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Chief Executive
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Tēnā koe,

This letter is to thank you for your council's feedback on the Three Waters Reform proposals, update you where feedback has resulted in changes to the Government's proposals, and answer your council's specific questions.

In October 2021, the Department, LGNZ and Taituarā published a detailed summary of the feedback received during the eight-week engagement period. This feedback has been valuable and continues to influence the shape of the three waters reform. The detailed summary is available alongside all council submissions on the Department's website here: [Council feedback submissions](#)

As you will be aware, following the October feedback there have been some significant changes to the reform process and proposals. We can now provide further detail on some of the areas that have been influenced by council feedback.

Refinements to the Representation, Governance and Accountability proposals

The largest area of feedback related to the representation, governance and accountability of the new entities. In response to feedback received through last year's eight-week period, the Government made a number of changes to the original proposal. In summary, these are:

- greater flexibility for each regional representative group to determine its own arrangements through a constitution – this differs from the original proposal, which required a number of matters to be hard-wired in primary legislation providing limited room for flexibility;
- board appointments and removals to be made by a sub-committee of the regional representative group – the original proposal was for these powers to be exercised by an arms-length 'independent selection panel' which has now been removed;
- direct accountability for duties imposed on the board to the regional representative group – members may be removed for failure to carry out these duties;
- the board is required to give effect to the statement of strategic and performance expectations issued by the regional representative group – this is a stronger provision than originally proposed and enables the group to have more direct influence over the entity's strategic direction.

These refinements are set out in an [exposure draft](#) of the proposed legislation that was provided to the Working Group on Representation, Governance and Accountability for further consideration. The exposure draft also sets out the proposed ownership provisions for the new entities and protections against privatisation.

Working Groups established to consider the top three areas of feedback

Alongside the above changes, the Government also established the Working Group on Representation, Governance, Representation and Accountability comprised of representatives from local government and iwi leaders. This Group is assessing these aspects of the proposals, including the new proposals in the exposure draft, and will shortly provide a report to the Minister of Local Government for consideration.

Since its establishment last year, the Working Group has assessed a range of options for reform, including looking back at the alternatives to reform such as alternate funding arrangements.

The Minister of Local Government and Cabinet will consider the Working Group's recommendations with any changes being reflected in the Water Services Entities Bill. The Working Group's report will be available on the Department's website once it is presented to the Minister: [three waters reform programme working groups - dia.govt.nz](https://www.dia.govt.nz/three-waters-reform-programme-working-groups)

Informed by your feedback, the Government has also established two technical working groups to consider the other areas that received the most detailed feedback. A Planning Technical Working Group will consider questions relating to the interface between the Three Waters Reforms, Resource Management and planning system, and the Rural Supplies Technical Working Group is considering the interface with rural schemes.

You can find out more about these working groups, including their Terms of Reference and papers on the above Working Group webpage.

Indicative legislative timing

Legislation remains on track and expected to be introduced in several phases. The first bill is expected to be introduced by mid-2022, following consideration of the recommendations from the Representation, Governance and Accountability Working Group. This bill will contain the ownership, governance and accountability arrangements for the entities, and the primary relationships between entities and territorial authorities, mana whenua and the Crown.

A second bill is expected in late-2022 informed by the findings of the Planning Interface and Rural Supplies technical working groups. This legislation will provide for the detailed operational duties, functions and powers of the entities including for how they will participate in and give effect to plans.

Separate legislation will be required to provide for economic and consumer protection regulation, for which policy advice is being led by the Ministry of Business, Innovation and Employment. More on this process can be found here: <https://www.mbie.govt.nz/have-your-say/economic-regulation-and-consumer-protection-for-three-waters/>

Receiving updates from the Department of Internal Affairs

The Department will continue its ongoing communications and engagement on the Three Waters Reforms. This will include keeping councils and iwi updated on the progress of the legislation and the work of the National Transition Unit.

As councils, we know you have an important role in representing the views of your communities. If you have not been receiving the Department's regular updates on the reforms, please check your subscription here: [Get the latest updates from Three Waters](#). We encourage you to ensure your staff are registered for these updates as well.

Detailed questions from your council

In addition to the consistent areas of feedback, your council asked some more detailed questions. We acknowledge that many councils have been awaiting responses to these questions. The Department received more than 400 questions from councils. The below table provides the Department's response to these specific questions. The Department will continue to refresh the frequently answered questions on our website as further information becomes available. These can be found at <https://www.dia.govt.nz/three-waters-reform-programme-frequently-asked-questions>

Ngā mihi,



Nick Davis

Acting Executive Director, Three Waters Reform Programme

Question	DIA response
Final rules and standards to be adopted under the Water Services Bill, and what the implications of those would be for Kaikōura District Council services, particularly with regard to required capital investments.	The Water Services Act is now in force. This Provides clarity on the requirements for suppliers and timing for them to register with Taumata Arowai and comply with the Act. You can find the Act here: https://www.legislation.govt.nz/act/public/2021/0036/latest/LMS374564.html you can find out more about how Taumata Arowai are working with suppliers on their website: https://www.taumataarowai.govt.nz
Entity approach to charging, in particular to what level are charges going to vary to reflect different levels of service, for example on-demand fully treated urban versus trickle feed rural schemes	Government has yet to make decisions on how water services entities will price and charge for their services. In making these decisions, government will consider factors such as equity and geographic averaging. It is likely that different types of water services will be charged for differently. Water services entities will, at a minimum provide a base-level quality of service, with quality standards determined by the regulators. Communities will have many mechanisms to be involved in the decision making of the water services entities. The entities will be required to consult on their asset management plans and their funding and pricing plans, to make those final plans public and to publish a report outlining how community and consumer feedback was taken into account. Each entity will be required to create at least one consumer forum, to enable effective consumer engagement and help to reflect those views into the entity decision making.

Question	DIA response
	<p>In addition, the water services entities will be required to undertake a stocktake once a year to ensure their consumer engagement is effective. The Working Group on Governance, Representation and Accountability is also considering the role of the Regional Representatives Group and how to improve representation and accountability to communities.</p>
<p>How charges will be recovered; will councils be involved in any way?</p>	<p>The exposure draft of the Water Services Entities Bill has a requirement for the water services entity to consult their regional representative group on their funding and pricing plan.</p> <p>Government has yet to make detailed decisions on how entities will price and charge for their services including how services will be charged for immediately following establishment, and whether or not there will continue to be a role for Councils in providing billing services to the water services entities.</p>
<p>How the proposed efficiency gains under the new entity are to be achieved?</p>	<p>Efficiency gains will be achieved through a combination of factors. Highly competent boards, strong management capability, greater workforce specialisation, greater capacity to invest in technology and modern systems, economies of scale in procurement, improved governance oversight and economic regulation will all drive efficiencies.</p>
<p>How will the planning of the entity link with the differing growth aspirations of communities?</p>	<p>Local government would continue to have primary accountability for urban and land use planning. Water services entities will be expected to be active participants in planning processes led by local government, including by participating in the development and implementation of plans, and ensuring that the development of plans is informed by a full understanding of the cost associated with water infrastructure needed to support housing and urban development.</p> <p>The water services entities will be required to identify and make provision for infrastructure to support growth and development identified in relevant plans. This will enable them to service demand for new strategic capacity, including to meet the three waters needs of all new housing development, and commercial and industrial customers.</p> <p>When providing new infrastructure, the entities will need to work with urban and land use planning authorities, and other infrastructure providers, to ensure that the delivery of infrastructure is sequenced and supports committed development, to minimise the likelihood of redundant assets.</p>

Question	DIA response
	<p>The Government has established the Planning Technical Working Group as a result of council feedback and questions relating to the interface between the Three Waters Reforms, Resource Management Reforms and future planning system.</p>
<p>Recent suggestion that divestment of rural schemes from councils back to customers might be made more possible (even though this appears contrary to the objectives of the reforms).</p>	<p>The Government has established the Rural Supplies Technical Working Group as a result of council feedback and questions relating to the interface the reforms and rural schemes. You can find out more about this working group and other working groups established as a result of council feedback here: https://www.dia.govt.nz/three-waters-reform-programme-working-groups</p>
<p>How can our small council have guaranteed influence over the direction of the water services entity and how our growth aspirations will be considered within the context of the wider entity? We would be deluding ourselves to imagine that a structure could be put in place to deliver services at a multi-regional level that did not compromise localism.</p>	<p>The Government has established the Working Group on Representation, Governance and Accountability as a result of council feedback and questions relating to this aspect of the Three Waters Reforms. You can find out more about this working group and other working groups established as a result of council feedback here: https://www.dia.govt.nz/three-waters-reform-programme-working-groups.</p> <p>In response to feedback received through this eight-week period, the Government has already made a number of changes to the proposed oversight and governance structure for the new water services entities.</p> <p>These are set out in an exposure draft of proposed legislation and include greater flexibility for each regional representative group to determine its own arrangements through a constitution. This exposure draft has been provided to the Working Group for consideration and is available at the above link. The exposure draft makes it clear that Regional Representative Groups may choose to include representatives from every council in their service delivery area. In addition, the changes allow for board appointments and removals to be made by a committee of the regional representative group rather than by an arms-length 'independent selection panel. We have also clarified that Water Services Entities Boards are directly accountable to the regional representative group.</p>