainable without water.
-  A fair deal, including that councils are not financially worse off, and that communities are better off.
-  To support and grow effective local democracy.
-  That any new system reflects the relationship with mana whenua under Te Tiriti o Waitangi

Find out more

We encourage you to stay informed and up to date of the reforms as they evolve. We’ll be with you every step of the way. Here’s where you can start:

Read what DIA has published: www.dia.govt.nz/Three-waters-review

Check out the info on our website: www.lgnz.co.nz
Get in touch if you have questions: feedback@lgnz.co.nz



Attachment 4 - funding to invest in the future of local government and community wellbeing

1. On 15 July, in partnership with LGNZ under a [Heads of Agreement](#)¹⁴, the Government announced a package of \$2.5 billion to support councils to transition to the new water entities and to invest in community wellbeing.
2. The **'better off' element**: an investment of **\$2 billion** into the future for local government and community wellbeing.
 - The investment is funded \$1 billion from the Crown and \$1 billion from the new Water Services Entities. \$500 million will be available from 1 July 2022. The funding has been allocated to territorial authorities (which includes unitary authorities)¹⁵ on the basis of a nationally formula that takes into account population, relative deprivation and land area.
 - The funding can be used to support the delivery of local wellbeing outcomes associated with climate change and resilience, housing and local placemaking, and there is an expectation that councils will engage with iwi/Māori in determining how to use their funding allocation.
3. The **'no council worse off' element**: an allocation of up to 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.
 - This element is intended to ensure the financial sustainability of councils and address reasonable costs and financial impacts associated with the transfer of assets, liabilities and revenues to new water services entities.
 - Up to \$250 million is available to meet the unavoidable costs of stranded overheads and the remainder for other adverse impacts on financial sustainability of territorial authorities (including future borrowing capacity).
 - Of this \$250 up to \$50 million is allocated to Auckland, Christchurch and Wellington Water councils, the remainder is available to other councils.¹⁶ This funding is not available until July 2024 and is funded by the Water Services Entities.
4. Council's funding allocation is [XX].

¹⁴ [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](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)

¹⁵ Please note that any allocation to Greater Wellington Regional Council (the only regional council affected by the proposed changes) is not clear at this stage.

¹⁶ Due to their size and in the case of Wellington Water and Auckland's WaterCare having already transferred water service responsibilities (to varying degrees)

5. The package is in addition to the \$296 million announced in Budget 2021 to assist with the costs of transitioning to the new three waters arrangements. The Government will “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.”¹⁷
6. The Government is also encouraging councils to use accumulated cash reserves associated with water infrastructure for this purpose. There are likely to be practical limitations on a council’s ability to do this set by councils’ own financial strategy and policies (including conditions on the use of the reserves ie targeted reserve funds must be used for the purpose they were collected for in the first instance e.g. if collected for capital works).
7. There are also political and / or community acceptance challenges with this approach - if the assets are transferred under a voluntary or mandatory process the reserve balances are expected to be used to invest those funds in the communities that paid for them, consistent with the conditions under which they were raised rather than pooling as a general fund. Councils and communities are unlikely to embrace using these funds instead to enable the transition.
8. The proposed national allocations are as follows:

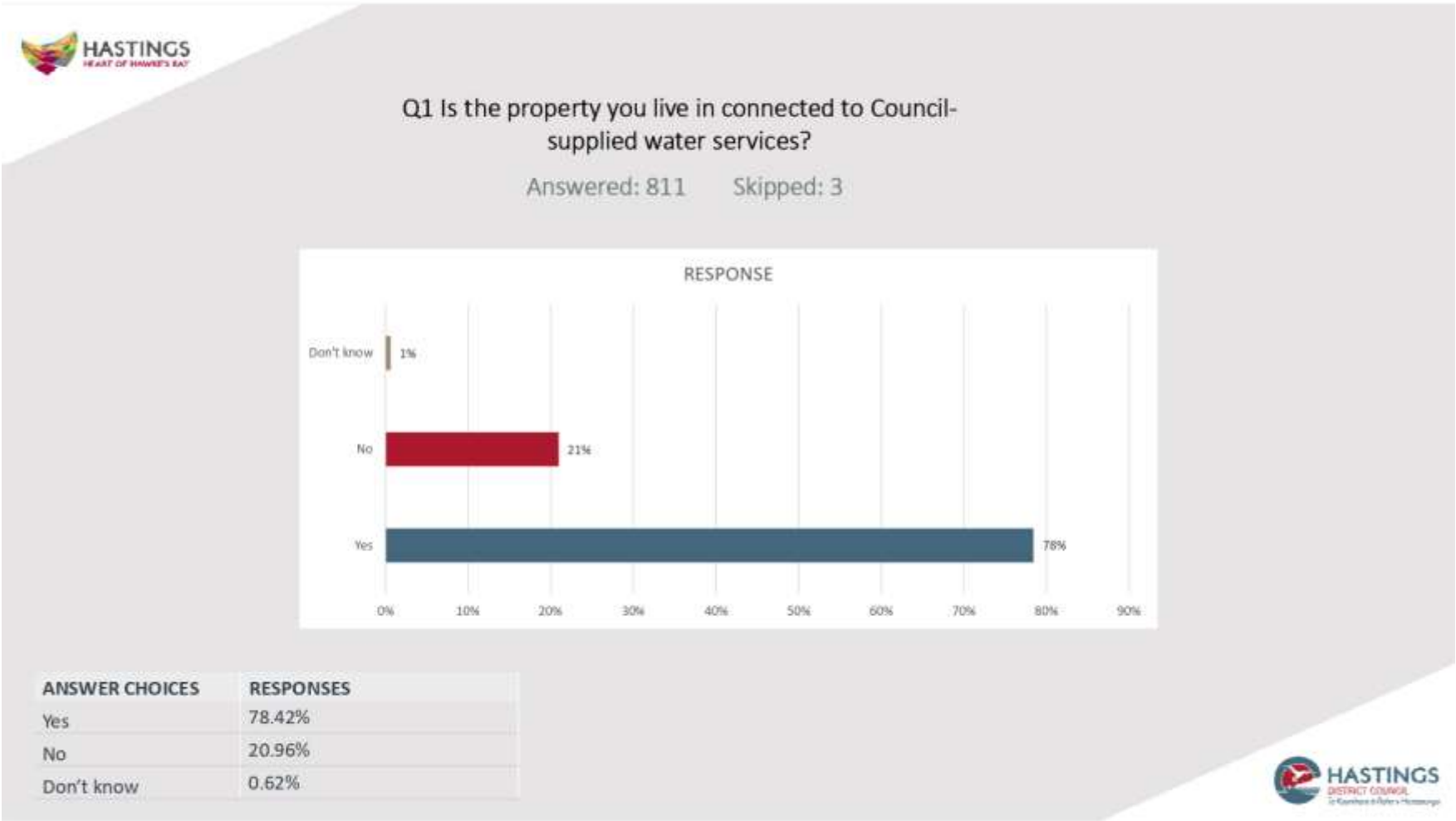
[Some Councils might find it useful if these were put these amounts in groupings – e.g. entity groups/Zones etc]

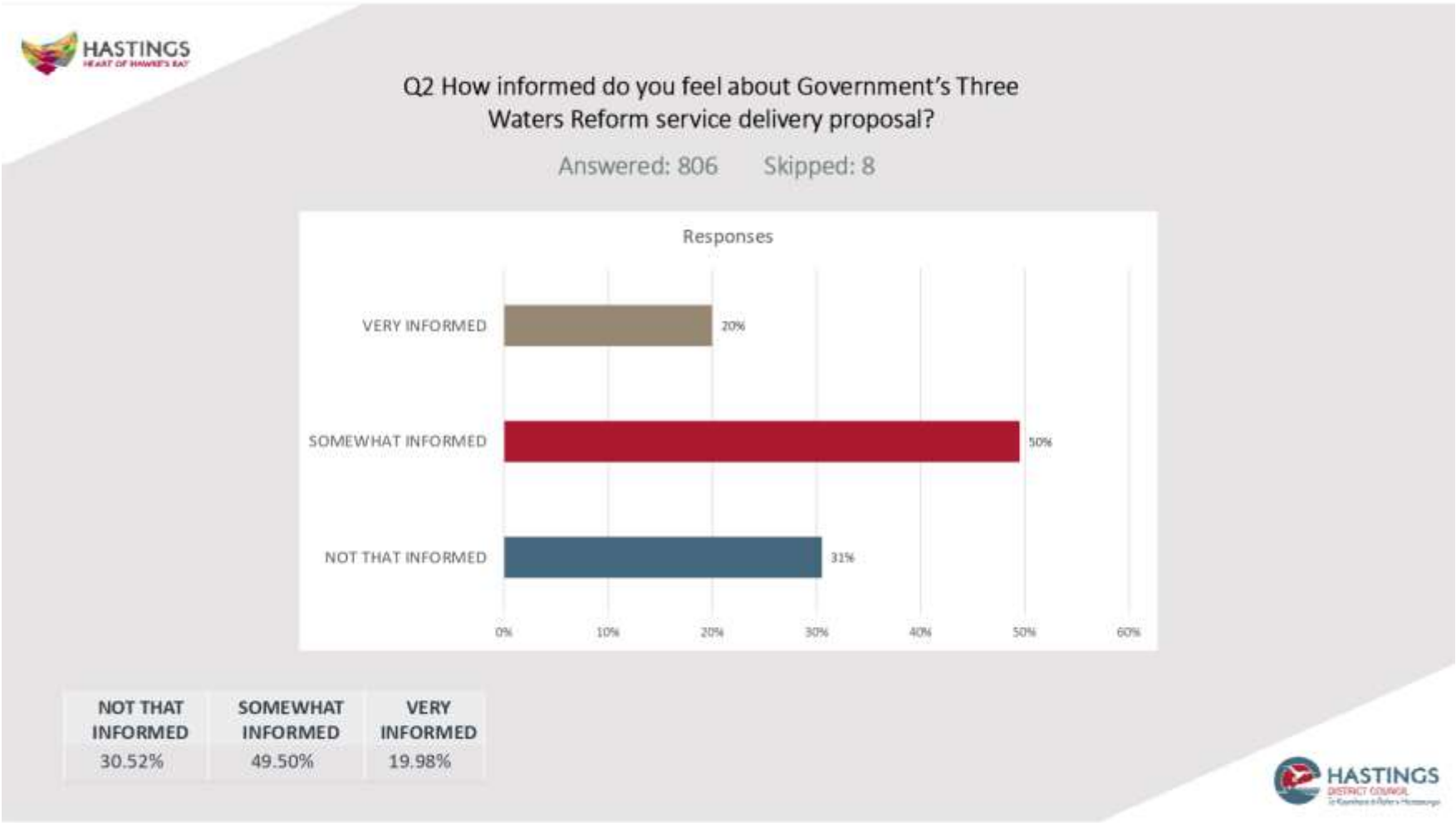
¹⁷ 15 July 2021 FAQ [https://www.dia.govt.nz/diawebsite.nsf/Files/Three-waters-reform-programme/\\$file/three-waters-reform-programme-support-package-information-and-frequently-asked-questions.pdf](https://www.dia.govt.nz/diawebsite.nsf/Files/Three-waters-reform-programme/$file/three-waters-reform-programme-support-package-information-and-frequently-asked-questions.pdf)

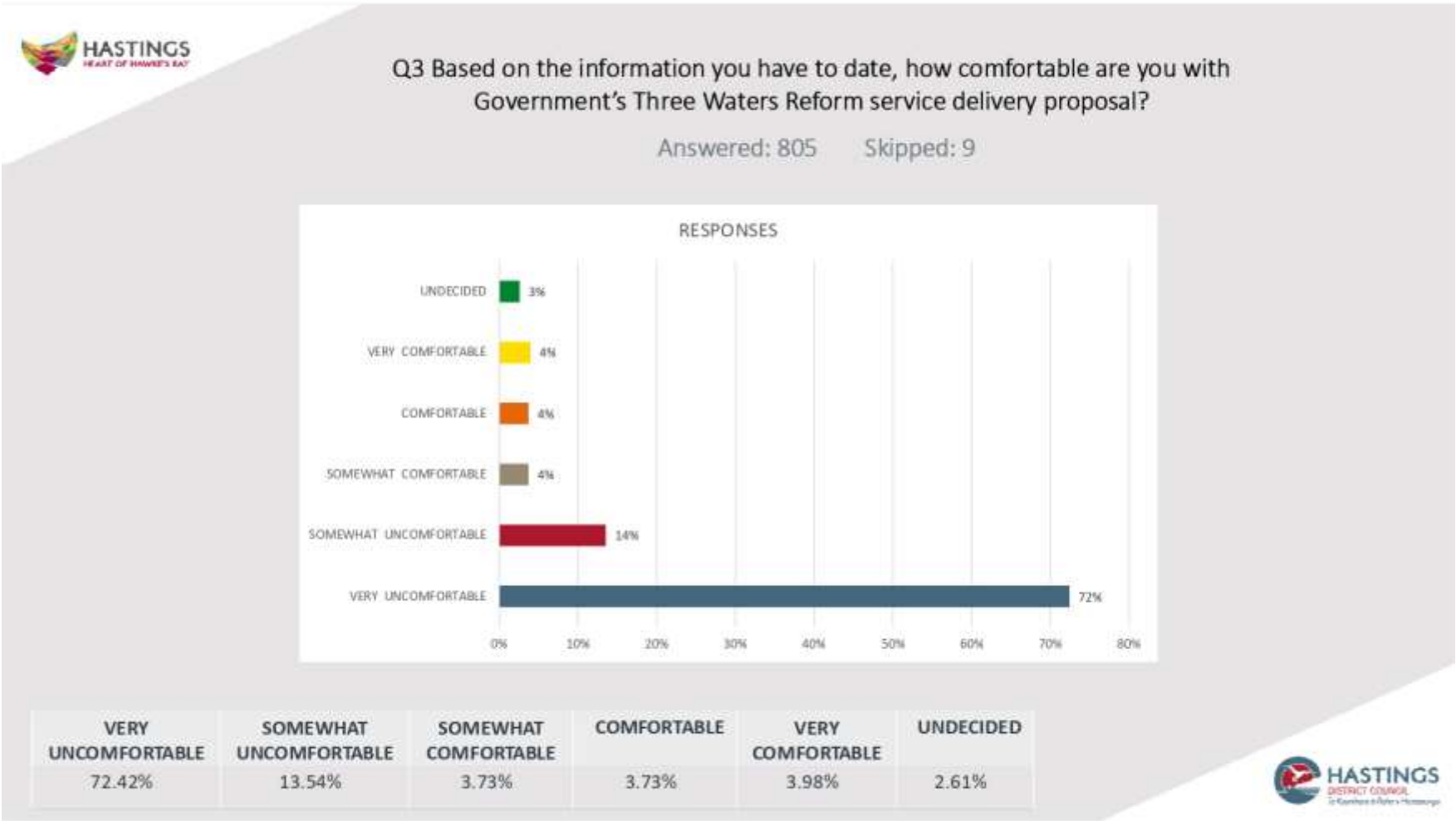
Council	Allocation
Auckland	\$ 508,567,550
Ashburton	\$ 16,759,091
Buller	\$ 14,009,497
Carterton	\$ 6,797,415
Central Hawke's Bay	\$ 11,339,488
Central Otago	\$ 12,835,059
Chatham Islands	\$ 8,821,612
Christchurch	\$ 122,422,394
Clutha	\$ 13,091,148
Dunedin	\$ 46,171,585
Far North	\$ 35,175,304
Gisborne	\$ 28,829,536
Gore	\$ 9,153,141
Grey	\$ 11,939,226
Hamilton	\$ 56,605,366
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
Masterion	\$ 15,528,465
Matamata-Piako	\$ 17,271,819
Napier	\$ 25,823,785
Nelson	\$ 20,715,034
New Plymouth	\$ 31,586,541
Opoiki	\$ 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

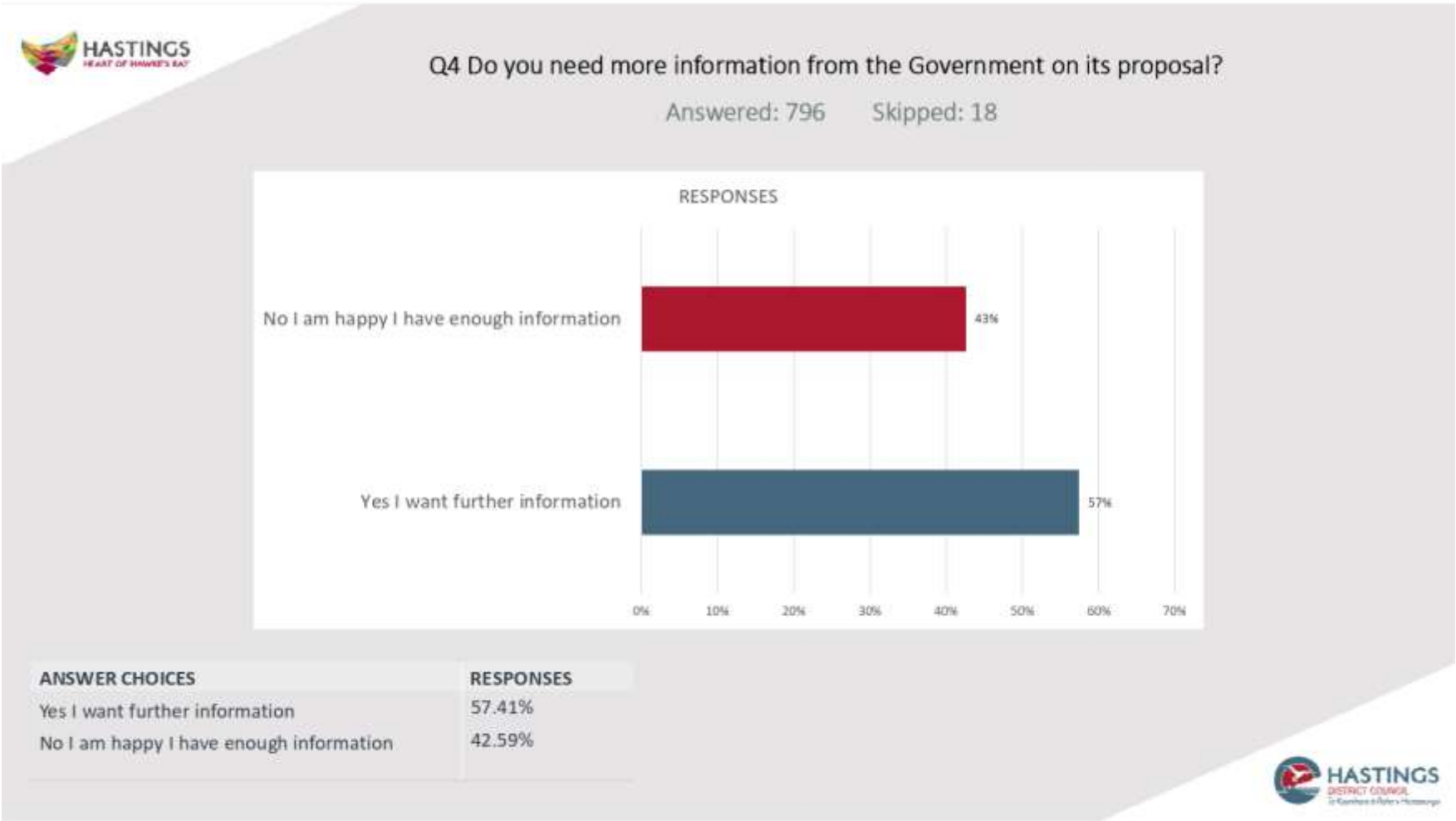
Selwyn	\$ 22,353,728
South Taranaki	\$ 18,196,605
South Waikato	\$ 18,564,602
South Wairarapa	\$ 7,501,228
Southland	\$ 19,212,526
Stratford	\$ 10,269,524
Taranaki	\$ 15,185,454
Tasman	\$ 22,542,967
Taupo	\$ 19,736,070
Tauranga	\$ 48,405,014
Thames-Coromandel	\$ 18,196,088
Timaru	\$ 19,899,370
Upper Hutt	\$ 18,054,621
Waikato	\$ 31,531,126
Waimakariri	\$ 22,178,799
Wairarapa	\$ 9,680,575
Waipa	\$ 20,575,278
Waioa	\$ 18,624,910
Waikato	\$ 14,837,062
Waikato	\$ 14,181,798
Wellington	\$ 66,820,722
Western Bay of Plenty	\$ 21,377,135
Westland	\$ 11,150,183
Whakatane	\$ 22,657,555
Whanganui	\$ 23,921,816
Whangarei	\$ 37,928,327
Total	\$ 2,000,000,000

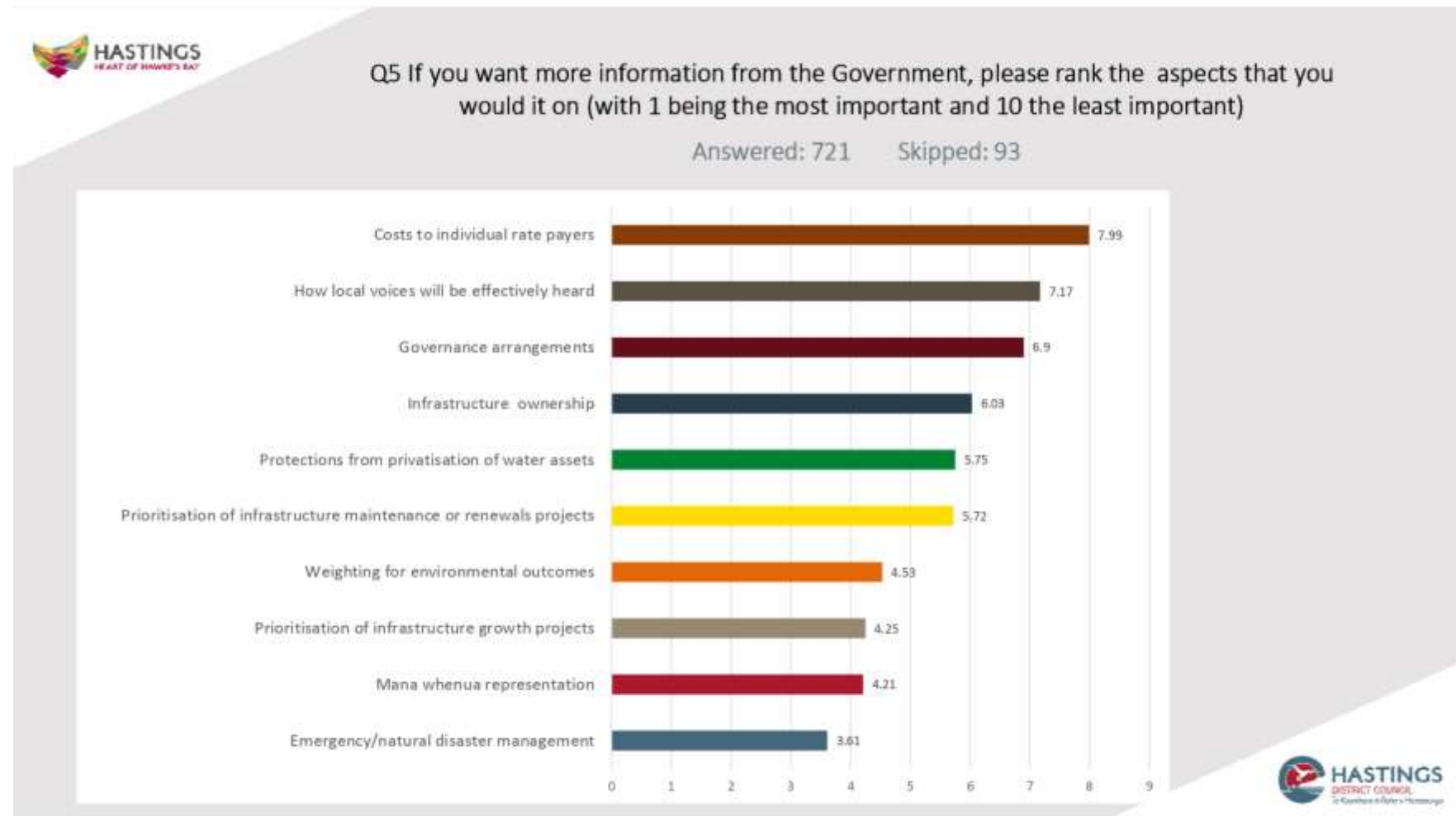


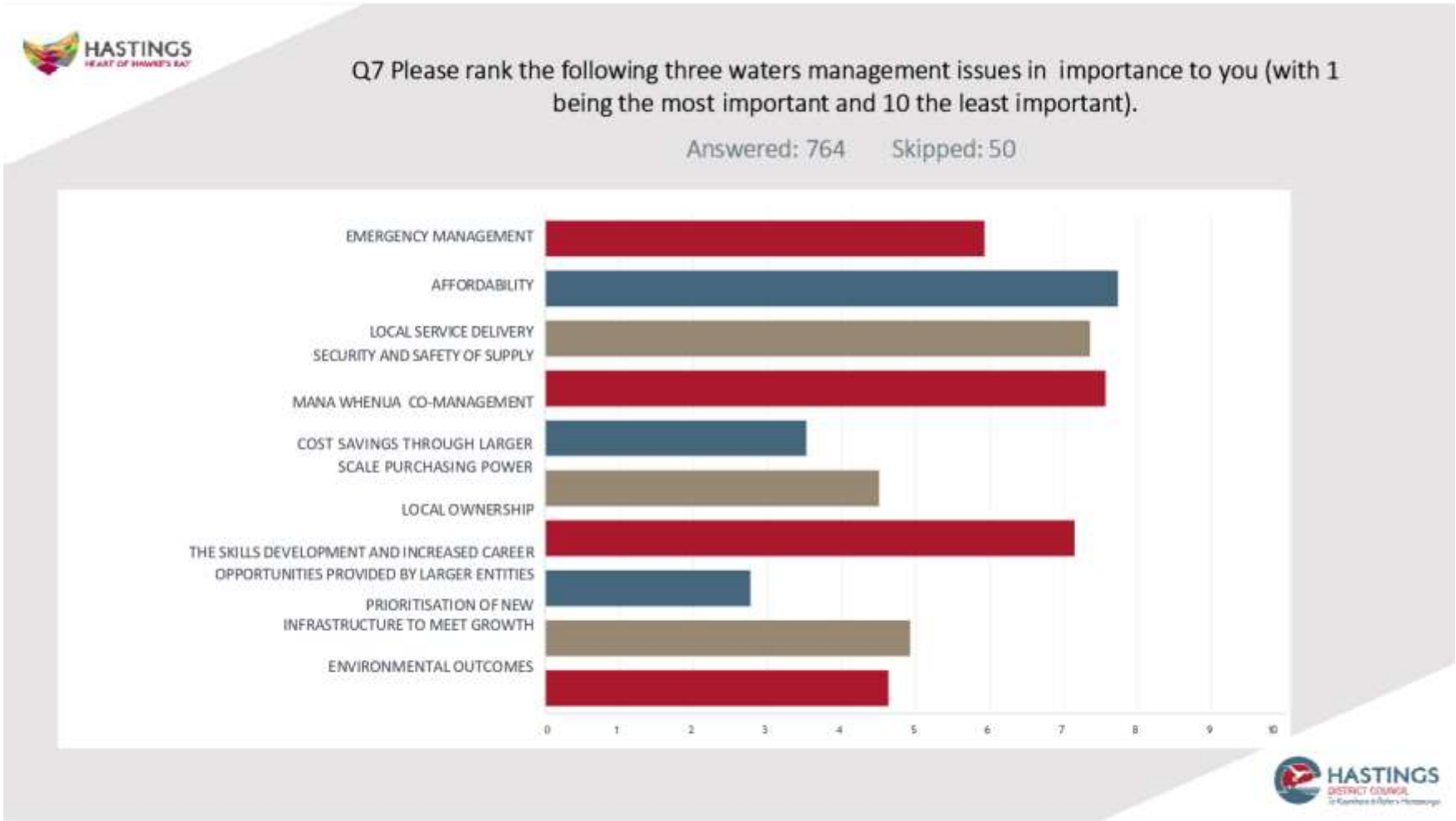


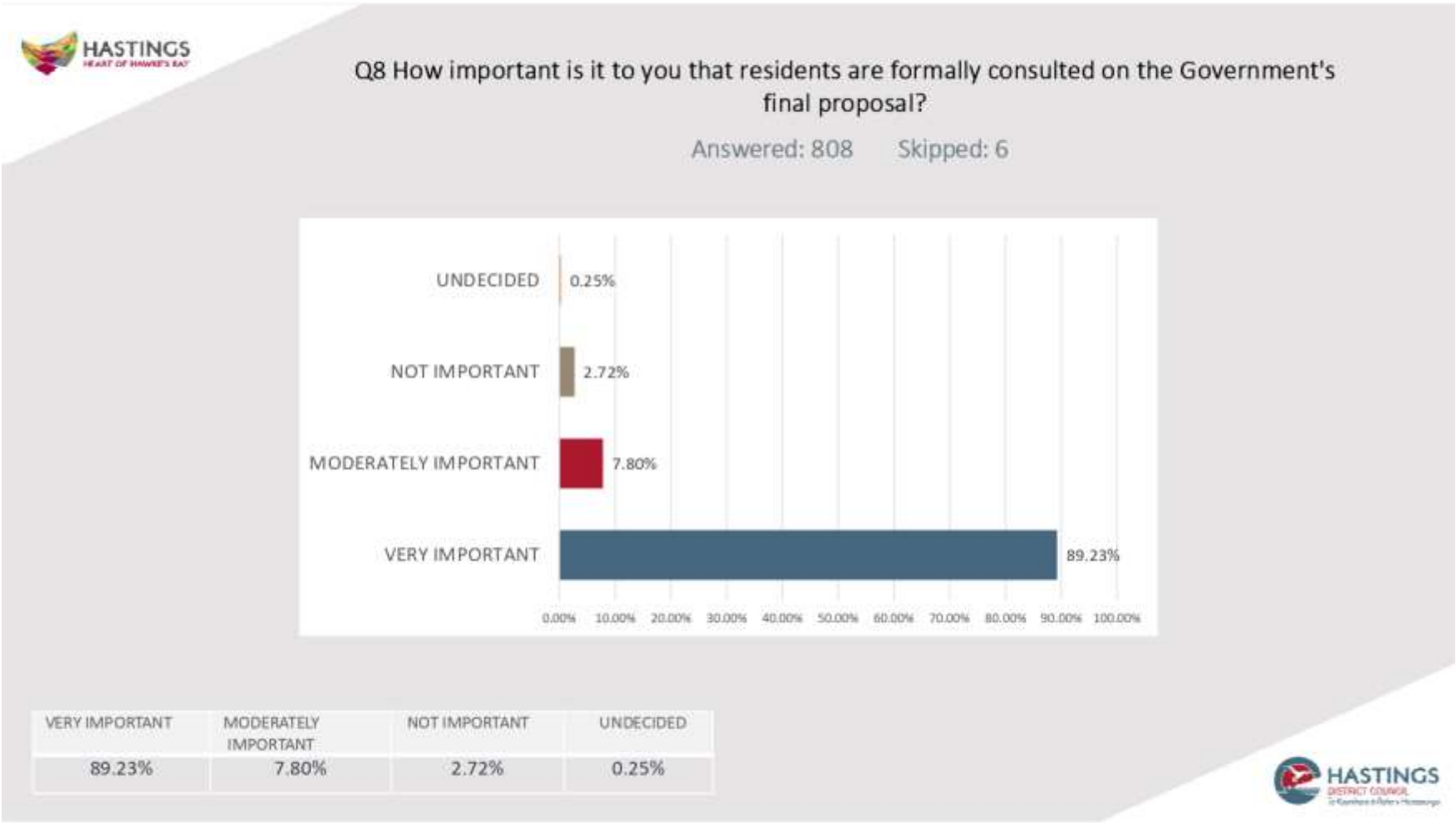












Transition

1. Consideration is being given to establishing a national transition unit and local establishment entities mirroring the boundaries of the (proposed) Water Services Entities and supporting, through a reprioritisation of stimulus funding if required, council staff costs related to reform and transition, enabling staff to participate in transition priority working groups, gathering and sharing data.
2. Current considerations, in addition to funding for backfilling and / preparing for change, are:
 - support for three waters workers – including:
 - if a staff members role is primarily three waters related, an automatic transfer to the new Water Services Entity in a similar role on the same salary at the same location with the same conditions
 - advice, including Employee Assistance Programmes, legal and union representation
 - the need to increase staffing levels to implement the transition, continue business as usual and deliver current and increased infrastructure investment
 - staff and contractor retention in a time of uncertainty (and competition for resources)
 - the speed of change and the risk of mistakes and service interruptions
 - stranded overheads and the no worse off element of the funding package
 - asset transfers and valuations
 - existing contracts and contractors and any residual liabilities
 - development and financial contributions
3. What isn't clear (but will be worked through) is:
 - where the bulk of managerial and support staff (eg communications, financial, asset management) will be located, although the presumption is that they will be (at least notionally in post COVID flexible working world) located in the regional headquarters of the Water Services Entities
 - what the principles and any threshold would be for a staff member that does some three waters related work (say 50% of their time) and whether it would be their choice to move to the Water Services Entity and the implications for their employment situation
 - if all three water services are included and will transfer at the same time



3 Waters Reform PESTLE Risk Analysis Workshop

Independent Water Agency Service Model

Scenario 1:

Delivery of the following services to the community by an independent agency:

- Supply of safe drinking water
- Management of waste water
- Disposal of storm water

Goal:

Communities in the Hawkes Bay continue to receive water service that meet their current and future needs from the multi-region publicly owned entities of scale that the Government intends to establish.

Benefits:

The following benefits are taken from information published by the Department of Internal Affairs:

- Greater financial capability
- Cost sharing across communities
- More efficient providers
- Improved outcomes for communities – affordable way to meet costs of water services now and into the future.

Key Threat Risks:

	Description	Inherent	Possible Mitigation	Target
A1	Compromised Growth Plan Implementation	Extreme	Regulation to give effect to Council land use planning.	High
A3	Household Ability to Pay	High	Economic regulation	Medium
A5	Gaps in Service Delivery and Funding Responsibilities	High	Agencies required to participate in development of regional spatial plans.	Medium
A7	Increased Cost of Works	High	Key supplier partnerships.	Medium
A8	Increased Incident Response Time	High	CDEM Coordinated Incident Management System	Medium
A9	Vague Growth Objectives	High	Spatial plan	Medium
A10	Lack of Programme Coordination	High	Robust programme planning	Medium
A11	Limited Technical Capability	High	Professional development pathway	Medium

Key Opportunity Risks:

	Description	Inherent
A2	Reduced Council Risk	Extreme
A4	Better Long Term Outcomes	High
A6	R&D Funding Opportunities	High
A19	More Efficient Water Use	Med

Risk Appetite Assessment:

The proposed benefits are likely to be of significant value to the community if they can be realised. However, there are some significant risks present that require mitigation. As the key risk theme relates to Council's ability to plan for future regional growth, the most relevant Council risk appetite relates to Our Economy. The stated risk appetite for Our Economy is Measured, which means that risk will be accepted if limited and heavily out-weighted by benefits. Assuming that the proposed mitigations can be implemented, the target risk profile would fit within the Council's stated appetite.

Key Risk Themes:

- Growth planning – Setting direction and implementation of growth plans
- People & capability – Retaining sufficient capability to operate
- Ability to pay – Household ability to meet costs and Council's financial sustainability.

Scenario 1: Complete Risk Register from PESTLE Risk Identification Workshop

Ref	Type	Risk Description	Inherent Impact	Inherent Likelihood	Inherent Risk	Possible Mitigations	Target Impact	Target Likelihood	Target Risk
A1	Threat	Compromised Growth Plan Implementation Due to loss of control over Major strategic asset communities may not be able to give effect to growth plans (eg Long Term Plan integration) or adapt timing of developments delaying economic growth opportunities.	Severe (assume 0.2% loss of GDP or ~\$17M from long term delays)	Likely (no direction about how Agencies will have to work with Councils)	Extreme (30)	Regulation to give effect to Council land use planning.	Severe (assume with regulation only limited delays)	Possible	High (20)
A2	Opportunity	Council Risk Reduced Because Council is no longer responsible for water service deliver there may be risk capacity available to enable other activities to be performed.	Major (Possible service improvement)	Almost Certain	Extreme (56)				
A3	Threat	Household Ability to Pay Independent agencies (i.e. Water, Power, Council) passing on costs of higher compliance obligations (e.g. increase in water service standards or environment adaptation related costs such as carbon counting) based on lack of understanding of other cost overheads may result in total household costs that are beyond the householders ability to pay (including Council rates) adversely affecting community social and economic wellbeing.	Major (25% - 50% budget variance)	Likely	High (24)	Economic regulation includes a level of inflationary control.	Major	Possible	Medium (16)
A4	Opportunity	Better Long Term Outcomes Due to the scale and mandate of water agencies they have the potential to delivery better long term outcomes (aka step change Asset Management Planning as seen in electricity sector).	Major (Benefit multiple communities)	Likely	High (24)				
A5	Threat	Gaps in Service Delivery and Funding Responsibilities Due to multiple agencies involved in delivery of interrelated services there may be gaps between the responsibility of the various agencies (particularly storm water) resulting in lack of funding or ownership of the customer experience (customer ends up being passed around in circles).	Major (25% - 50% service level impact)	Likely	High (24)	Agencies required to participate in development of regional spatial plans.	Major	Possible	Medium (16)

Ref	Type	Risk Description	Inherent Impact	Inherent Likelihood	Inherent Risk	Possible Mitigations	Target Impact	Target Likelihood	Target Risk
A6	Opportunity	R&D Funding Opportunities Because of the scale of Water Agencies there may be a significant increase in funding available for research and development to provide a better services a lower cost.	Major (high public interest & benefit to multiple communities)	Likely	High (24)				
A7	Threat	Increased Cost of Works The limited contractor capacity in the region may cause an increase in project cost affecting the ability to deliver current or future projects.	Major (up to 50% delay in delivery)	Likely	High (24)	Partnership arrangements with key suppliers.	Major	Possible	Medium (16)
A8	Threat	Increased Incident Response Time Because of the centralised water Agency structure it may take longer for an incident or Civil Defence response to be initiated allowing greater impact on affected communities.	Major (high public interest & benefit to multiple communities)	Likely	High (24)	Activities coordinate using CDEM CIMS model	Moderate	Possible	Medium (8)
A9	Threat	Vague Growth Objectives Due to the loss of direct responsibility for water infrastructure Local Government leadership may not set clear or consistent growth objectives making integrated planning impractical.	Severe (assume 0.2% loss of GDP growth ~\$17M)	Possible	High (20)	Council develops and consults on a high quality spatial plan.	Major	Possible	Medium (16)
A10	Threat	Lack of Programme Coordination Introducing another agency may create difficulties coordinating growth projects causing inefficient resource use or delays in delivery.	Moderate (Budget over run of 10% - 25%)	Probable	High (18)	Infrastructure programme enables forward planning with Water Agency.	Mod	Possible	Medium (8)
A11	Threat	Limited Technical Capability Due to greater employment opportunities presented by water agencies there may be a loss of jobs and/or technical capability in the Council/region reducing Council's ability to plan effectively.	Moderate (service delivery impacts & less effective planning)	Probable	High (18)	Council provides a professional development pathway.	Mod	Likely	Medium (12)
A12	Threat	Failure to Develop Additional Water Capacity Due to the size of the water agency regions there may be less focus on developing additional water sources to meeting local growth aspirations limiting economic capacity.	Major (assume 0.2% loss of GDP growth ~\$17M)	Possible	Medium (16)	Council retains a technical capability to understand the future water needs of the district.			

Ref	Type	Risk Description	Inherent Impact	Inherent Likelihood	Inherent Risk	Possible Mitigations	Target Impact	Target Likelihood	Target Risk
A13	Threat	Reduction in the Local Contractor Capacity The purchasing practices of water agencies may result in large contracts that exclude local operators resulting in loss of contractor capacity and increasing service cost.	Major (Budget could be affected by more than 25%)	Possible	Medium (16)				
A14	Threat	Ineffective Partnership The size, nature or priorities of Water Agencies may mean there is limited local management presence reducing the effectiveness of key account pre-application processes affecting development projects.	Major	Possible	Medium (16)				
A15	Threat	Compliance Monitoring Due to the independent nature of Water Agencies there may be a lack of access to water testing compliance data making it difficult to hold agencies to account for level of service.	Major (high public interest)	Possible	Medium (16)				
A16	Threat	Remaining Council Service Not Value for Money Due to the reduced scope of Council services, the community may perceive that the remaining services are not value for money resulting in reputational damage to Council.	Moderate (sig regional public interest)	Likely	Medium (12)				
A17	Threat	Perception of Inequitable Funding Allocation. Due to Agency decision making priorities funding allocation may be seen as inequitable by the community reducing the attractiveness of the region to businesses	Moderate (sig regional public interest)	Likely	Medium (12)				
A18	Threat	Lack of Additional Regional Investment Condition of HDC water assets may mean water agency prioritises other regions for additional investment resulting in short term increased cost for limited service benefit.	Moderate (high public interest)	Likely	Medium (12)	Regulatory framework requires higher level of service.	Moderate (high public interest)	Possible	Medium (8)
A19	Opportunity	More Efficient Water Use Implementation of better monitoring and water loss reduction measures may reduce water wastage making more water available for productive use.	Moderate (10-25% improved service level)	Likely	Medium (12)				

Ref	Type	Risk Description	Inherent Impact	Inherent Likelihood	Inherent Risk	Possible Mitigations	Target Impact	Target Likelihood	Target Risk
A20	Threat	Failure to Recognise Cultural Knowledge in Design Independent asset design by a Water Agency may not reflect the current blend of local cultural knowledge and engineering design (i.e; Waiaroha education programme) affecting the relationship with local iwi.	Moderate (Significant regional interest)	Likely	Medium (12)				
A21	Threat	Business Priorities Differ to Council Goals Due to the different nature of water agencies their priorities may differ to the community goals the Council is working towards resulting in stagnation of development projects and service impacts to the community.	Moderate (Significant regional interest)	Likely	Medium (12)	Maintain an effective strategic partnership with Agency.			
A22	Threat	Loss of Community Engagement Due to the loss of direct responsibility for water infrastructure there may be less direct iwi or community engagement reducing community voice in determining water services priorities (e.g. supply standards, waste handling, storm water capacity).	Moderate (Significant regional interest)	Like (No direction on agency consultation obligations)	Medium (12)				
A23	Threat	Responsibility for Infrastructure Data Because multiple agencies are involved in delivery of infrastructure there may be gaps in the asset data collection and availability affecting future development.	Moderate (10-25% impact on service delivery)	Likely	Medium (12)				
A24	Threat	Unclear Responsibility for Environmental Impacts Due to multiple agencies involved in delivery of interrelated services there may be loss of responsibility for ensuring environmentally sound delivery options (i.e. NZTA view that stormwater run-off quality is outside their scope) adversely impacting environmental conditions (e.g. source water quality).	Moderate (environ effects that can be remedied)	Likely	Medium (12)				
A25	Threat	Lack of Service Integration Introducing another agency may create difficulties integrating services across 3 waters and transportation delivering ineffective or inefficient services.	Moderate (\$200k - \$1M additional cost)	Likely	Medium (12)				

Ref	Type	Risk Description	Inherent Impact	Inherent Likelihood	Inherent Risk	Possible Mitigations	Target Impact	Target Likelihood	Target Risk
A26	Threat	Procurement Outcomes Due to the smaller procurement budget Council may lose the ability to achieve broader outcomes resulting in loss of benefit to the community.	Moderate (Significant regional interest)	Possible	Medium (8)				
A27	Threat	Loss of Interest in Local Government Due to reduced scope of operation fewer high calibre candidates may stand for Local Government affecting the capability to govern Council services.	Moderate (10% service impact)	Possible	Medium (8)				
A28	Threat	Reduced ability to Promote Sustainable Resource Use External control over water infrastructure may mean Council is unable to influence/implement sustainable options at a household or community level to promote environmental sustainable use of water or resources.	Moderate (medium term or scale of impact)	Possible	Medium (8)				
A29	Threat	Lack of Understanding of Growth Constraints Because Councils are no longer responsible for water infrastructure there may be a lack operational feedback resulting in a lack of understanding of growth constraints contributing to impractical growth planning.	Moderate (Reputation affected in local community)	Possible	Medium (8)				
A30	Threat	Legal Challenges Due to the dilution of the community voice in decision water services making there may be an increase in opposition in planning hearings and environment court delaying development projects.	Moderate (non-comply adverse public exposure)	Possible	Medium (8)				
A31	Threat	Reduced Level of Service Due to economic drivers water agencies may apply region wide service levels resulting in a lower level of service being delivered to the community (including difficulty gaining access or connection to the water network).	Moderate	Possible	Medium (8)				
A32	Control	Optional Service Level Increases Because of community demand it would be desirable for a region to be able to request a higher level of service.	Moderate	Rare	Low (6.8)				

Ref	Type	Risk Description	Inherent Impact	Inherent Likelihood	Inherent Risk	Possible Mitigations	Target Impact	Target Likelihood	Target Risk
A33	Threat	Cost Smoothing Loss of the targeted rate to fund water infrastructure may create difficulties smoothing the cost impact for consumers	Insignificant (<\$10k impact on any rate payer)	Almost Certain	Low (3.5)				

Note: Director Competence

A further theme of discussion around the viability of water agencies is that due to the scale and complexity of Water Agencies, there may not be sufficient competent people available to act as directors. DIA are considering how this issues can be managed in detail.

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Transition to Water Agency Service Model

Scenario 2:

Transition of Council services, assets and data to a Water Agency for delivery of the following services to the community:

- Supply of safe drinking water
- Management of waste water
- Disposal of storm water

Goal:

Communities in the Hawkes Bay continue to receive water services without disruption during the transition.

Benefits:

The following benefits are taken from information published by the Department of Internal Affairs:

- Greater financial capability
- Cost sharing across communities
- More efficient providers
- Improved outcomes for communities – affordable way to meet costs of water services now and into the future.

Threat Risks:

	Description	Inherent	Possible Mitigation	Target
T1	Staff/Contractor Retention	Extreme	Attractive employment contracts	High
T4	Stranded Overheads	Extreme	Alternative funding or restructure overheads	High
T5	Loss of Customer Voice	High	Advocating for community outcomes	High
T6	Resistance to Change	High	Education programme	High
T7	Speed of Change	High	Change management programme.	Medium
T8	Lack of Business Confidence	High	Public relations campaign	High

Opportunity Risks:

	Description	Inherent
T2	Easy Transfer of Contracted Services	Extreme
T3	Maintaining Good Quality Assets	Extreme
T9	Transition Team	Med

Risk Appetite Assessment:

The risk in transition is much greater than the risk profile for operation once Water Agencies are established and operating. In addition, many of the causes for the transition risks are outside Council's control, so minimal mitigation is possible. Therefore, as the inherent exposure is well outside Council's normal risk appetite, focus should be put on effective management of the transition.

In particular, Council needs to:

- Work proactively with the Government in the development of the framework,
- Ensure forward planning caters for any possible delays in transition, and
- Adapt quickly and efficiently to handle new obligations that might arise.

Scenario 2: Complete Risk Register from PESTLE Risk Identification Workshop

Ref	Type	Risk Description	Inherent Impact	Inherent Likelihood	Inherent Risk	Possible Mitigations	Target Impact	Target Likelihood	Target Risk
T1	Threat	Staff/Contractor Retention Due to greater employment opportunities presented by water agencies there may be a loss of key HDC or contractor staff, or an inability to recruit new technical staff reducing Council's ability to plan or deliver infrastructure projects.	Major (Partial failure)	Probable	Extreme (36)	Attractive employment contracts. Keeping staff informed.	Major	Likely	High (24)
T2	Opportunity	Easy Transfer of Contracted Services Because Council outsources operational service delivery it may be easier to transition service delivery to an Agency without significant service disruption or staff impacts.	Major (benefit multiple communities)	Probable	Extreme (36)				
T3	Opportunity	Maintaining Good Quality Assets By maintaining infrastructure investment it may be possible to reduce the transition impacts on the community.	Major (benefit multiple communities)	Probable	Extreme (36)				
T4	Threat	Stranded Overheads Because the HDC overheads will not change significantly after divestment of water services the cost of other services may be impacted by the redistribution of overhead costs	Major (\$2M budget impact)	Almost Certain	Extreme (56)	Alternative funding or restructure support overheads	Major	Likely	High (24)
T5	Threat	Loss of Customer Experience Because of the scope of change community voice may be lost affecting customer experience and relevance of services delivered.	Major (Trust recovery requires sig investment)	Likely	High (24)	Advocating for community outcomes	Major	Likely	High (24)
T6	Threat	Resistance to Change Public or Council resistance to change may cause delays in transferring to Agency service delivery affecting Council's ability to maintain current service levels.	Major (Partial failure)	Likely	High (24)	Education programme	Major	Likely	High (24)
T7	Threat	Speed of Change Because of the speed of change an increase in mistakes may occur causing service interruptions or significant delays in achieve centralisation benefits.	Moderate (reduced LOS to part of community)	Probable	High (18)	Change management programme.	Moderate	Possible	Medium (8)

Ref	Type	Risk Description	Inherent Impact	Inherent Likelihood	Inherent Risk	Possible Mitigations	Target Impact	Target Likelihood	Target Risk
T8	Threat	Lack of Business Confidence Uncertainty within the business community over responsibility for water services may lead to a lack of confidence in regional water supply resulting in business relocating other regions.	Moderate (Sign regional interest)	Probable	High (18)	Public relations campaign to support government messaging.	Moderate	Probable	High (18)
T9	Opportunity	Transition Team A dedicated transition team may be able to ensure a positive outcome for the region.	Major (benefit multiple communities)	Possible	Medium (16)	NOTE: Mitigation for Independent Agency Service Model risks, may impact on existing staff			
T10	Threat	Limited Transfer of Water Debt The assessment of Council water service debt may include reserve funds collected for water related services affecting Council's financial position.	Major (Up to \$4M impact)	Possible	Medium (16)				
T11	Threat	Current System Unable to Cope Increased service level expectations may exceed the current systems ability to cope causing services interruptions.	Major (Partial service loss)	Possible	Medium (16)				
T12	Threat	Change in Government Priorities Due to a change in Government there may be a substantial change to the nature or objectives of centralised water agencies invalidating transition plans.	Major	Possible	Medium (16)				
T13	Threat	Scope of Agency Service Because of debate regarding the scope of Water Agency services Council may be required to continue stormwater and wastewater service retaining a significant infrastructure delivery obligation and cost.	Major (budget impact up to \$4M)	Possible	Medium (16)				
T14	Threat	Different Local Approaches Deciding on a delivery model that is different to regional neighbours may reduce the economies of scale making regional water solutions more expensive.	Major	Possible	Medium (16)				
T15	Threat	Unreasonable Economic Influence Influence from existing industry players may affect the equity of the economic outcomes reducing the funding available for asset investment.	Major (National public interest)	Rare	Medium (13)				

Ref	Type	Risk Description	Inherent Impact	Inherent Likelihood	Inherent Risk	Possible Mitigations	Target Impact	Target Likelihood	Target Risk
T16	Threat	Asset Valuation Asset valuation process may return a much different value than expected affecting Council's financial position	Moderate (>\$4M budget impact)	Likely	Medium (12)				
T17	Threat	Deferred Decision Making Due to lack of clarity about the future significant infrastructure decisions may be deferred causing development projects to stall.	Moderate (Sign regional interest)	Likely	Medium (12)				
T18	Threat	Community Uncertainty Confusion within the community may mean property owners continue to call Council to resolve water related issues resulting in complaints and delays in resolving faults.	Moderate (Sign regional interest)	Likely	Medium (12)				
T19	Threat	Development Contribution Refunds The change in responsibility for construction of water assets may affect Council's development contribution charges linked to debt (including the Possibility of refunds) reducing funding available.	Moderate (<\$1M impact)	Possible	Medium (8)				
T20	Threat	Poor Transition Management A lack of investment or un-anticipated complexity in transitioning assets (i.e. transferring legal titles) to a Water Agency may cause delays and confusion over responsibility for service delivery exposing Council to liabilities and affecting continuity of service delivery.	Moderate (Adverse exposure for non-compliance)	Possible	Medium (8)				
T21	Threat	Existing Contract Liabilities Because of existing contract conditions Council may be liable for compensation if contractors take legal action.	Moderate (up to \$1M)	Possible	Medium (8)				
T22	Threat	Liability for Environmental Damage Lack of clarity for monitoring environmental impacts may expose Council to liabilities	Moderate (Medium term impact)	Possible	Medium (8)				
T23	Threat	Loss of Asset Management Systems & Data Because responsibility for asset systems and data is unclear there may be a loss of data or failure of telemetry systems affecting continuity of service delivery.	Min (Short term effects; local group interest)	Possible	Low (4)				

Ref	Type	Risk Description	Inherent Impact	Inherent Likelihood	Inherent Risk	Possible Mitigations	Target Impact	Target Likelihood	Target Risk
T24	Threat	Impact on Bylaws Water Agency powers may affect Council bylaws rendering them ineffective or creating conflicting obligations.	Min (Attend of local group	Possible	Low (4)				

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