

Three Waters Reform Rural Supplies Technical Working Group Report to Department of Internal Affairs

Media Briefing
Embargoed until 12pm, 31 May 2022

Find out more at www.dia.govt.nz/Three-Waters-Reform-Programme
or email threewaters@dia.govt.nz



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Three pillars of reform in three waters

- 1. *Regulatory reform.*** The Water Services Act enacted last year provides the ‘teeth’ to hold suppliers to account for drinking water standards (largely as set by the WHO) to ensure all suppliers meet these standards
- 2. *Establishment of Taumata Arowai.*** Taumata Arowai went ‘live’ last year alongside the above regulations as a dedicated water services regulator to administer the regulatory regime and ‘shine a light’ on performance
- 3. *Service delivery reform.*** To ensure communities have access to more affordable and reliable water services that meet these and other community expectations now and into the future

About the Rural Supplies Technical Working Group

The Rural Supplies Technical Working Group was established to provide advice to the DIA and Taumata Arowai to support policy development related to rural drinking water supplies and rural communities, in the context of the new drinking water regulatory and service delivery regime.

It is comprised of members drawn from across rural New Zealand. The membership of the group has a wide range of rural expertise, experience and perspectives, acknowledging the complexity and breadth of issues the group need to consider.

The Department and Taumata Arowai, in consultation with LGNZ and Taituarā invited members to join the group who represent a diverse range of stakeholder views from both the agricultural sector and rural communities more broadly.

The purpose of the Rural Supplies Technical Working Group

The purpose of the Rural Supplies Technical working group is to inform:

- The proposed legislation to implement the Water Services Entities through Bill 2;
- Wider policy development related to rural supplies within DIA and Taumata Arowai;
- The approach to implementation of water services regulation by Taumata Arowai; and
- Areas of support required for rural communities.

What has the working group considered?

Issues explored by the Rural Supplies Technical Working Group, include:

- The characteristics of rural supplies and council roles in their ownership, governance and operation and the implications for the establishment of water services entities;
- Principles to guide transition planning of schemes/assets and whether/how they should transfer to the new entities;
- Management, duties and obligations (including financing) of rural drinking water suppliers;
- Treatment of rural schemes where the primary supply is for stock water, and/or rural water races, and irrigation;
- How reform may affect three waters services to rural marae and papakāinga;
- The approach to implementation of water services regulation by Taumata Arowai;
- The impact, if any, the reforms will have on those that do not currently receive three waters services from a council provider;
- Levels of three waters services for rural communities.

Rural Water Supplies

Broadly, there are two types of rural water supplies

Council Owned Rural Drinking Water Schemes:

- There are around 100 mainly larger rural drinking water schemes that are council owned.
- These council owned schemes are included in the service delivery reform.

Privately Owned (Non-council) Rural Drinking Water Schemes:

- The tens of thousands of mainly smaller privately owned (non-council) rural drinking water schemes are NOT included in the service delivery reform.

How service delivery reforms will affect council owned rural drinking water schemes

Once water services entities are established local councils will no longer have the capability to support operation of the rural supplies they own. The working group recommends that:

- Council owned rural drinking water schemes should generally transfer to water services entities.
- Water services entities should continue to provide for communities' aspirations in a scheme's governance, management and operation.
- In some cases where a scheme is critical to farming, the local community, and the users have the capability and resources to operate it, they should have the option of seeking direct ownership and operation of the scheme.

Process for proposed transfer to users

The group recommends that several factors be used to determine whether a council-owned, mixed-use rural supplies can transfer to users. These factors include:

- The ownership of the scheme, to ensure that it is a council-owned, mixed-use rural supplies;
- The criticality of the drinking water supply to consumers, and whether there are alternative supply arrangements;
- The size of its drinking water customer base, and the number of people dependant on the scheme for drinking water;
- The predominant use of the scheme;
- The capability, capacity and financial ability of an alternative owner/operator to ensure safe drinking water is supplied to consumers if it opts out, with an awareness of the obligations that must be met by the supply, and evidence that they will be met.

To provide ongoing certainty, the group notes that any consideration of transferring mixed-use rural supplies to the alternative owner/operators should occur well before 1 July 2024.

Rural supplies with unclear ownership

The process proposed would only cover mixed-use rural supplies that are owned by councils. If there is a situation in which a council is a part owner, then this process could be used to help determine what would happen to that **mixed-use rural supply** (providing the other ownership interests are clear).

In some instances, there is no clear legal ownership structure in place.

The group has heard anecdotally that there may be some mixed-use rural supplies where there is council involvement, but the ownership arrangements are unclear or undocumented.

For mixed-use rural supplies where ownership is not clear, the group recommends a process to enable case-by-case consideration and negotiation between affected parties. This process would include the development of a plan for resolving these issues and would need to be agreed by the affected parties.

The transfer process must ensure that all the relevant assets, liabilities, interests, obligations and responsibilities are resolved appropriately. This will ensure that neither councils nor alternative owner/operators are left with ongoing involvement in any drinking water supplies.

Water services to marae and papakāinga

The Group recognised historic inequities in drinking water and wastewater services to marae and papakāinga and made recommendations for;

- Water services entities to systematically work to address these inequities through investment and support for the water services to marae and papakainga.
- For Māori and iwi experts to be engaged in the development and design of proposals for entities to address in inequities in water services to marae and papakainga.

Implications of drinking water regulation and standards for rural schemes

The Rural Working Group agreed on the importance of safe drinking water to rural communities and noted that all supplies are now required to supply safe drinking water. However, it will be four years before privately owned (non-council) rural drinking water schemes are required to register as a supplier, and three more years to comply with all the regulatory requirements of the Taumata Arowai regime.

The Rural Working Group recommends that Taumata Arowai;

- Takes a proportionate and risk-based approach to its regulation of privately owned (non-council) rural drinking water schemes.
- Provides practical and cost-effective approaches to compliance that recognise the unique characteristics and complexity of rural schemes.
- Does not require chlorination of water in rural schemes where most water is intended for agricultural use or in very small schemes.
- Actively involves rural stakeholders in its design and implementation of regulatory requirements.

Pricing and charging

The group is largely supportive of the direction that the reforms have signalled on pricing and charging. The group makes some specific recommendations on pricing and charging. These include:

- no cross-subsidies between different three waters services i.e. drinking water, wastewater or stormwater services;
- rural service users should generally not be subsidising urban service users;
- consultation with rural users on pricing and funding plans for water services entities, including the types of charges proposed (e.g. a mixture of fixed and volumetric charges) must be undertaken before the entities 'go live' and before domestic volumetric pricing is introduced to new areas;
- any use of geographic price averaging should be limited to the same service and similar 'classes' of user so that price averaging between agricultural and horticultural water supply and domestic drinking water supply will not occur;
- there be some exceptions to geographic averaging, including, where communities have sought a different level of service than is provided elsewhere in the water services area;
- the rate of increase in prices to achieve geographically averaged prices should be limited to reduce price shocks.

Background information on the Three Waters Reform Programme

Find out more at www.dia.govt.nz/Three-Waters-Reform-Programme
or email threewaters@dia.govt.nz



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Why are 'three waters' important

- Every New Zealander has a right to safe drinking water no matter where they live. We also expect strong and resilient stormwater and sewage services that enable communities to prosper and grow, while protecting the environment
- Drinking water, wastewater and stormwater services make up the 'three waters'. This three waters system is critical for the health and wellbeing of all New Zealanders
- The performance of the three waters system is significant for upholding Te Mana o te Wai, the health of the environment, and the performance of the economy, building resilience to climate change and natural hazards, and unlocking housing and growth

What is the current performance of three waters services?

- Every year, some 35,000 New Zealanders get sick from tap water that does not meet the international benchmark for clean drinking water
- It is estimated that nationally an average of 20% of drinking water is lost on the way to households. This is more than the volume of water supplied by Hamilton, Rotorua, Dunedin and Christchurch City combined
- Of the 321 wastewater treatment plants in the country, more than 100 are breaching consents and 60 require upgrades to meet minimum standards under the National Policy Statement for Freshwater Management
- In 2021 there were 2,754 dry-weather **wastewater overflows** (i.e. blockages or system failures) and 1,159 wet-weather (i.e. rainfall events) overflows, and a further 355 from combined **wastewater and stormwater networks**. Out of 37 councils reviewed, there were 648 reported consent non-conformances in wastewater treatment plants.

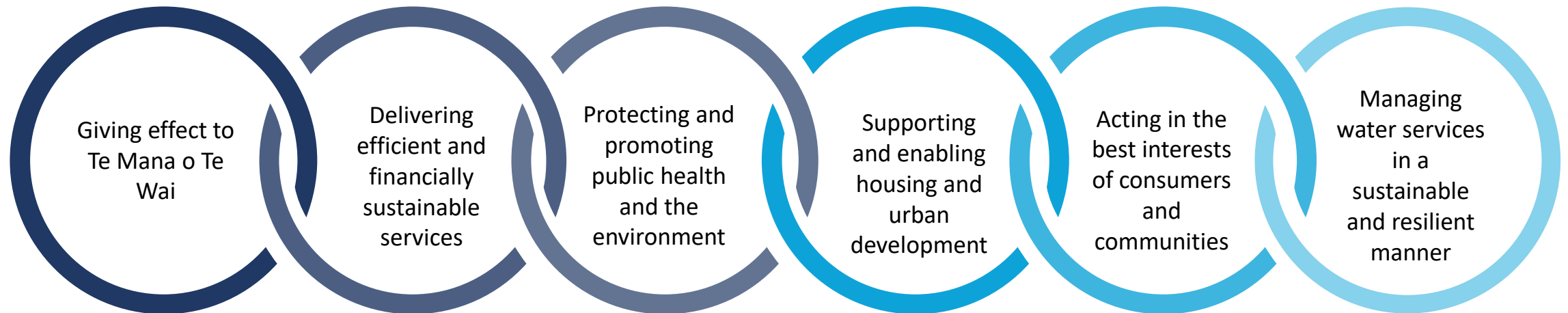
Why is the Government reforming three waters

- The Government's reform proposals follow the Havelock North Drinking Water Inquiry, and many years of discussion with local government and iwi about the outcomes we expect of our three waters services and the challenges facing the provision of these services into the future
- The future of water service delivery is changing regardless of the Government's reforms. These are expensive services to provide. Upgrading our services to maintain infrastructure, meet community and environmental expectations and combat future challenges will see the costs of delivering these services increasing across the country
- These future challenges include:
 - Adapting to climate change and building resilience to natural hazards
 - Lifting the standard of service delivery to meet health, environmental and cultural bottom lines
 - Responding to growth, housing and urban development needs
 - Maintaining and upgrading aging infrastructure
 - Operating within a constrained budget and workforce
- The national evidence base shows that across New Zealand communities face an estimated cost of \$120bn-\$185bn over the next 30 to 40 years for investment in three waters infrastructure
- Research shows that without reform, meeting community expectations to provide safe, reliable and clean water services will become increasingly unaffordable for some communities. Doing nothing will lead to further deterioration of services and be more costly for future generations to fix

What are the objectives of reform

The Government's reforms aim to significantly improve **the safety, quality, resilience, accessibility, and performance** of three waters services, in a way that is **affordable** for New Zealanders now and into the future

The **purpose** of the entities will be to **provide safe, reliable and efficient water services**. With high-level objectives including:

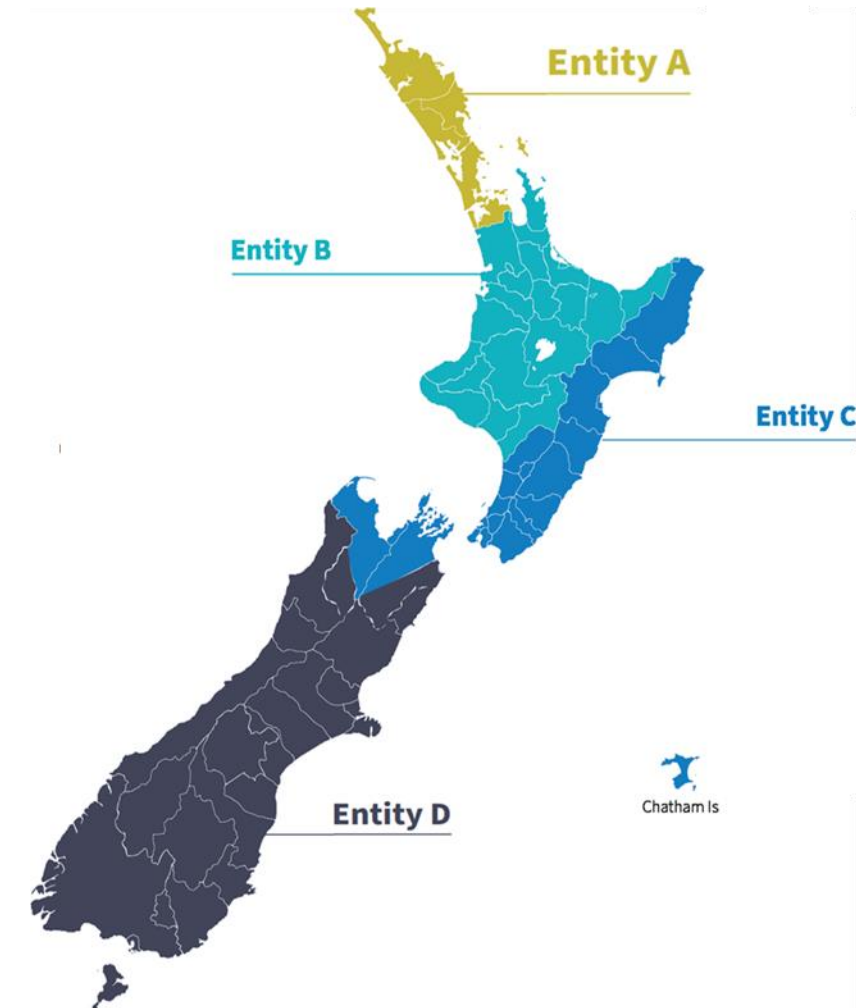


The Government also wants to ensure it delivers on **Treaty-related obligations**, including by improving outcomes for iwi/Māori in relation to three waters service delivery and **upholding Te Mana o Te Wai**. Integral to this is effective infrastructure delivery, underpinned by an **efficient, high-performing, financially-sustainable, and transparent three waters system**

What has the Government proposed

- The three waters services in the 'Three Waters Reforms' are the **council-owned** infrastructure network and processes used to treat, transport, and discharge **drinking water, wastewater and stormwater**
- The Government's Three Waters Reforms are proposing to shift the current 67 council-owned and operated three waters services into **four new publicly-owned entities** to manage the future delivery of these services
- These new entities will:
 - be **publicly-owned by councils as the sole shareholders** on behalf of communities, with strong protections against any future privatisation
 - have **joint strategic direction and oversight** through Regional Representative Groups (and sub-committees) made up of local government and mana whenua to ensure the entities are driven by community expectations and priorities
 - be **financially separate from councils** with a greater ability to borrow to fund long-term infrastructure
 - have **independent competency-based boards** that will run the day-to-day management of the entities and oversee the maintenance and renewal of this infrastructure
- The Government has also proposed a **new economic regulatory regime** to protect consumer interests and drive efficient investment and performance

Entity boundaries



Input from local government, iwi and industry

- The Government's reform proposals have been designed through continuous and ongoing engagement with local government, iwi and the water industry over the past few years.
- You can read this engagement information on the Department's website.
- In response to feedback from the local government in 2021, the Government established three working groups to advise on refinements to the Government's reform proposals:
 - The **Working Group on Representation, Governance and Accountability** – this group released its report on 9 March 2022
 - The **Planning Technical Working Group** that will focus on how the Three Waters Reforms interact with the future resource management system – due to finalise advice in mid 2022
 - **Rural Supplies Working Group** which will focus on how the new entities will work together with rural suppliers and communities to achieve service outcomes– due to finalise advice in mid 2022
- This approach represents a continuation of the partnership-based approach that the Government has taken to policy development throughout the three waters reforms and the commitments the Crown made to Local Government New Zealand through the [Heads of Agreement](#) signed in July 2021.
- You can read the papers and recommendations of these working groups here: [three waters reform programme working groups - dia.govt.nz](#)

One further technical working group

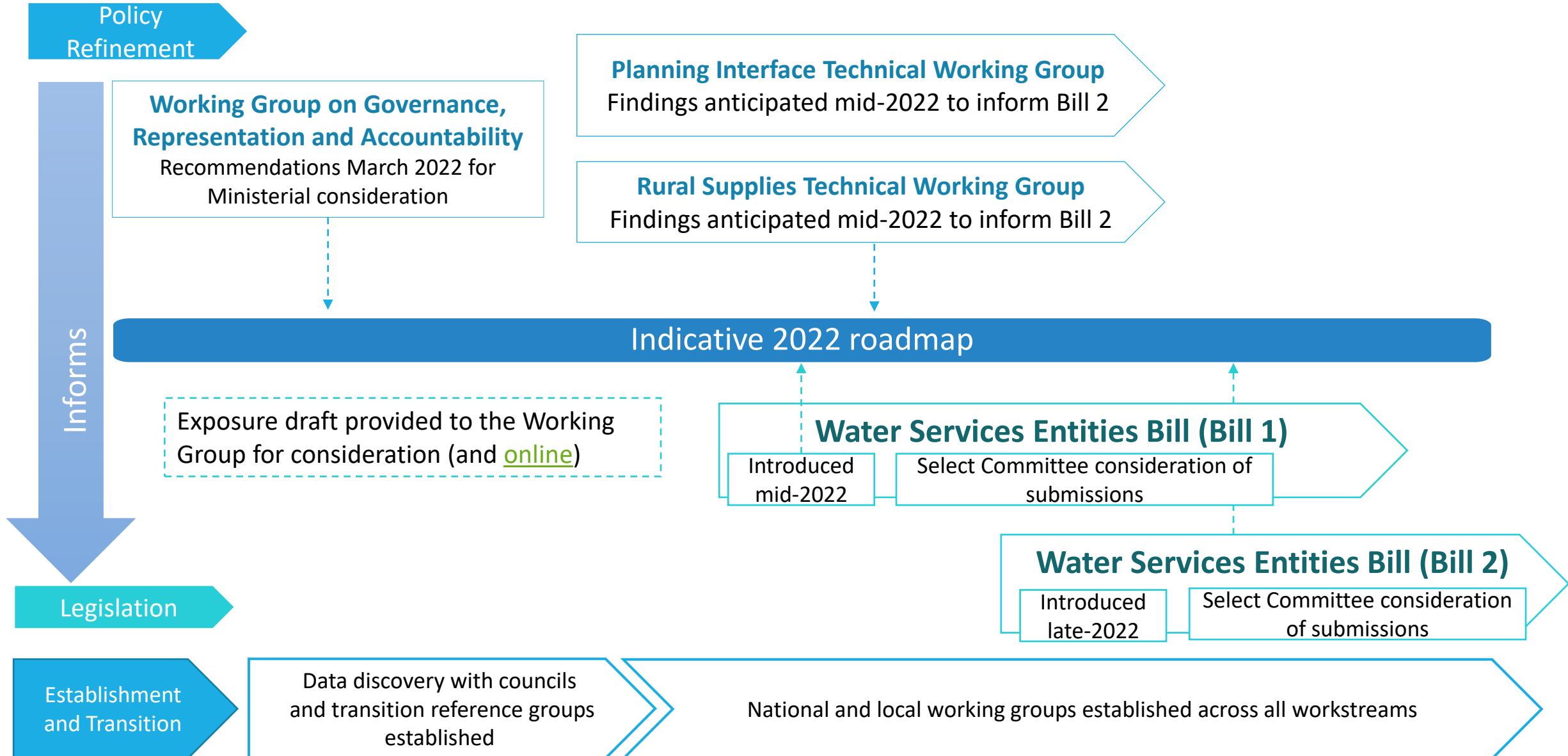
There is one further technical working group to inform the development of policy in the following areas:

- **Planning Technical Working Group** – to ensure an effective interface between the water services entities with the planning and regulatory system and the resource management reforms; and

This technical working group is expected to finalise their advice on these aspects of the reforms shortly

The Department will consider the recommendations of the Rural Supplies and the Planning technical working groups in drafting the further legislation (Bill 2) in the latter half of 2022

Indicative 2022 roadmap



Background on the problems the reforms address and some top questions

Find out more at www.dia.govt.nz/Three-Waters-Reform-Programme
or email threewaters@dia.govt.nz



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What underlying problems do the reforms solve

- The Department's analysis* identified four root causes that contribute to persistent and systemic problems in the provision of three waters services
 1. **Limited opportunities to achieve benefits of scale** – with most councils currently supplying services to less than 100,000 customers
 2. **Significant affordability challenges** – New Zealand's three waters services are estimated to need investment of between \$120bn to \$185bn over the next 30+ years. Meeting these costs without reform will be challenging for most local authorities, with average household bills needing to increase significantly
 3. **Poor incentives for critical water infrastructure decisions** – Councils have a constrained ability to borrow to spread the high up-front costs of infrastructure over the lifetime of the service. Local authorities water infrastructure investment decisions must be considered against other council services
 4. **Lack of effective oversight and stewardship for the three waters sector** – There is a lack of transparency about the state of assets and performance of the three waters system that make it difficult for customers and communities to hold water services providers to account. This has enabled the current challenges to slowly accumulate over time
- The Government considers that **comprehensive system-wide reform** is required to address these root causes **together**. Simply addressing one cause alone, such as changing funding arrangements or introducing stronger regulation, will add pressure on the system in different places. This is likely to exacerbate inequities, and will not achieve long-term outcomes for all New Zealanders

*This analysis is available online in the [Department of Internal Affairs - Regulatory Impact Analysis](#)

Addressing the underlying problems

The Government has assessed a range of potential solutions to the underlying problems facing the delivery of three waters services into the future

The Government's reforms proposals would create multi-regional entities with a singular focus on delivering safe, reliable and affordable water services to communities

These new entities will be able to achieve greater efficiencies than councils can by themselves, and will have significantly greater capacity to invest and respond to future needs.

- This is achieved through a combination of factors including highly competent boards, strong management capability, greater workforce specialisation, greater capacity to invest, and economies of scale in procurement and other specialist functions

Local government and mana whenua will provide joint oversight and strategic direction which will set priorities for these entities and keep them to account

Communities and consumers will have existing and new mechanisms to engage directly with the entities

In addition, a stronger regulatory environment from Taumata Arowai, Regional Councils and the proposed economic regulator will drive efficiencies and transparency of performance and ensure these entities achieve quality standards. National-level direction may also be set through the introduction of a Government Policy Statement

What is outside the scope of the Government's Three Waters Reforms

This is not about taking over operation of privately-owned supplies. However, the Government is working with the Rural Supplies Technical Working Group to understand how the proposed entities may support private supplies that currently receive assistance from councils to run their services

The proposed entities will continue to operate within the resource management system – **the Three Waters Reforms will not alter the system for gaining resource consents, water allocations, or ownership and management of freshwater.** This is subject to work of the Ministry for the Environment you can read more about this work here: [Resource management system reform | Ministry for the Environment](#)

The Three Waters Reforms are not reforming the flood protection system implemented mostly by Regional Councils. However, in taking a catchment-based approach, the reforms are considering the interplay of stormwater in this system

Some common questions

The Three Waters Reforms are complex. This has meant there is some confusion about the reform proposals. The following slides discuss some common misconceptions or myths about the three waters service delivery reforms.

Question: Will the Three Waters Reforms take private water supplies / take back water allocations

Answer: No. The Three Waters Reforms aim to reform **council-owned services only**. **This discussion is not about taking over operation of privately-owned supplies**. However, the Government is working with a Rural Supplies Technical Working Group to understand how the proposed entities may support private supplies who currently receive assistance from councils.

The proposed entities will continue to operate within the resource management system – **the Three Waters Reforms will not alter resource consents, allocations, or address ownership of freshwater**. This is subject to work of the Ministry for the Environment.

Question: Are the Reforms taking away local assets

Answer: The water services entities will be **collectively owned by councils**. Through the reforms, council-owned three waters assets will transfer to the new entities who will be responsible for the maintenance and renewal of these assets, and the day-to-day running of the services. These assets will continue to deliver services to the communities that have paid for them.

This arrangement is similar to that of Auckland's Watercare model – noting the difference is that the new entities will be collectively owned by councils and have operational and financial independence.

The reforms will ensure the maintenance, renewals and upgrades to the infrastructure is affordable for all New Zealanders into the future.

Questions continued

Question: Will we have a say in the future system

Answer: Yes. The Reform proposals have been designed ensure councils, mana whenua, communities and consumers have a strong role in the new water services entities. This includes through existing mechanisms, like council planning tools and community consultation on the entities plans, and new protections like the introduction of consumer forums. The Governance and Accountability Working Group has also made recommendations to strengthen local voice, most of which have been accepted by the Government.

Question: Are the Three Waters Reforms a step towards privatising water

Answer: No. Continued **public ownership of the water services entities is a bottom line for the Government.**

Safeguards against future privatisation will be written into legislation to maintain ongoing ownership of the new entities by local authorities on behalf of communities they represent. Beyond that, the Government will make communities the ultimate guardians of public ownership by requiring a minimum of 75% of the votes in a public referendum for any privatisation proposal to proceed.

Question: Are the reforms giving ownership of the entities to Māori

Answer: No. The entities will be **owned collectively by councils** as the sole shareholder.s

Mana whenua will sit alongside local government on the Regional Representative Groups in joint strategic direction and oversight of the entities – **this is not ownership and does not include any right of veto for either party.**

The entities will have independent, competency-based boards that will manage the day-to-day business of the entities informed by the priorities and expectations set by the Regional Representative Group.

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